

# EXTENDICARE<sup>®</sup>

... helping people live better

## SHAREHOLDERS' QUARTERLY REPORT

 Nine Months Ended September 30, 2016

Dated: November 10, 2016

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# EXTENDICARE<sup>®</sup>

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## Dear Shareholders,

On November 10, 2016, Extendicare Inc. (“Extendicare” or the “Company”) reported results for the three and nine months ended September 30, 2016.

### Financial and Operational Highlights

- 2016 third quarter financial results comparison over 2015 third quarter (*from continuing operations unless otherwise noted*):
  - AFFO from continuing operations up \$5.8 million to \$20.8 million (\$0.236 per basic share), from \$15.0 million (\$0.171 per basic share).
  - Adjusted EBITDA of \$25.5 million, up \$2.6 million or 11.3%, representing 9.5% of revenue.
  - Net operating income of \$35.0 million, up \$2.6 million or 8.0%, representing 13.1% of revenue; same-store NOI up \$1.9 million or 6.7%.
- Dividends declared of \$31.8 million in the first nine months of 2016, representing approximately 61% of AFFO of \$51.7 million for the same period.
- Entered into definitive agreement to dispose of the operations of VCPI by the end of 2016.

We are pleased with our results for the third quarter of 2016, which outperformed the same 2015 period on all measures. Initiatives currently under way are expected to drive further growth and operational outperformance across our operating units over the coming year. We continue to deliver solid growth in AFFO per share by focusing on meeting the needs of Canadian seniors through the provision of quality care and services.

### Expansion into Private-pay Retirement Sector

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

Since October 2015, we have acquired six private-pay retirement communities, with a total of 506 suites, in Ontario and Saskatchewan. For the first nine months of 2016, they contributed revenue of \$11.0 million, net operating income of \$0.5 million, and AFFO of approximately \$4.6 million, or \$0.053 per basic share, inclusive of income support of \$4.9 million.

In addition to the six acquired communities, we have four private-pay retirement communities currently under development in Simcoe, Uxbridge, Bolton, and Bradford, Ontario, with a total of 424 suites. The anticipated cost to stabilization of these projects is approximately \$113.5 million, with an estimated average stabilized NOI yield of 7.4%. The first of these retirement communities in Simcoe, called Cedar Crossing, has 70 suites and is scheduled to welcome its first resident at the end of November, with a further 12 residents already committed to moving in by the end of this year. The remaining three projects are scheduled for completion over the next two years.

### Building on our Solid Long-term Care Business

As part of the Ontario government’s plans to redevelop long-term care centres in the province, we have now formalized a plan to redevelop our 21 class “C” centres over a 10-year period at an estimated cost of \$507 million. We are engaged with officials at the Ministry of Health and Long-Term Care (the “MOHLTC”) to move forward with our overall redevelopment plan. While factors could arise that affect the timing or sequence of this plan, it is the result of extensive planning and represents our current intentions.

The first phase of redevelopment includes the renovation of twelve and new construction of six long-term care centres for a total expected five-year expenditure of approximately \$400 million. The remaining projects will take place in the latter five years. While each project is unique and the cost to complete can vary widely, we anticipate returns sufficiently in excess of the cost of capital. Importantly, through redevelopment, we are extending the life of the long-term care licenses for a term of 30 years upon completion. These projects are expected to be funded through a combination of debt and self-financed equity, and will allow us to put significant capital to work profitably and in stable infrastructure-like investments over the long term.

The first two of these redevelopment projects involve new 256-bed long-term care centres in Ottawa and Sudbury at a total estimated cost of \$93 million. Submissions for approval of the Ottawa and Sudbury projects have been made to the MOHLTC, with a goal for completion by the end of 2018 and 2019, respectively. We are working with the MOHLTC to expedite the approval of these projects, as their completion enables us to move ahead with the upgrade and renovation of the remaining Ottawa and Sudbury buildings in our portfolio.

### **Disposal Group Held for Sale**

On October 31, 2016, the Company entered into a definitive agreement with a third party (the “Purchaser”) to dispose of substantially all of the assets used in the operation of our U.S. information technology hosting and professional services business, Virtual Care Provider, Inc. for cash proceeds of US\$8.5 million, prior to working capital adjustments and transaction costs. The Purchaser will continue the operation of the business following the close of the transaction, which is anticipated to occur by the end of 2016, subject to the satisfaction of certain closing conditions.

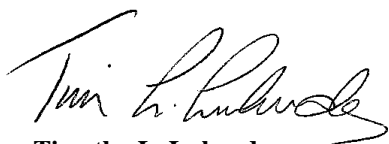
### **Outlook**

Extencicare has a national platform for continued growth across the senior care continuum, and as we look ahead, we are well positioned to realize further growth in 2017 and beyond, resulting from our strategic initiatives.

Our growth will come from acquisitions and development in our Esprit Lifestyle Communities division, further redevelopment of our long-term care centres, organic improvements in our ParaMed Home Health Care business performance and expansion in scope and volume of services delivered, and further growth of third-party clients in our SGP Purchasing Partner Network and Extencicare Assist divisions. We are taking a methodical and disciplined approach to the execution of our strategic plan, and in doing so, we believe that we will create significant value for our shareholders.

Thank you for your continuing support as we carry out our mission of “helping people live better” as a leader in the Canadian senior care market.

Sincerely,



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

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

 Nine Months Ended September 30, 2016

Dated: November 10, 2016

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# Management's Discussion and Analysis

November 10, 2016

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## BASIS OF PRESENTATION

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

Extencicare and its predecessors have been in operation since 1968, providing care and services to seniors in North America. On July 1, 2015, Extencicare 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, Extencicare Health Services, Inc. and its subsidiaries (collectively "EHSI"). This transaction was part of the Company's strategic objective to be a leading provider of care and services for seniors focused solely in Canada. As a result of the sale of the U.S. Sale Transaction, EHSI's operations to the date of sale were classified as discontinued operations. For further information, refer to the discussion under the heading "Other Significant Developments – 2015 U.S. Sale Transaction" and to *note 17* of the unaudited interim condensed consolidated financial statements.

In the 2016 second quarter, the board of directors of Extencicare (the "Board") concluded that the Company should dispose of its non-strategic wholly owned U.S. information technology hosting and professional services business, Virtual Care Provider, Inc. (VCPI), which had been retained following the 2015 U.S. Sale Transaction. As a result, the Company has classified VCPI's assets and liabilities as held for sale, has reclassified its operations as discontinued, and has restated the consolidated statement of earnings (loss) on a comparative basis. On October 31, 2016, the Company entered into a definitive agreement to dispose of substantially all of the assets used in the operation of VCPI's business. For further information, refer to the discussion under the heading "Significant 2016 Events and Developments – Disposal Group Held for Sale – VCPI" and to *notes 5, 17 and 22* of the unaudited interim condensed consolidated financial statements.

Extencicare has prepared this MD&A to provide information to assist its current and prospective investors' understanding of Extencicare's financial results for the three and nine months ended September 30, 2016. This MD&A should be read in conjunction with Extencicare's unaudited interim condensed consolidated financial statements for the three and nine months ended September 30, 2016, and the notes thereto, together with the MD&A and the audited consolidated financial statements for the year ended 2015, and the notes thereto, found in Extencicare's 2015 Annual Report. The accompanying unaudited interim condensed consolidated financial statements for the three and nine months ended September 30, 2016, including the notes thereto, have been prepared in accordance with International Financial Reporting Standards (IFRS) for interim financial statements. These financial statements and notes are available on Extencicare's website at [www.extencicare.com](http://www.extencicare.com). Additional information about Extencicare, including its latest Annual Information Form, can be found on the System for Electronic Document Analysis and Retrieval (SEDAR) at [www.sedar.com](http://www.sedar.com) under Extencicare's issuer profile. All currencies are in Canadian dollars unless otherwise indicated. Except as otherwise specified, references to years indicate the fiscal year ended December 31, 2015, or December 31 of the year referenced.

The discussion and analysis in this MD&A are based upon information available to management as of November 10, 2016. This MD&A should not be considered all-inclusive, as it excludes changes that may occur in general economic, political and environmental conditions. Additionally, other events may or may not occur, which could affect the Company in the future.

## **ADDITIONAL INFORMATION**

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

## **FORWARD-LOOKING STATEMENTS**

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

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

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

## **NON-GAAP MEASURES**

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

comparable to similarly titled measures as reported by such issuers. They are not intended to replace earnings (loss) from continuing operations, net earnings (loss), cash flow, or other measures of financial performance and liquidity reported in accordance with GAAP.

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

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

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

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

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

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

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

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

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

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

## BUSINESS STRATEGY

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

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

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

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

## SIGNIFICANT 2016 EVENTS AND DEVELOPMENTS

This section provides an update on our current activities to expand into the Canadian retirement sector and to dispose of our U.S. information technology business. Refer to the discussion under the heading “Other Significant Developments” for a summary of other developments affecting the financial results or operations of Extencicare.

### Expansion into Private-pay Retirement Sector

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

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

Name/Location	Acquisition / Opening Date	# of Communities	Suites	Purchase Price / Development Cost (millions) <sup>(1)</sup>	Price per Suite	Expected Stabilized NOI Yield <sup>(2)</sup>
<b>Completed in Q4-2015</b>						
Empire Crossing, Port Hope, ON	Oct. 1, 2015	1	64	\$20.2	\$315,600	6.9% to 7.1%
Harvest, Tillsonburg, ON	Dec. 1, 2015	1	100	\$28.4	\$284,500	6.7% to 6.9%
Stonebridge Crossing, Saskatoon, and Riverbend Crossing, Regina, SK	Dec. 1, 2015	2	184	\$50.3	\$273,271	7.2%
<b>Completed in Q1-2016</b>						
West Park Crossing, Moose Jaw, and Yorkton Crossing, Yorkton, SK	Feb. 22, 2016	2	158	\$40.5	\$256,300	7.3% to 7.7%
<b>In Progress at Period End</b>						
Simcoe / Uxbridge / Bolton / Bradford, ON	Nov. 2016 / Q4/2017 / Q1/2018 / Q4/2018	4	424	\$113.5	\$ 267,700	7.4%

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

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

## RETIREMENT ACQUISITIONS

During the 2015 fourth quarter, we completed the acquisition of four retirement communities for an aggregate purchase price of approximately \$98.6 million, inclusive of a \$0.3 million reduction for net working capital adjustments on closing, and \$2.3 million for income support during the lease-up period. During the 2016 first quarter, we closed on an additional two retirement communities for an aggregate purchase price of \$40.5 million, inclusive of \$4.5 million for income support during the lease-up period. The aggregate purchase price of \$139.4 million for these acquisitions (the “Retirement Acquisitions”), prior to working capital adjustments of \$0.3 million, was paid in cash with an intention to finance the communities as stabilized occupancy is achieved. Financing on three of the communities was secured in August, refer to the discussion below under the heading “Retirement Community Financings”. Further details on these acquisitions are provided below, and in *note 4* of the unaudited interim condensed consolidated financial statements.

For the three months ended September 30, 2016, the Retirement Acquisitions contributed revenue, net operating income and AFFO of approximately \$4.0 million, \$0.1 million, and \$1.6 million (\$0.019 per basic share), respectively. For the nine months ended September 30, 2016, the Retirement Acquisitions contributed revenue of \$11.0 million, net operating income of \$0.5 million, and AFFO of approximately \$4.6 million, or \$0.053 per basic share, inclusive of income support of \$4.9 million.

***Empire Crossing Retirement Community*** (Empire Crossing) was acquired on October 1, 2015, for a purchase price of \$20.2 million, inclusive of income support. Empire Crossing, located in Port Hope, Ontario, is a newly built 64-suite community offering independent and enhanced care services that opened in May 2015. As well, this property comes with excess land, providing us with the option to increase the size of the retirement community in the future. The vendor has provided Extencicare with income support of up to \$1.3 million over 24 months, which amount was held back from the \$20.2 million purchase price, and is being released to Extencicare during the lease-up period based on an agreed-upon formula.

***Harvest Retirement Community*** (Harvest) was acquired on December 1, 2015, for a purchase price of \$28.4 million, inclusive of income support. Harvest, located in Tillsonburg, Ontario, is a 100-suite independent/enhanced living community with 64 suites that opened in December 2011, and a newly constructed addition of 36 suites that opened in December 2015. The vendor has provided Extencicare with income support of up to \$1.0 million over 24 months, which amount was held back from the \$28.4 million purchase price, and is being released to Extencicare during the lease-up period based on an agreed-upon formula.

***Stonebridge Crossing Retirement Community*** (Stonebridge) and ***Riverbend Crossing Memory Care Community*** (Riverbend) were acquired on December 1, 2015, for an aggregate purchase price of \$50.3 million. Stonebridge, located in Saskatoon, SK, is a 116-suite independent/enhanced living community that opened in December 2012. Riverbend, located in Regina, SK, is a 68-suite community specializes in memory care services that opened in August 2013.

***West Park Crossing Retirement Community*** (West Park) and ***Yorkton Crossing Retirement Community*** (Yorkton) were acquired on February 22, 2016, for an aggregate purchase price of \$40.5 million, inclusive of income support. The properties, located in Moose Jaw and Yorkton, SK, respectively, are newly built 79-suite communities offering independent, enhanced and memory care services. The vendor has provided Extencicare with income support over 27 months of up to \$2.25 million on each community, for an aggregate of up to \$4.5 million in income support. This amount was held back from the \$40.5 million purchase price on closing, and is being released to Extencicare during the lease-up period based on an agreed-upon formula.

## RETIREMENT DEVELOPMENT PROJECTS

Extencicare has four private-pay retirement communities under development in Simcoe, Uxbridge, Bolton, and Bradford, Ontario, with a total of 424 suites. We broke ground on the Simcoe project in October 2015 and it is anticipated to open this month. We broke ground on the Uxbridge project in July 2016, with completion anticipated in the 2017 fourth quarter. The Bolton and Bradford communities are anticipated to be completed during 2018.

The anticipated costs to stabilization of these four development projects is approximately \$113.5 million, or approximately \$267,700 per suite, which amount includes an imputed cost of capital and an estimated lease-up amount to achieve stabilized NOI. The estimated average stabilized NOI yield for the four projects is 7.4%.

## **RETIREMENT COMMUNITY FINANCINGS**

In May 2016, construction financing was secured on the first two of the development projects, Simcoe (70 suites) and Bolton (124 suites), for up to \$9.9 million and \$20.8 million, respectively, representing 63% of the anticipated costs. As at September 30, 2016, \$4.4 million had been drawn on the Simcoe project. In the 2016 third quarter, construction financing of up to \$20.7 million was secured for the Uxbridge project and the first draw was made in October 2016. In addition, these financings provide for additional letter of credit facilities of \$500,000 for the Simcoe project and \$750,000 for each of the Bolton and Uxbridge projects, at a rate of 2.5% if utilized. Loan payments are interest-only, based on a floating rate of 30-day banker's acceptance rate plus 2.5%, with no standby fee. The construction loan for the Simcoe project is a demand loan that matures at the earlier of 42 months from closing or 24 months from the issuance of the occupancy permit. The construction loans for the Bolton and Uxbridge projects are demand loans that mature at the earlier of 54 months from closing or 36 months from the issuance of the occupancy permit. We anticipate securing construction financing under similar terms for the Bradford project. Permanent financing for each of the communities will be sought upon maturity of the construction financing.

In August 2016, the Company secured financing on three of the newly acquired retirement communities, Harvest, Stonebridge and Riverbend, representing non-revolving credit facilities aggregating \$56.3 million (the "Retirement Mortgages"), or approximately 71% of the acquisition costs. These financings have seven-year terms, with a floating rate of prime plus 0.5% or 30-day banker's acceptance rate plus 1.9%. In conjunction with securing the Retirement Mortgages, the Company entered into interest rate swap contracts to lock in the interest rates at 3.11% for the full term. These interest rate swap contracts are designated at fair value through profit or loss, and as at September 30, 2016, were valued as a liability of \$0.8 million.

## **Disposal Group Held for Sale – VCPI**

On October 31, 2016, the Company entered into a definitive agreement with a third party (the "VCPI Purchaser") to dispose of substantially all of the assets used in the operation of VCPI's business for cash proceeds of US\$8.5 million, prior to working capital adjustments and transaction costs. The VCPI Purchaser will continue the operation of the business following the close of the transaction, which is anticipated to occur by the end of 2016, subject to the satisfaction of certain closing conditions.

VCPI's operations were reclassified as discontinued in the 2016 second quarter following the Company's decision to actively market the sale of the operations. The impairment assessment of VCPI using the expected proceeds, resulted in a pre-tax impairment loss of \$9.2 million (US\$7.1 million) during the nine months ended September 30, 2016, of which \$2.1 million (US\$1.6 million) was recognized in the 2016 third quarter and the balance in the 2016 second quarter. As at September 30, 2016, the carrying value of these assets held for sale was \$10.1 million, and the liabilities held for sale were \$0.4 million, for a net book value of \$9.7 million. For further information, refer to *notes 5, 17 and 22* of the unaudited interim condensed consolidated financial statements.

## **BUSINESS OVERVIEW**

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

As at September 30, 2016, Extendicare operates 119 senior care and living centres in four provinces in Canada, with capacity for 15,089 residents, with a significant presence in Ontario and Alberta, where approximately 71% and 16% of its residents are served, respectively. Through its ParaMed Home Health Care (ParaMed) division, Extendicare operates from 45 locations across six provinces providing approximately 11 million hours of service annually, with the Ontario market representing approximately 82% of its service volumes, based on operations for the 2016 third quarter.

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

	Nine months ended September 30, 2016		Year 2015	
	No. of Centres	Resident Capacity	No. of Centres	Resident Capacity
<b>Senior Care Centres</b>				
As at beginning of year	116	14,890	104	13,586
Managed contracts added	1	41	8	956
Retirement communities acquired	2	158	4	348
<b>As at end of period</b>	<b>119</b>	<b>15,089</b>	116	14,890

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

The following summarizes the senior care and living centres operated by Extencicare as at September 30, 2016, which consist of long-term care (LTC) centres, retirement communities, and a chronic care unit. For financial reporting purposes, a centre is categorized based on the predominant level of care provided, the type of licensing and the type of funding provided. For instance, two of our long-term care centres have retirement wings that are categorized as LTC centres, with their operations included in the LTC operating segment. In addition, government-funded supportive living suites have been categorized as LTC centres due to the nature of the regulatory oversight and fixed-fee structure determined by the government.

By Province	Long-term Care		Retirement Living		Chronic Care Unit		Total	
	No. of Centres	Resident Capacity	No. of Centres	Resident Capacity	No. of Centres	Resident Capacity	No. of Centres	Resident Capacity
<b>Owned/Leased <sup>(1)</sup></b>								
Ontario	34	5,210	2	164	–	–	36	5,374
Alberta	14	1,495	–	–	–	–	14	1,495
Saskatchewan	5	649	4	342	–	–	9	991
Manitoba	5	762	–	–	–	–	5	762
	58	8,116	6	506	–	–	64	8,622
<b>Managed</b>								
Ontario	38	4,793	4	440	1	120	43	5,353
Alberta	4	526	6	420	–	–	10	946
Manitoba	2	168	–	–	–	–	2	168
	44	5,487	10	860	1	120	55	6,467
<b>Total</b>	<b>102</b>	<b>13,603</b>	<b>16</b>	<b>1,366</b>	<b>1</b>	<b>120</b>	<b>119</b>	<b>15,089</b>

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

## Operating Segments

Prior to the announcement of the U.S. Sale Transaction, the Company had two reportable operating segments that consisted of its U.S. operations and its Canadian operations. With the reclassification of the U.S. senior care and related operations, and VCPI to discontinued operations, and the recent expansion into the private-pay retirement sector, the Company reports the following segments within its Canadian operations: i) long-term care; ii) retirement living; iii) home health care; iv) management and group purchasing as "other Canadian operations"; and v) the Canadian corporate functions and any intersegment eliminations as "corporate Canada". The Company continues to segment its U.S. operations as one segment, with the U.S. continuing operations consisting of its wholly owned Bermuda-based captive insurance company, Laurier Indemnity Company, Ltd. (the "Captive"), which, along with third-party insurers, insured Extencicare's U.S. general and professional liability risks up to the date of the U.S. Sale Transaction.

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

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

Through its subsidiaries, Extencicare owns and operates for its own account 58 LTC centres with capacity for 8,116 residents, inclusive of a stand-alone designated supportive living centre (140 suites) and a designated supportive living wing (60 suites) in Alberta, and two retirement wings (76 suites) in Ontario. This reporting segment excludes the senior care centres that are managed by our management services group on behalf of third parties, as the revenue from those

operations is earned on a fee-for-service basis (refer to the discussion below under the heading “Other Canadian Operations – Management Services”). Revenue from the long-term care operations represented 57.6% of consolidated revenue from continuing operations for the nine months ended September 30, 2016, compared to 64.6% for the same 2015 period (2015 year – 63.0%). The change in the revenue mix as compared to 2015 primarily resulted from the impact of growth in revenue outside of the long-term care segment due primarily to the acquisition of a home health business in April 2015 (the “Home Health Acquisition”), and to the Retirement Acquisitions.

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

In Ontario, operators have the opportunity to receive additional funding through higher accommodation rates charged to residents for private and semi-private accommodation, at maximum preferred accommodation rates that are fixed by the government. Operators are permitted to designate up to 60% of the resident capacity of a centre as preferred accommodation and charge higher accommodation rates that vary according to the structural classification of the LTC centre. In Ontario, Extencicare operates 13 “New” centres (1,847 beds), built since 1998 under the 1999 design standards, and 21 “C” centres (3,287 beds), that were built prior to 1998 and which meet the 1972 design standards.

The following summarizes the composition of the owned/leased LTC centres operated by Extencicare in Ontario, as at September 30, 2016.

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

## RETIREMENT LIVING

Through its subsidiaries, Extencicare owns and operates six retirement communities with capacity for 506 residents, all of which were newly acquired since October 2015, and are operated under our Esprit Lifestyle Communities brand. Four of these retirement communities (342 suites) are located in Saskatchewan and two (164 suites) are located in Ontario. In addition, we have four (424 suites) under development in Ontario.

These retirement communities provide services to private-pay residents at rates set by Extencicare based on the services provided and market conditions. The monthly fees vary depending on the type of accommodation, level of care and services chosen by the resident, and sometimes on the location of the retirement community. Residents are free to choose the living arrangements best suited to their personal preference and needs and, more importantly, change the level of care and support they receive as their needs evolve over time. Revenue from these operations represented 1.4% of consolidated revenue from continuing operations for the nine months ended September 30, 2016 (2015 year – 0.1%).

## HOME HEALTH CARE

Extencicare provides home health care services through its ParaMed division. ParaMed’s professionals and staff members are skilled in providing complex nursing care, occupational, physical and speech therapy, and assistance with daily activities to accommodate clients of all ages living at home. Revenue from these operations represented 39.0% of consolidated revenue from continuing operations for the nine months ended September 30, 2016, compared to 33.3% for the same 2015 period (2015 year – 34.7%). The Home Health Acquisition contributed revenue of approximately \$152.3 million for the nine months ended September 30, 2016 (first nine months of 2015 – \$82.5 million; 2015 year – \$131.6 million).

Provincial governments fund a wide range of home health care services, and contract these services to providers such as ParaMed. In the first six months of 2016, ParaMed received approximately 97% of its revenue from contracts tendered by locally administered provincial agencies (2015 year – 97%), with the remainder from private-pay clients. At the time of the

Home Health Acquisition in April 2015, ParaMed's operations were solely in Ontario, where it provided approximately 5.1 million hours of service annually, making it the largest provider of publicly funded home health care in Ontario. Following the Home Health Acquisition, ParaMed's operations more than doubled and expanded to six provinces. In the first nine months of 2016, ParaMed's service volumes were 8.1 million hours, of which Ontario represented approximately 84%, followed by British Columbia at 10%, Alberta at 4%, and the balance provided in Manitoba, Quebec and Nova Scotia. In May 2016, ParaMed expanded its presence in British Columbia with the addition of a four-year contract with the Vancouver Coastal Health Authority that is anticipated to add approximately 330,000 hours of service annually. For the 2015 year, ParaMed provided approximately 8.9 million hours of service, of which the Home Health Acquisition contributed approximately 3.7 million for the eight months following the acquisition.

## **OTHER CANADIAN OPERATIONS**

Extencicare's other Canadian operations are composed of its management and group purchasing services. Revenue from these operations represented 1.8% of consolidated revenue from continuing operations for the nine months ended September 30, 2016 (2015 year – 1.6%).

### ***Management Services***

Through its Extencicare Assist division, Extencicare has leveraged its expertise in operating senior care centres by providing a wide range of management and consulting services to third-party owners. Extencicare Assist partners with not-for-profit and for-profit organizations, hospitals and municipalities that seek to improve their management practices, levels of care and operating efficiencies. Most of these contracts include management, accounting and purchasing services, staff training, reimbursement assistance, and where applicable, the implementation of Extencicare's policies and procedures. As a skilled manager and operator of senior care centres for third parties, Extencicare Assist's managed portfolio consisted of 55 senior care centres with capacity for 6,467 residents as at September 30, 2016 (December 31, 2015 – 6,426 residents).

### ***Group Purchasing Services***

Through its SGP Purchasing Partner Network division (SGP), Extencicare offers cost-effective purchasing contracts to other senior care providers for food, capital equipment, furnishings, cleaning and nursing supplies, and office products. SGP negotiates long-term contracts that insulate members from rising costs, thereby providing a cost-effective way to secure quality national brand-name products, along with a range of innovative services. As at September 30, 2016, SGP provided services to third-party clients with capacity for approximately 40,700 residents (December 31, 2015 – 29,600 residents).

## **U.S. CONTINUING OPERATIONS**

Following the closing of the U.S. Sale Transaction, Extencicare retained its wholly owned subsidiaries, VCPI and the Captive. In the 2016 second quarter, VCPI's operations were reclassified as discontinued, following the Board's decision to actively market them for sale.

### ***Captive Insurance Company***

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

As at September 30, 2016, the accrual for U.S. self-insured general and professional liabilities was \$110.3 million (US\$84.1 million) compared to US\$107.2 million at the beginning of the year, and the investments held for U.S. self-insured liabilities totalled \$140.6 million (US\$107.2 million) compared to US\$127.7 million at the beginning of the year, with the decline in each reflecting the "run off" of these operations. In the 2016 second quarter, the Company released US\$3.1 million of reserves for self-insured liabilities following the completion of an interim independent actuarial review. As a result of the reduction in reserves for self-insured liabilities, the Captive transferred US\$5.0 million of its funds previously held for investment to the Company for general corporate use in August 2016. The provisions recorded for our professional liability risks are based upon management's best available information, including actuarial estimates. The Captive is currently appropriately capitalized, but there can be no assurance that it will remain appropriately capitalized in

the future should claims incurred prior to the closing of the U.S. Sale Transaction, including claims incurred but yet to be reported, increase significantly. For further information on our self-insured liabilities, refer to the discussion under the heading “Accrual for U.S. Self-insured Liabilities” found within the “Liquidity and Capital Resources” section of this MD&A.

## KEY PERFORMANCE INDICATORS

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

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

“**Average Daily Revenue Rate**”, or “**ADRR**” means the aggregate revenue earned divided by the aggregate census in the corresponding period, by payor source;

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

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

“**Non same-store**” or “**NSS**”, in the context of comparing our 2016 and 2015 results from continuing operations in this document, refers to the Home Health Acquisition that was completed on April 30, 2015, and the Retirement Acquisitions completed in the 2015 fourth quarter and the 2016 first quarter;

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

“**Same-store**” or “**SS**”, in the context of comparing our 2016 and 2015 results from continuing operations in this document, refers to those centres and businesses that were operated by us on January 1, 2015, and throughout 2015 and 2016, and are not classified as held for sale; such operations specifically refer to all continuing operations excluding the Home Health Acquisition and the Retirement Acquisitions.

## Long-term Care

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

Revenue from provincial programs represents approximately 70% of Extencicare’s long-term care centre revenue. In the 2016 third quarter, Extencicare’s average daily revenue rate increased by 1.4% to \$203.54 from \$200.76 in the 2015 third quarter, and increased by 0.4% from \$202.80 in the 2016 second quarter. The majority of Extencicare’s long-term care operations are in Ontario, which operates under a funding envelope system, wherein a substantial portion of the revenue is tied to flow-through funding that is only recognized in the periods in which the related costs for resident care are incurred. Many of our centres are in an “underspent” position at the start of the year, resulting in a deferral of flow-through funding until it is matched with increased spending throughout the year. As a result, absent the impact of funding changes throughout the year, Extencicare’s average revenue rates are generally at their lowest in the first quarter, when funding has been deferred, and at their highest in the fourth quarter, when previously deferred funding has been recognized. For the 2015 year, Extencicare’s average daily revenue rate increased by 1.5% to \$201.04 from \$198.03 in 2014.

The average occupancy at our LTC centres was 98.1% this quarter compared to 98.2% in the 2015 third quarter and 97.9% in the 2016 second quarter. In terms of the quarterly trends throughout the year, slightly lower occupancy levels are to be expected during the winter months as a result of flu outbreaks, which could lead to temporary freezes on admissions.

In Ontario, overall funding is occupancy-based, but once the average occupancy level of 97% or higher for the calendar year is achieved, operators receive funding based on 100% occupancy. For the 2015 year, all of Extencicare's LTC centres in Ontario achieved the 97% occupancy threshold, with an overall average of 98.2%.

In addition, Extencicare's Ontario LTC centres receive premiums for preferred accommodation. The average occupancy of our private beds in our "New" centres improved to 96.9% this quarter from 94.8% in the 2015 third quarter, and from 96.8% in the 2016 second quarter. This improvement was primarily due to the continued improvement in occupancy mix at our new northern Ontario centres that opened in 2013. The average occupancy of the private beds at our "C" centres was unchanged at 98.7% this quarter compared to the same 2015 period, and was down slightly from 99.2% in the 2016 second quarter.

The following table provides Extencicare's average daily revenue rates and occupancy levels from its LTC operations for the past eight quarters.

Long-term Care Centres	2016			2015			2014	
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	
<b>Average Daily Revenue Rate (\$)</b>	<b>203.54</b>	<b>202.80</b>	<b>201.71</b>	205.60	200.76	199.40	198.31	204.14
<b>Average Occupancy (%)</b>								
Total LTC	<b>98.1%</b>	<b>97.9%</b>	<b>98.0%</b>	98.1%	98.2%	98.0%	97.4%	98.2%
Ontario LTC								
Total operations	<b>98.6%</b>	<b>98.5%</b>	<b>98.5%</b>	98.5%	98.5%	98.3%	97.4%	98.4%
Preferred Accommodation <sup>(1)</sup>								
"New" centres – private	<b>96.9%</b>	<b>96.8%</b>	<b>96.4%</b>	95.4%	94.8%	93.5%	91.3%	91.4%
"C" centres – private	<b>98.7%</b>	<b>99.2%</b>	<b>99.1%</b>	98.8%	98.7%	97.7%	97.4%	98.5%
"C" centres – semi-private	<b>64.8%</b>	<b>64.3%</b>	<b>63.5%</b>	63.6%	62.5%	60.6%	60.6%	61.0%

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

## Retirement Living

With respect to the four retirement communities acquired in 2015, the average occupancy for the nine months ended September 30, 2016, was 73.3%, and has improved to 81.6% as at November 4, 2016. In February 2016, the Company acquired two newly built retirement communities. The average occupancy of all six retirement communities for the nine months ended September 30, 2016, was 58.5%, and has improved to 65.8% as at November 4, 2016. The average monthly revenue per occupied room was \$4,480 for the nine months ended September 30, 2016, and was \$4,440 in the 2016 third quarter.

## Home Health Care

Revenue from provincial programs represented approximately 97% of Extencicare's home health care revenue for the nine months ended September 30, 2016 (2015 year – 97%). On a same-store basis, ParaMed's service volumes increased by 4.7% this quarter over the same 2015 period. ParaMed's total average daily hours of service this quarter increased by 2.9% to 30,130 from 29,271 in the same 2015 period, and by 2.8% from 29,302 in the 2016 second quarter. For the 2015 year, ParaMed's same-store service volumes increased by 0.3% over 2014, and with the Home Health Acquisition, the average daily hours of service more than doubled to 29,310 from 13,925 in 2014. For further information on the home health care operations, refer to the discussion under the heading "Update of Regulatory and Funding Changes Affecting Results – Ontario Home Health Care Legislation and Funding".

The following table provides Extencicare's home health care service volumes for the past eight quarters.

Home Health Care Service Volumes	2016			2015			2014	
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	
<b>Total Operations</b>								
Hours of service (000's)	<b>2,772.0</b>	<b>2,666.4</b>	<b>2,625.1</b>	2,689.2	2,692.9	2,252.4	1,238.2	1,283.4
Hours per day	<b>30,130</b>	<b>29,302</b>	<b>28,847</b>	29,230	29,271	29,951	13,758	13,950
<b>Same-store Basis</b>								
Hours of service (000's)	<b>1,345.8</b>	<b>1,317.5</b>	<b>1,294.0</b>	1,332.1	1,285.0	1,290.3	1,238.2	1,283.4
Hours per day	<b>14,628</b>	<b>14,478</b>	<b>14,220</b>	14,480	13,967	14,179	13,758	13,950

## IMPACT OF U.S. DOLLAR AND FOREIGN CURRENCY TRANSLATION

### Impact on Financial Statements

Our remaining U.S. net assets accounted for approximately: 23% of our consolidated assets as at September 30, 2016 (December 31, 2015 – 29%); and 17% of our consolidated liabilities as at September 30, 2016 (December 31, 2015 – 24%). The impact of a one-cent weakening (strengthening) of the Canadian dollar against the U.S. dollar would have increased (decreased) our total assets and total liabilities as at September 30, 2016, by approximately \$1.8 million and \$1.1 million, respectively, for a net increase (decrease) of \$0.7 million, of which approximately \$0.5 million would increase (decrease) net earnings, and approximately \$0.2 million would increase (decrease) other comprehensive income. For further information on currency risk, refer to *note 19* of the unaudited interim condensed consolidated financial statements.

The operating results of our U.S. operating segment in Canadian dollars were affected by fluctuations in foreign exchange rates. For the first nine months of 2016, our remaining U.S. continuing operations accounted for: less than 1% of our revenue from continuing operations; 2% of net operating income (2015 year – 4%); and 12% of AFFO from continuing operations (2015 year – less than 1%).

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

U.S./Canadian Exchange Rates	Three months ended September 30			Nine months ended September 30			Year		
	2016	2015	Increase/ (Decrease)	2016	2015	Increase/ (Decrease)	2015	2014	Increase/ (Decrease)
Average exchange rate	1.3052	1.3084	(0.0032)	1.3218	1.2600	0.0618	1.2787	1.1045	0.1742
Period end exchange rate				1.3117		(0.0723)	1.3840		

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

In addition, as a result of U.S. net proceeds and deferred consideration received in respect of the U.S. Sale Transaction, our net earnings from continuing operations are impacted by fluctuations in foreign exchange rates. We recognized a net foreign exchange gain of \$1.3 million in the 2016 third quarter, and a net foreign exchange loss of \$3.5 million in the first nine months of 2016, as a result of the stronger Canadian dollar of 1.3117 at September 30, 2016, compared to 1.3840 at December 31, 2015.

### DIVIDEND POLICY

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

Dividends declared in the first nine months of 2016 totalled \$31.8 million, or \$0.36 per share, representing a payout ratio of approximately 61% of AFFO of \$51.7 million, or \$0.586 per basic share, compared to a payout ratio of approximately 77% in the same 2015 period. For the 2015 year, dividends declared totalled \$42.1 million, or \$0.48 per share, representing a payout ratio of approximately 83% of AFFO of \$50.8 million, or \$0.579 per basic share.

## 2016 SELECTED QUARTERLY INFORMATION

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

<i>(thousands of dollars unless otherwise noted)</i>	2016			2015			2014	
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenue	268,096	261,425	254,383	262,590	253,556	234,358	192,775	204,486
Net operating income	35,040	34,747	26,595	32,830	32,456	31,139	23,365	27,183
<i>Net operating income margin</i>	13.1%	13.3%	10.5%	12.5%	12.8%	13.3%	12.1%	13.3%
Adjusted EBITDA	25,525	26,647	16,517	23,012	22,938	22,384	15,357	22,173
<i>Adjusted EBITDA margin</i>	9.5%	10.2%	6.5%	8.8%	9.0%	9.6%	8.0%	10.8%
Earnings (loss) from continuing operations	9,955	9,695	(1,483)	7,266	11,209	3,978	1,257	7,912
Gain on sale of U.S. operations, net of taxes	–	–	–	749	204,669	–	–	–
Earnings (loss) from discontinued operations	(643)	(4,947)	(1,765)	2,530	418	(5,496)	5,498	1,296
Net earnings (loss)	9,312	4,748	(3,248)	10,545	216,296	(1,518)	6,755	9,208
AFFO (continuing operations)	20,832	20,012	12,344	10,420	15,027	11,840	6,300	10,320
per basic share (\$)	0.236	0.227	0.140	0.119	0.171	0.135	0.072	0.117
AFFO	20,300	19,155	12,235	9,611	13,540	5,834	21,843	19,417
per basic share (\$)	0.230	0.217	0.139	0.109	0.155	0.067	0.248	0.221
Maintenance Capex								
Continuing operations	2,825	2,835	1,040	6,713	3,423	2,295	815	5,806
Discontinued operations	280	232	110	780	763	5,345	2,544	4,093
Cash dividends declared	10,619	10,595	10,571	10,547	10,522	10,510	10,546	10,573
per share (\$)	0.120	0.120	0.120	0.120	0.120	0.120	0.120	0.120
Weighted Average Number of Shares								
Basic	88,495	88,269	88,057	87,852	87,663	87,557	88,003	88,066
Diluted	99,739	99,513	99,302	99,097	98,907	98,802	99,247	99,311
U.S./Canadian dollar average exchange rate for the period	1.3052	1.2873	1.3731	1.3342	1.3084	1.2297	1.2412	1.1351

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

<i>(thousands of dollars)</i>	2016			2015			2014	
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
<b>Earnings (loss) from continuing operations before income taxes</b>	13,169	13,597	(1,556)	10,819	18,222	6,062	2,447	9,855
<b>Add (Deduct):</b>								
Depreciation and amortization	7,783	7,753	7,147	6,835	6,103	5,830	4,900	5,797
Net finance costs (income)	4,573	5,092	8,790	1,944	(2,189)	8,902	7,111	7,147
Other expense (income)	–	205	2,136	3,414	802	1,590	899	(626)
<b>Adjusted EBITDA</b>	25,525	26,647	16,517	23,012	22,938	22,384	15,357	22,173
<b>Add (Deduct):</b>								
Administrative costs	7,843	6,458	8,407	8,136	7,891	7,247	6,870	3,916
Lease costs	1,672	1,642	1,671	1,682	1,627	1,508	1,138	1,094
<b>Net operating income</b>	35,040	34,747	26,595	32,830	32,456	31,139	23,365	27,183

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

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

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

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

- transaction and integration costs in connection with acquisitions, asset impairment charges, gains or losses on disposals, proxy contest costs and other costs considered transitional in nature are reported as “other expense (income)”; for example, as a result of acquisitions and a proxy contest, the three and nine months ended September 30, 2016, included “other expense” of nil, and \$2.3 million, respectively, compared to the three and nine months ended September 30, 2015, of \$0.8 million and \$3.3 million, respectively, and for the year ended December 31, 2015, they totalled \$6.7 million;
- valuation of interest rate swaps entered into during the 2016 third quarter, which are designated at fair value through profit or loss each period, resulted in a loss this quarter of \$0.8 million reflected as a “fair value adjustment”; and
- foreign currency exchange rate fluctuations between the U.S. and Canadian dollars and impact on translation of our U.S. operations from U.S. dollars to Canadian dollars; for example, as a result of U.S. net proceeds and deferred consideration received in respect of the disposal of our U.S. operations in July 2015, our 2016 earnings from continuing operations included the following in “loss (gain) on foreign exchange and financial instruments”: net foreign exchange losses of \$3.9 million and \$0.8 million in the 2016 first and second quarters, respectively, and a net foreign exchange gain of \$1.3 million in the 2016 third quarter; while the 2015 results included net foreign exchange gains of \$6.5 million and \$3.3 million in the 2015 third and fourth quarters, respectively.

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

## ADJUSTED FUNDS FROM OPERATIONS

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

<i>(thousands of dollars unless otherwise noted)</i>	Three months ended			Nine months ended		
	2016	2015	Change	2016	2015	Change
<b>Adjusted EBITDA</b>	<b>25,525</b>	22,938	2,587	<b>68,689</b>	60,679	8,010
Depreciation for FFEC (maintenance capex) <sup>(1)</sup>	<b>(1,952)</b>	(1,729)	(223)	<b>(5,685)</b>	(4,909)	(776)
Accretion costs	<b>(620)</b>	(630)	10	<b>(1,873)</b>	(1,838)	(35)
Interest expense	<b>(7,082)</b>	(6,735)	(347)	<b>(20,348)</b>	(23,125)	2,777
Interest revenue	<b>2,698</b>	3,067	(369)	<b>8,091</b>	4,652	3,439
	<b>18,569</b>	16,911	1,658	<b>48,874</b>	35,459	13,415
Current income tax expense <sup>(2)</sup>	<b>647</b>	2,438	(1,791)	<b>7,065</b>	8,426	(1,361)
<b>FFO (continuing operations)</b>	<b>17,922</b>	14,473	3,449	<b>41,809</b>	27,033	14,776
Amortization of financing costs	<b>370</b>	358	12	<b>1,164</b>	2,532	(1,368)
Accretion costs	<b>620</b>	630	(10)	<b>1,873</b>	1,838	35
Non-cash share-based compensation	<b>253</b>	–	253	<b>649</b>	–	649
Principal portion of government capital funding	<b>1,167</b>	1,065	102	<b>4,468</b>	3,193	1,275
Income support (retirement acquisitions)	<b>1,809</b>	–	1,809	<b>4,905</b>	–	4,905
Amounts offset through investments held for self-insured liabilities <sup>(3)</sup>	<b>(436)</b>	195	(631)	<b>(665)</b>	195	(860)
Additional maintenance capex <sup>(1)</sup>	<b>(873)</b>	(1,694)	821	<b>(1,015)</b>	(1,624)	609
<b>AFFO (continuing operations)</b>	<b>20,832</b>	15,027	5,805	<b>53,188</b>	33,167	20,021
Discontinued operations	<b>(532)</b>	(1,487)	955	<b>(1,498)</b>	8,050	(9,548)
<b>AFFO <sup>(4)</sup></b>	<b>20,300</b>	13,540	6,760	<b>51,690</b>	41,217	10,473
<b>Per Basic Share (\$)</b>						
FFO (continuing operations)	<b>0.203</b>	0.165	0.038	<b>0.474</b>	0.308	0.166
FFO	<b>0.200</b>	0.147	0.053	<b>0.451</b>	0.448	0.003
AFFO (continuing operations)	<b>0.236</b>	0.171	0.065	<b>0.603</b>	0.378	0.225
AFFO	<b>0.230</b>	0.155	0.075	<b>0.586</b>	0.470	0.116
<b>Per Diluted Share (\$)</b>						
FFO (continuing operations)	<b>0.202</b>	0.165	0.037	<b>0.473</b>	0.308	0.165
FFO	<b>0.200</b>	0.147	0.053	<b>0.451</b>	0.448	0.003
AFFO (continuing operations)	<b>0.223</b>	0.169	0.054	<b>0.575</b>	0.376	0.199
AFFO	<b>0.217</b>	0.150	0.067	<b>0.560</b>	0.457	0.103
<b>Dividends (\$)</b>						
Declared	<b>10,619</b>	10,522	97	<b>31,785</b>	31,578	207
Declared per share (\$)	<b>0.120</b>	0.120	–	<b>0.360</b>	0.360	–
<b>Weighted Average Number of Shares (thousands)</b>						
Basic	<b>88,495</b>	87,663		<b>88,274</b>	87,740	
Diluted	<b>99,739</b>	98,907		<b>99,519</b>	98,984	

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

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

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

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

## AFFO 2016 Third Quarter Financial Review

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

<i>(thousands of dollars unless otherwise noted)</i>	Three months ended September 30						
	2016			2015			Total Change
	Canada	U.S.	Total	Canada	U.S.	Total	
<b>AFFO (continuing operations)</b>	<b>17,101</b>	<b>3,731</b>	<b>20,832</b>	13,750	1,277	15,027	5,805
Discontinued operations	–	(532)	(532)	–	(1,487)	(1,487)	955
<b>AFFO</b>	<b>17,101</b>	<b>3,199</b>	<b>20,300</b>	13,750	(210)	13,540	6,760
<b>Maintenance capex (continuing operations)</b>	<b>2,825</b>	–	<b>2,825</b>	3,423	–	3,423	(598)
Discontinued operations	–	<b>280</b>	<b>280</b>	–	763	763	(483)
<b>Maintenance capex</b>	<b>2,825</b>	<b>280</b>	<b>3,105</b>	3,423	763	4,186	(1,081)
Average U.S./Canadian dollar exchange rate	1.3052			1.3084			

AFFO was \$20.3 million (\$0.230 per basic share) in the 2016 third quarter compared to \$13.5 million (\$0.155 per basic share) in the 2015 third quarter, representing an increase of \$6.8 million, due to an improvement in AFFO from continuing operations of \$5.8 million, and a reduction in losses from discontinued operations.

AFFO from continuing operations was \$20.8 million (\$0.236 per basic share) this quarter compared to \$15.0 million (\$0.171 per basic share) in the 2015 third quarter. The \$5.8 million improvement in AFFO from continuing operations included an improvement in Adjusted EBITDA of \$2.6 million, income support on the retirement acquisitions of \$1.8 million, and lower current income taxes of \$1.8 million, partially offset by higher net finance costs of \$0.7 million. A discussion of the factors impacting Adjusted EBITDA from continuing operations and net finance costs can be found under the heading “2016 Third Quarter Financial Review”.

Current income taxes impacting AFFO for the 2016 third quarter were \$0.6 million compared to \$2.4 million in the same 2015 period, representing 3.5% and 14.4% of pre-tax FFO from continuing operations, respectively. The 2016 third quarter included the reversal of a \$1.9 million current tax provision, as a result of a favourable book-to-file adjustment, of which \$1.0 million had been recorded in 2015 and the balance in the first half of 2016. The FFO effective tax rate for the 2016 third quarter would have otherwise been 13.7%.

Maintenance capex from continuing operations was \$2.8 million this quarter, compared to \$3.4 million in the 2015 third quarter and to \$2.8 million in the 2016 second quarter, representing 1.1%, 1.3% and 1.1% of revenue from continuing operations, respectively.

## AFFO 2016 Nine Month Financial Review

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

<i>(thousands of dollars unless otherwise noted)</i>	Nine months ended September 30						
	2016			2015			Total Change
	Canada	U.S.	Total	Canada	U.S.	Total	
<b>AFFO (continuing operations)</b>	<b>46,906</b>	<b>6,282</b>	<b>53,188</b>	34,914	(1,747)	33,167	20,021
Discontinued operations	–	(1,498)	(1,498)	–	8,050	8,050	(9,548)
<b>AFFO</b>	<b>46,906</b>	<b>4,784</b>	<b>51,690</b>	34,914	6,303	41,217	10,473
<b>Maintenance capex (continuing operations)</b>	<b>6,700</b>	–	<b>6,700</b>	6,533	–	6,533	167
Discontinued operations	–	<b>622</b>	<b>622</b>	–	8,652	8,652	(8,030)
<b>Maintenance capex</b>	<b>6,700</b>	<b>622</b>	<b>7,322</b>	6,533	8,652	15,185	(7,863)
Average U.S./Canadian dollar exchange rate	1.3218			1.2600			

AFFO was \$51.7 million (\$0.586 per basic share) in the first nine months of 2016 compared to \$41.2 million (\$0.470 per basic share) in the same 2015 period, representing an increase of \$10.5 million, due to a \$20.0 million improvement in AFFO from continuing operations, partially offset by a reduction in AFFO from discontinued operations of \$9.5 million as a result of the completion of the U.S. Sale Transaction.

AFFO from continuing operations was \$53.2 million (\$0.603 per basic share) this period compared to \$33.2 million (\$0.378 per basic share) in the first nine months of 2015. The \$20.0 million improvement in AFFO from continuing operations included an improvement in Adjusted EBITDA of \$8.0 million, income support on the retirement acquisitions of \$4.9 million, lower net finance costs of \$4.8 million, lower current income taxes of \$1.4 million, and an increase in

government capital funding of \$1.3 million that included \$1.0 million of retroactive funding on two redeveloped long-term care centres. A discussion of the factors impacting Adjusted EBITDA from continuing operations and net finance costs can be found under the heading “2016 Nine Month Financial Review”.

Current income taxes impacting AFFO for the first nine months of 2016 were \$7.0 million compared to \$8.4 million in the same 2015 period, representing 14.5% and 23.8% of pre-tax FFO from continuing operations, respectively. Current income taxes for the 2016 period were favourably impacted by a \$1.0 million book-to-file adjustment, and would have otherwise reflected an FFO effective tax rate of 16.5%. The remaining variance in effective rates between periods is primarily due to the impact of deferred timing difference and the proportion of earnings between taxable and non-taxable entities.

The determination of FFO includes a deduction for current income tax expense, and does not include deferred income tax expense. As a result, the effective tax rates on our FFO can be impacted by: adjustments to our estimates of annual deferred timing differences, particularly when dealing with cash-based tax items versus accounting accruals; changes in the proportion of earnings between taxable and non-taxable entities; book-to-file adjustments for prior year filings; cross-border dividends; and the ability to utilize loss carryforwards. The effective tax rate on FFO for the first nine months of 2016 was 14.5%. We anticipate it to be in the range of 15% to 20% for the 2016 year.

Maintenance capex from continuing operations was \$6.7 million this period, compared to \$6.5 million in the first nine months of 2015, representing 0.9% and 1.0% of revenue from continuing operations, respectively. For the 2015 year, maintenance capex from continuing operations was \$13.2 million, representing 1.4% of revenue from continuing operations. These costs fluctuate on a quarterly basis with the timing of projects and seasonality. It is our intention to spend up to 1.5% of revenue annually in maintenance capex, which is consistent with our objective to maintain and upgrade our centres. In 2016, based on our spending to date and the plans for the fourth quarter, we are expecting to spend in the range of \$10 million to \$12 million in maintenance capex and in the range of \$35 million to \$40 million in growth capex, related primarily to the retirement development projects.

## Reconciliation of Net Cash from Operating Activities to AFFO

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

<i>(thousands of dollars)</i>	Three months ended		Nine months ended	
	September 30		September 30	
	2016	2015	2016	2015
<b>Net cash from operating activities</b>	<b>(4,906)</b>	<b>(12,836)</b>	<b>(17,977)</b>	<b>35,181</b>
<b>Add (Deduct):</b>				
Net change in operating assets and liabilities, including interest, taxes and payments for U.S. self-insured liabilities	<b>25,677</b>	(19,333)	<b>60,666</b>	(4,410)
Current income tax on items excluded from AFFO <sup>(1)</sup>	<b>94</b>	48,700	<b>7,615</b>	51,579
Depreciation for FFEC (maintenance capex) <sup>(2)</sup>	<b>(1,945)</b>	(2,550)	<b>(6,773)</b>	(7,464)
Additional maintenance capex <sup>(2)</sup>	<b>(1,160)</b>	(1,636)	<b>(549)</b>	(7,721)
Principal portion of government capital funding	<b>1,167</b>	1,065	<b>4,468</b>	3,193
Income support (retirement acquisitions)	<b>1,809</b>	–	<b>4,905</b>	–
Amounts offset through investments held for self-insured liabilities <sup>(3)</sup>	<b>(436)</b>	195	<b>(665)</b>	195
Expense for U.S. self-insured liabilities	–	–	–	(34,495)
U.S. property taxes under IFRIC 21	–	–	–	5,209
Other	–	(65)	–	(50)
<b>AFFO</b>	<b>20,300</b>	<b>13,540</b>	<b>51,690</b>	<b>41,217</b>

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

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

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

## 2016 THIRD QUARTER FINANCIAL REVIEW

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

<i>(thousands of dollars)</i>	Three months ended September 30						
	2016			2015			Total Change
	Canada	U.S.	Total	Canada	U.S.	Total	
<b>Revenue</b>	267,170	926	268,096	252,056	1,500	253,556	14,540
Operating expenses	233,056	–	233,056	221,100	–	221,100	11,956
<b>Net operating income</b>	<b>34,114</b>	<b>926</b>	<b>35,040</b>	30,956	1,500	32,456	2,584
Administrative costs	7,327	516	7,843	6,158	1,733	7,891	(48)
Lease costs	1,672	–	1,672	1,627	–	1,627	45
<b>Adjusted EBITDA</b>	<b>25,115</b>	<b>410</b>	<b>25,525</b>	23,171	(233)	22,938	2,587
Depreciation and amortization	7,783	–	7,783	6,103	–	6,103	1,680
Other expense	–	–	–	802	–	802	(802)
<b>Earnings (loss) before net finance costs and income taxes</b>	<b>17,332</b>	<b>410</b>	<b>17,742</b>	16,266	(233)	16,033	1,709
Interest expense (net of capitalized interest)	7,082	–	7,082	6,735	–	6,735	347
Interest revenue	(829)	(1,869)	(2,698)	(1,272)	(1,795)	(3,067)	369
Accretion	294	326	620	282	348	630	(10)
Fair value adjustments	847	–	847	–	–	–	847
Loss (gain) on foreign exchange and financial instruments	(666)	(612)	(1,278)	(6,487)	–	(6,487)	5,209
<b>Net finance costs (income)</b>	<b>6,728</b>	<b>(2,155)</b>	<b>4,573</b>	(742)	(1,447)	(2,189)	6,762
<b>Earnings (loss) from continuing operations before income taxes</b>	<b>10,604</b>	<b>2,565</b>	<b>13,169</b>	17,008	1,214	18,222	(5,053)
<b>Income tax expense (recovery)</b>							
Current	2,571	(1,888)	683	5,335	480	5,815	(5,132)
Deferred	98	2,433	2,531	936	262	1,198	1,333
Total income tax expense (recovery)	2,669	545	3,214	6,271	742	7,013	(3,799)
<b>Earnings (loss) from continuing operations</b>	<b>7,935</b>	<b>2,020</b>	<b>9,955</b>	10,737	472	11,209	(1,254)
Gain on sale of U.S. operations, net of taxes	–	–	–	–	204,669	204,669	(204,669)
Earnings (loss) from discontinued operations	–	(643)	(643)	–	418	418	(1,061)
<b>Net earnings (loss)</b>	<b>7,935</b>	<b>1,377</b>	<b>9,312</b>	10,737	205,559	216,296	(206,984)
<b>Earnings (loss) from continuing operations Add (Deduct) <sup>(1)</sup>:</b>	<b>7,935</b>	<b>2,020</b>	<b>9,955</b>	10,737	472	11,209	(1,254)
Fair value adjustments	622	–	622	–	–	–	622
Loss (gain) on foreign exchange and financial instruments	(619)	(450)	(1,069)	(5,778)	–	(5,778)	4,709
Other expense	–	–	–	4,179	–	4,179	(4,179)
<b>Earnings (loss) from continuing operations before separately reported items, net of taxes</b>	<b>7,938</b>	<b>1,570</b>	<b>9,508</b>	9,138	472	9,610	(102)

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

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

<i>(thousands of dollars)</i>	Three months ended September 30						
	2016			2015			Total Change
	Canada	U.S.	Total	Canada	U.S.	Total	
<b>Earnings (loss) from continuing operations before income taxes</b>	<b>10,604</b>	<b>2,565</b>	<b>13,169</b>	17,008	1,214	18,222	(5,053)
<b>Add (Deduct):</b>							
Depreciation and amortization	7,783	–	7,783	6,103	–	6,103	1,680
Net finance costs	6,728	(2,155)	4,573	(742)	(1,447)	(2,189)	6,762
Other expense	–	–	–	802	–	802	(802)
<b>Adjusted EBITDA</b>	<b>25,115</b>	<b>410</b>	<b>25,525</b>	23,171	(233)	22,938	2,587
<b>Add (Deduct):</b>							
Administrative costs	7,327	516	7,843	6,158	1,733	7,891	(48)
Lease costs	1,672	–	1,672	1,627	–	1,627	45
<b>Net operating income</b>	<b>34,114</b>	<b>926</b>	<b>35,040</b>	30,956	1,500	32,456	2,584

The following provides our segmented “revenue”, “operating expenses” and “net operating income”.

<b>Three months ended September 30</b> <i>(thousands of dollars)</i>	<b>Long-term Care</b>	<b>Retirement Living</b>	<b>Home Health Care</b>	<b>Other Canadian Operations</b>	<b>Corporate Canada</b>	<b>Total Canada</b>	<b>Total U.S.</b>	<b>Total</b>
<b>2016 – Same-store</b>								
Revenue	152,473	–	52,501	4,498	36	209,508	926	210,434
Operating expenses	132,372	–	46,568	1,969	–	180,909	–	180,909
Net operating income	20,101	–	5,933	2,529	36	28,599	926	29,525
<i>Net operating income margin (%)</i>	<i>13.2%</i>	<i>–</i>	<i>11.3%</i>	<i>56.2%</i>	<i>100.0%</i>	<i>13.7%</i>	<i>100.0%</i>	<i>14.0%</i>
<b>2016 – Non Same-store</b>								
Revenue	–	3,996	53,666	–	–	57,662	–	57,662
Operating expenses	–	3,887	48,260	–	–	52,147	–	52,147
Net operating income	–	109	5,406	–	–	5,515	–	5,515
<i>Net operating income margin (%)</i>	<i>–</i>	<i>2.7%</i>	<i>10.1%</i>	<i>–</i>	<i>–</i>	<i>9.6%</i>	<i>–</i>	<i>9.6%</i>
<b>2016 – Total</b>								
Revenue	152,473	3,996	106,167	4,498	36	267,170	926	268,096
Operating expenses	132,372	3,887	94,828	1,969	–	233,056	–	233,056
Net operating income	20,101	109	11,339	2,529	36	34,114	926	35,040
<i>Net operating income margin (%)</i>	<i>13.2%</i>	<i>2.7%</i>	<i>10.7%</i>	<i>56.2%</i>	<i>100.0%</i>	<i>12.8%</i>	<i>100.0%</i>	<i>13.1%</i>
<b>2015 – Same-store</b>								
Revenue	149,723	–	49,188	4,090	4	203,005	1,500	204,505
Operating expenses	131,771	–	43,268	1,798	–	176,837	–	176,837
Net operating income	17,952	–	5,920	2,292	4	26,168	1,500	27,668
<i>Net operating income margin (%)</i>	<i>12.0%</i>	<i>–</i>	<i>12.0%</i>	<i>56.0%</i>	<i>100.0%</i>	<i>12.9%</i>	<i>100.0%</i>	<i>13.5%</i>
<b>2015 – Non Same-store</b>								
Revenue	–	–	49,051	–	–	49,051	–	49,051
Operating expenses	–	–	44,263	–	–	44,263	–	44,263
Net operating income	–	–	4,788	–	–	4,788	–	4,788
<i>Net operating income margin (%)</i>	<i>–</i>	<i>–</i>	<i>9.8%</i>	<i>–</i>	<i>–</i>	<i>9.8%</i>	<i>–</i>	<i>9.8%</i>
<b>2015 – Total</b>								
Revenue	149,723	–	98,239	4,090	4	252,056	1,500	253,556
Operating expenses	131,771	–	87,531	1,798	–	221,100	–	221,100
Net operating income	17,952	–	10,708	2,292	4	30,956	1,500	32,456
<i>Net operating income margin (%)</i>	<i>12.0%</i>	<i>–</i>	<i>10.9%</i>	<i>56.0%</i>	<i>100.0%</i>	<i>12.3%</i>	<i>100.0%</i>	<i>12.8%</i>
<b>Change in Total</b>								
Revenue	2,750	3,996	7,928	408	32	15,114	(574)	14,540
Operating expenses	601	3,887	7,297	171	–	11,956	–	11,956
Net operating income	2,149	109	631	237	32	3,158	(574)	2,584

## Consolidated Revenue

**Consolidated continuing operations** – revenue grew by \$14.5 million, or 5.7%, to \$268.1 million in the 2016 third quarter, of which acquisitions contributed \$8.6 million, with growth from same-store revenue of 2.9% over the same 2015 period.

**Long-term care operations** – revenue improved by \$2.8 million, or 1.8%, to \$152.5 million this quarter, primarily due to funding enhancements. Approximately \$0.6 million of the increase in revenue related to our Ontario flow-through envelopes and was therefore directly offset by increased costs of resident care, and approximately \$0.2 million was due to improvements in preferred accommodation. Our average occupancy was 98.1% this quarter compared to 98.2% in the 2015 third quarter, and our average daily revenue rate increased by 1.4% to \$203.54 this quarter from \$200.76 in the same 2015 period.

**Retirement living operations** – revenue from the Retirement Acquisitions completed since October 2015 was \$4.0 million, with average occupancy of 61.0% and average monthly revenue per occupied room of \$4,440 in the 2016 third quarter. In accordance with the purchase agreements, the purchase price of four of the communities that had been open for less than a year when acquired, includes income support to be released to Extencare during the lease-up periods until the communities reach stabilized NOI. The realization of income support is not included in earnings reported in the

consolidated statements of earnings, but it is included in the determination of AFFO. This quarter, the Company realized \$1.8 million of income support in determining AFFO.

**Home health care operations** – revenue improved by \$7.9 million, or 8.1%, to \$106.2 million, of which \$4.6 million was from the Home Health Acquisition. Same-store revenue grew by \$3.3 million primarily due to enhanced funding to support an increase in government-funded wage increases for personal support workers (PSWs), estimated at approximately \$1.2 million, and a 4.7% increase in daily hours of service provided to 14,628 this quarter from 13,967 in the 2015 third quarter. The average hourly service rate was \$39.01 this quarter compared to \$38.28 in the same 2015 period, and remained unchanged excluding the impact of the government funding for the PSW wage increases.

**Other Canadian operations** – revenue from our management and group purchasing operations improved by \$0.4 million to \$4.5 million in the 2016 third quarter, primarily due to growth in the number of clients served.

**U.S. operations** – revenue from the Captive declined by \$0.6 million in the 2016 third quarter due to a decrease in investment income.

## Consolidated Operating Expenses

**Consolidated continuing operations** – operating expenses increased by \$11.9 million, or 5.4%, to \$233.1 million in the 2016 third quarter, primarily as a result of the acquisitions. The majority of our operating expenses are labour related, which increased by \$11.2 million over the same 2015 period, and represented 86.8% and 86.5% of operating expenses in the third quarters of 2016 and 2015, respectively, and as a percentage of revenue were 75.5% and 75.4%, respectively. Acquisitions contributed approximately \$7.9 million to the increase in operating expenses this quarter, with same-store operating expenses increasing by 2.3%, primarily due to higher labour costs.

**Long-term care operations** – operating expenses increased by \$0.6 million to \$132.4 million in the 2016 third quarter, primarily due to a net increase in labour costs of approximately \$0.5 million, or 0.4%, that included favourable accrual adjustments recorded this quarter of approximately \$1.0 million. Labour costs of our long-term care operations represented 83.5% of operating expenses in each of the third quarters of 2016 and 2015.

**Retirement operations** – operating expenses from the Retirement Acquisitions were \$3.9 million, of which approximately \$2.7 million, or 70.1%, were labour costs.

**Home health care operations** – operating expenses increased by \$7.3 million to \$94.9 million, of which \$4.0 million was from the Home Health Acquisition. Same-store operating expenses grew by \$3.3 million, of which approximately \$1.2 million related to the government-funded wage increases, and the balance was largely due to labour costs to support the 4.7% increase in volumes. Labour costs of our home health care operations represented 92.4% and 90.9% of its operating expenses in the third quarters of 2016 and 2015, respectively.

**Other Canadian operations** – operating expenses from our management and group purchasing operations were relatively unchanged at \$1.9 million this quarter compared to \$1.8 million in the 2015 third quarter.

## Consolidated Net Operating Income

Consolidated net operating income from continuing operations improved by \$2.6 million, or 8.0%, to \$35.0 million in the 2016 third quarter compared to \$32.4 million in the same 2015 period, representing 13.1% and 12.8% of revenue, respectively. As discussed above, revenue increased by \$14.5 million and was partially offset by higher operating expenses of \$11.9 million. On a same-store basis, excluding the Home Health Acquisition and Retirement Acquisitions, net operating income improved by \$1.9 million to \$29.5 million, representing 14.0% of revenue this quarter compared to 13.5% in the same 2015 period. This improvement in same-store net operating income resulted from funding enhancements in our long-term care operations, favourable labour cost accrual adjustments recorded this quarter of \$1.0 million, higher preferred accommodation revenue, timing of recognition of funding to match costs under the Ontario envelope system, and increased business volumes in our management services and group purchasing operations, partially offset by lower investment income from our Captive, and unfunded cost increases in our home health care operations. Home health care funding increases from the Ontario government have been limited to a level to compensate operators to cover mandatory PSW wage increases. Management initiatives are under way with a specific focus to improve efficiency and reduce costs in our core home health care operations.

## **Administrative and Lease Costs**

Administrative and lease costs were unchanged at \$9.5 million in each of the third quarters of 2016 and 2015, and reflected a \$1.2 million reduction in administrative costs to manage the run off of our U.S. self-insured liabilities, offset by an increase in costs of our Canadian operations. The \$1.2 million increase in our Canadian operations, included higher labour costs of \$1.1 million, of which \$0.5 million was due to an increase in share-based executive compensation (\$0.8 million this quarter compared to \$0.3 million in the prior year quarter) and the balance was largely due to increased staff to support the acquisitions and growth in operations.

## **Consolidated Adjusted EBITDA**

Consolidated Adjusted EBITDA improved by \$2.6 million to \$25.5 million this quarter from \$22.9 million in the same 2015 period, representing 9.5% and 9.0% of revenue, respectively, reflecting growth in net operating income, as previously discussed.

## **Depreciation and Amortization**

Depreciation and amortization costs increased by \$1.7 million to \$7.8 million this quarter, largely due to the acquisitions.

## **Other Expense**

The Company recorded a pre-tax charge of \$0.8 million in the 2015 third quarter related to acquisition costs, with nothing recognized in the 2016 third quarter.

## **Net Finance Costs (Income)**

Net finance costs were \$4.6 million this quarter compared to net finance income of \$2.2 million in the 2015 third quarter. The \$6.8 million increase in net finance costs included a reduction in the net gain on foreign exchange and financial instruments of \$5.2 million, primarily due to higher foreign exchange gains recognized in 2015 on proceeds from the U.S. Sale Transaction, and a charge this quarter of \$0.8 million related to the valuation of interest rate swaps. The remaining increase in net finance costs of \$0.7 million was primarily due to lower interest income of \$0.4 million and higher finance costs in connection with increased debt.

## **Income Taxes**

The income tax provision was \$3.2 million on pre-tax earnings of \$13.2 million this quarter compared to a provision of \$7.0 million on pre-tax earnings of \$18.2 million in the 2015 third quarter. The effective tax rates for each period were distorted by, among other things, fair value adjustments, gains and losses on foreign exchange and financial instruments, and other expense (income) that have been separately reported. The effective tax rate on earnings from continuing operations before separately reported items was 25.4% this quarter and 23.3% in the 2015 third quarter.

## **Discontinued Operations**

Discontinued operations reported a loss, net of tax, of \$0.6 million this quarter compared to earnings, net of tax, of \$0.4 million and the after-tax gain on sale of the U.S. operations of \$204.7 million in the 2015 third quarter. This quarter's net after-tax loss related to an impairment charge of \$2.1 million in respect of VCPI, and a net loss of \$0.3 million from VCPI's operations, partially offset by a reduction of \$1.8 million in indemnification provisions in respect of the U.S. Sale Transaction. The 2015 third quarter net after-tax earnings related to the operations disposed of in the U.S. Sale Transaction. For further information on the discontinued operations, refer to *note 17* of the unaudited interim condensed consolidated financial statements, and the discussions under the headings "Significant 2016 Events and Developments – Disposal Group Held for Sale – VCPI", and "Other Significant Developments – 2015 U.S. Sale Transaction".

## 2016 NINE MONTH FINANCIAL REVIEW

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

<i>(thousands of dollars)</i>	Nine months ended September 30						
	2016			2015			Total Change
	Canada	U.S.	Total	Canada	U.S.	Total	
<b>Revenue</b>	781,758	2,146	783,904	678,845	1,844	680,689	103,215
Operating expenses	687,522	–	687,522	593,729	–	593,729	93,793
<b>Net operating income</b>	94,236	2,146	96,382	85,116	1,844	86,960	9,422
Administrative costs	20,827	1,881	22,708	16,787	5,221	22,008	700
Lease costs	4,985	–	4,985	4,273	–	4,273	712
<b>Adjusted EBITDA</b>	68,424	265	68,689	64,056	(3,377)	60,679	8,010
Depreciation and amortization	22,683	–	22,683	16,833	–	16,833	5,850
Other expense	2,341	–	2,341	3,291	–	3,291	(950)
<b>Earnings (loss) before net finance costs and income taxes</b>	43,400	265	43,665	43,932	(3,377)	40,555	3,110
Interest expense (net of capitalized interest)	20,348	–	20,348	23,125	–	23,125	(2,777)
Interest revenue	(2,425)	(5,666)	(8,091)	(2,857)	(1,795)	(4,652)	(3,439)
Accretion	882	991	1,873	836	1,002	1,838	35
Fair value adjustments	847	–	847	–	–	–	847
Loss (gain) on foreign exchange and financial instruments	1,345	2,133	3,478	(6,487)	–	(6,487)	9,965
<b>Net finance costs</b>	20,997	(2,542)	18,455	14,617	(793)	13,824	4,631
<b>Earnings (loss) from continuing operations before income taxes</b>	22,403	2,807	25,210	29,315	(2,584)	26,731	(1,521)
<b>Income tax expense (recovery)</b>							
Current	7,421	(1,016)	6,405	11,255	360	11,615	(5,210)
Deferred	(1,874)	2,512	638	(1,590)	262	(1,328)	1,966
Total income tax expense (recovery)	5,547	1,496	7,043	9,665	622	10,287	(3,244)
<b>Earnings (loss) from continuing operations</b>	16,856	1,311	18,167	19,650	(3,206)	16,444	1,723
Gain on sale of U.S. operations, net of taxes	–	–	–	–	204,669	204,669	(204,669)
Earnings (loss) from discontinued operations	–	(7,355)	(7,355)	–	420	420	(7,775)
<b>Net earnings (loss)</b>	16,856	(6,044)	10,812	19,650	201,883	221,533	(210,721)
<b>Earnings (loss) from continuing operations Add (Deduct) <sup>(1)</sup>:</b>							
Fair value adjustments	622	–	622	–	–	–	622
Loss (gain) on foreign exchange and financial instruments	793	1,568	2,361	(5,778)	–	(5,778)	8,139
Other expense	1,721	–	1,721	6,126	–	6,126	(4,405)
<b>Earnings (loss) from continuing operations before separately reported items, net of taxes</b>	19,992	2,879	22,871	19,998	(3,206)	16,792	6,079

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

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

<i>(thousands of dollars)</i>	Nine months ended September 30						
	2016			2015			Total Change
	Canada	U.S.	Total	Canada	U.S.	Total	
<b>Earnings (loss) from continuing operations before income taxes</b>	22,403	2,807	25,210	29,315	(2,584)	26,731	(1,521)
<b>Add (Deduct):</b>							
Depreciation and amortization	22,683	–	22,683	16,833	–	16,833	5,850
Net finance costs	20,997	(2,542)	18,455	14,617	(793)	13,824	4,631
Other expense	2,341	–	2,341	3,291	–	3,291	(950)
<b>Adjusted EBITDA</b>	68,424	265	68,689	64,056	(3,377)	60,679	8,010
<b>Add (Deduct):</b>							
Administrative costs	20,827	1,881	22,708	16,787	5,221	22,008	700
Lease costs	4,985	–	4,985	4,273	–	4,273	712
<b>Net operating income</b>	94,236	2,146	96,382	85,116	1,844	86,960	9,422

The following provides our segmented “revenue”, “operating expenses” and “net operating income”.

<b>Nine months ended September 30</b> <i>(thousands of dollars)</i>	<b>Long-term Care</b>	<b>Retirement Living</b>	<b>Home Health Care</b>	<b>Other Canadian Operations</b>	<b>Corporate Canada</b>	<b>Total Canada</b>	<b>Total U.S.</b>	<b>Total</b>
<b>2016 – Same-store</b>								
Revenue	451,193	–	153,467	13,753	44	618,457	2,146	620,603
Operating expenses	395,190	–	137,170	6,312	–	538,672	–	538,672
Net operating income	56,003	–	16,297	7,441	44	79,785	2,146	81,931
<i>Net operating income margin (%)</i>	<i>12.4%</i>	<i>–</i>	<i>10.6%</i>	<i>54.1%</i>	<i>100.0%</i>	<i>12.9%</i>	<i>100.0%</i>	<i>13.2%</i>
<b>2016 – Non Same-store</b>								
Revenue	–	11,034	152,267	–	–	163,301	–	163,301
Operating expenses	–	10,517	138,333	–	–	148,850	–	148,850
Net operating income	–	517	13,934	–	–	14,451	–	14,451
<i>Net operating income margin (%)</i>	<i>–</i>	<i>4.7%</i>	<i>9.2%</i>	<i>–</i>	<i>–</i>	<i>8.8%</i>	<i>–</i>	<i>8.8%</i>
<b>2016 – Total</b>								
Revenue	451,193	11,034	305,734	13,753	44	781,758	2,146	783,904
Operating expenses	395,190	10,517	275,503	6,312	–	687,522	–	687,522
Net operating income	56,003	517	30,231	7,441	44	94,236	2,146	96,382
<i>Net operating income margin (%)</i>	<i>12.4%</i>	<i>4.7%</i>	<i>9.9%</i>	<i>54.1%</i>	<i>100.0%</i>	<i>12.1%</i>	<i>100.0%</i>	<i>12.3%</i>
<b>2015 – Same-store</b>								
Revenue	440,010	–	144,442	11,818	34	596,304	1,844	598,148
Operating expenses	387,121	–	126,771	5,442	–	519,334	–	519,334
Net operating income	52,889	–	17,671	6,376	34	76,970	1,844	78,814
<i>Net operating income margin (%)</i>	<i>12.0%</i>	<i>–</i>	<i>12.2%</i>	<i>54.0%</i>	<i>100.0%</i>	<i>12.9%</i>	<i>100.0%</i>	<i>13.2%</i>
<b>2015 – Non Same-store</b>								
Revenue	–	–	82,541	–	–	82,541	–	82,541
Operating expenses	–	–	74,395	–	–	74,395	–	74,395
Net operating income	–	–	8,146	–	–	8,146	–	8,146
<i>Net operating income margin (%)</i>	<i>–</i>	<i>–</i>	<i>9.9%</i>	<i>–</i>	<i>–</i>	<i>9.9%</i>	<i>–</i>	<i>9.9%</i>
<b>2015 – Total</b>								
Revenue	440,010	–	226,983	11,818	34	678,845	1,844	680,689
Operating expenses	387,121	–	201,166	5,442	–	593,729	–	593,729
Net operating income	52,889	–	25,817	6,376	34	85,116	1,844	86,960
<i>Net operating income margin (%)</i>	<i>12.0%</i>	<i>–</i>	<i>11.4%</i>	<i>54.0%</i>	<i>100.0%</i>	<i>12.5%</i>	<i>100.0%</i>	<i>12.8%</i>
<b>Change in Total</b>								
Revenue	11,183	11,034	78,751	1,935	10	102,913	302	103,215
Operating expenses	8,069	10,517	74,337	870	–	93,793	–	93,793
Net operating income	3,114	517	4,414	1,065	10	9,120	302	9,422

## Consolidated Revenue

**Consolidated continuing operations** – revenue grew by \$103.2 million, or 15.2%, to \$783.9 million in the first nine months of 2016, of which acquisitions contributed \$80.8 million, with growth from same-store revenue of \$22.4 million, or 3.8%.

**Long-term care operations** – revenue improved by \$11.2 million, or 2.5%, to \$451.2 million this period, primarily due to funding enhancements and an estimated \$1.4 million due to the leap day this period. Approximately \$3.0 million of the increase in revenue related to our Ontario flow-through envelopes and was therefore directly offset by increased costs of resident care, and approximately \$0.7 million was due to improvements in preferred accommodation. Our average occupancy improved to 98.0% this period from 97.9% in the first nine months of 2015, and our average daily revenue rate increased by 1.5% to \$202.49 in the first nine months of 2016 from \$199.50 in the same 2015 period.

**Retirement living operations** – revenue from the Retirement Acquisitions completed since October 2015 was \$11.0 million, with average occupancy of 58.5% and average monthly revenue per occupied room of \$4,480 for the first nine months of 2016. In accordance with the purchase agreements, the purchase price of four of the communities that had been open for less than a year when acquired, includes income support totalling \$6.8 million to be released to Extencicare during the lease-up periods until the communities reach stabilized NOI. The realization of income support is not included in

earnings reported in the consolidated statements of earnings, but it is included in the determination of AFFO. For the nine months ended September 30, 2016, the Company realized \$4.9 million of income support in determining AFFO. As at September 30, 2016, \$5.4 million of the \$6.8 million of income support had been released.

**Home health care operations** – revenue improved by \$78.8 million to \$305.7 million, of which \$69.8 million was from the Home Health Acquisition. Same-store revenue grew by \$9.0 million primarily due to enhanced funding to support an increase in government-funded wage increases for PSWs, estimated at approximately \$4.1 million, a 3.4% increase in daily hours of service provided to 14,443 in the first nine months of 2016 from 13,969 in the same 2015 period, and the impact of the leap day this year. The average hourly service rate was \$38.78 in the first nine months of 2016 compared to \$37.88 in the same 2015 period, and remained unchanged excluding the impact of the government funding for the PSW wage increases.

**Other Canadian operations** – revenue from our management and group purchasing operations improved by \$1.9 million to \$13.8 million in the first nine months of 2016, primarily due to growth in the number of clients served.

**U.S. operations** – revenue from the Captive increased by \$0.3 million reflecting an increase in investment income.

## Consolidated Operating Expenses

**Consolidated continuing operations** – operating expenses increased by \$93.8 million, or 15.8%, to \$687.5 million in the first nine months of 2016, primarily as a result of acquisitions. The majority of our operating expenses are labour related, which increased by \$86.6 million over the same 2015 period, and represented 86.9% and 86.1% of operating expenses in the first nine months of 2016 and 2015, respectively, and as a percentage of revenue were 76.2% and 75.1%, respectively. Acquisitions contributed approximately \$74.5 million to operating expenses this period, with same-store operating expenses increasing by 3.7%, primarily resulting from higher labour costs, which were impacted by the leap day this year.

**Long-term care operations** – operating expenses increased by \$8.1 million to \$395.2 million in the first nine months of 2016, due primarily to a net increase in labour costs of approximately \$6.0 million, or 1.8%, that included favourable accrual adjustments recorded this year of approximately \$1.0 million. Labour costs of our long-term care operations represented 83.6% and 83.8% of operating expenses in the first nine months of 2016 and 2015, respectively.

**Retirement operations** – operating expenses from the Retirement Acquisitions were \$10.5 million, of which approximately \$7.2 million, or 68.8%, were labour costs.

**Home health care operations** – operating expenses increased by \$74.4 million to \$275.5 million, of which \$64.0 million was from the Home Health Acquisition. Same-store operating expenses grew by \$10.4 million, of which approximately \$4.1 million related to the government-funded wage increases, and the balance was largely due to labour costs to support the 3.4% increase in volumes. Labour costs of our home health care operations represented 92.5% and 90.3% of its operating expenses in the first nine months of 2016 and 2015, respectively.

**Other Canadian operations** – operating expenses from our management and group purchasing operations increased by \$0.8 million to \$6.3 million in the first nine months of 2016, primarily related to the growth in clients served.

## Consolidated Net Operating Income

Consolidated net operating income from continuing operations improved by \$9.4 million, or 10.8%, to \$96.4 million in the first nine months of 2016 compared to \$87.0 million in the same 2015 period, representing 12.3% and 12.8% of revenue, respectively. As discussed above, growth in revenue of \$103.2 million and was partially offset by higher operating expenses of \$93.8 million. On a same-store basis, excluding the Home Health Acquisition and Retirement Acquisitions, net operating income improved by \$3.1 million to \$82.0 million this period from \$78.9 million in the same 2015 period, representing 13.2% of revenue in each of the respective periods. This improvement in same-store net operating income resulted from funding enhancements in our long-term care operations, favourable labour cost accrual adjustments of \$1.0 million recorded this period, higher preferred accommodation revenue, increased business volumes in our management services and group purchasing operations and higher investment income from our Captive, partially offset by unfunded cost increases in our home health care operations, as previously discussed under the review of the third quarter results. Management initiatives are under way with a specific focus to improve efficiency and reduce costs in our core home health care operations over time.

## **Administrative and Lease Costs**

Administrative and lease costs increased by \$1.4 million to \$27.7 million in the first nine months of 2016. The administrative and lease costs of our Canadian operations increased by \$4.7 million, of which approximately \$0.7 million represented additional lease costs associated with the Home Health Acquisition, \$2.1 million was due to an increase in labour costs primarily in connection with acquisitions, and the balance was largely due to higher professional fees in support of services related to the sold operations, recent acquisitions, an executive compensation review and the implementation of a new long-term incentive plan. The administrative and lease costs from our U.S. operations declined by \$3.3 million, primarily due to a reduction in costs to manage the run off of our U.S. self-insured liabilities.

## **Consolidated Adjusted EBITDA**

Consolidated Adjusted EBITDA improved to \$68.7 million in the first nine months of 2016 from \$60.7 million in the same 2015 period, representing 8.8% and 8.9% of revenue, respectively. The increase of \$8.0 million in Adjusted EBITDA, reflected growth in net operating income of \$9.4 million, partially offset by the increase in administrative and lease costs, previously discussed.

## **Depreciation and Amortization**

Depreciation and amortization costs increased by \$5.9 million to \$22.7 million in the first nine months of 2016, largely due to the acquisitions.

## **Other Expense**

The Company recorded a pre-tax charge of \$2.3 million in the first nine months of 2016, of which \$1.9 million related to proxy contest costs and the balance to integration and acquisition costs. In comparison, a pre-tax charge of \$3.3 million was incurred in the same 2015 period related to integration and acquisition costs.

## **Net Finance Costs (Income)**

Net finance costs increased by \$4.6 million to \$18.4 million in the first nine months of 2016, due to a \$10.0 million unfavourable change in the loss (gain) on foreign exchange gains and financial instruments and a \$0.8 million charge from the valuation of interest rate swaps, partially offset by lower interest expense of \$2.8 million and higher interest revenue of \$3.4 million. Interest expense in 2015 included \$2.2 million related to the bridge loan used to acquire the Home Care Acquisition and in the first nine months of 2016, \$0.7 million of interest expense was capitalized in connection with construction projects. The improvement in interest revenue related primarily to deferred consideration in connection with the U.S. Sale Transaction, resulting in interest revenue of \$5.7 million (US\$4.3 million) in the first nine months of 2016, compared to \$1.8 million (US\$1.4 million) in the same 2015 period. The loss on foreign exchange and financial instruments of \$3.5 million recorded in the first nine months of 2016, included a \$1.4 million foreign exchange loss in respect of net cash proceeds from the U.S. Sale Transaction, most of which was unrealized, and a \$2.1 million unrealized foreign exchange loss in connection with deferred consideration from the U.S. Sale Transaction. For the same 2015 period, a foreign exchange gain of \$6.5 million was recorded primarily due to the proceeds from the U.S. Sale Transaction.

## **Income Taxes**

The income tax provision was \$7.0 million on pre-tax earnings of \$25.2 million in the first nine months of 2016 compared to a provision of \$10.3 million on pre-tax earnings of \$26.7 million in the same 2015 period. The effective tax rates for each period were distorted by, among other things, fair value adjustments, gains and losses on foreign exchange and financial instruments, and other expense (income) that have been separately reported. The effective tax rate on earnings from continuing operations before separately reported items was 28.3% in the first nine months of 2016 and 28.7% in the same 2015 period.

## **Discontinued Operations**

Discontinued operations reported a loss, net of tax, of \$7.4 million in the first nine months of 2016 compared to earnings, net of tax, of \$0.4 million and an after-tax gain on sale of the U.S. operations of \$204.7 million in the same 2015 period. This period's net after-tax loss related to an impairment charge of \$9.2 million in respect of VCPI and a net loss of \$2.3 million from VCPI's operations, partially offset by a release of reserves for our U.S. self-insured liabilities of \$4.0 million and a net decrease in indemnification provisions in respect of the U.S. Sale Transaction. The net earnings from discontinued operations of \$0.4 million reported in the first nine months of 2015 included a net loss of \$0.3 million from VCPI's operations offset by net earnings from the operations disposed of in the U.S. Sale Transaction. For further information on the discontinued operations, refer to *note 17* of the unaudited interim condensed consolidated financial

statements, and the discussions under the headings “Significant 2016 Events and Developments – Disposal Group Held for Sale – VCPI”, and “Other Significant Developments – 2015 U.S. Sale Transaction”.

## OTHER SIGNIFICANT DEVELOPMENTS

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

### 2015 U.S. Sale Transaction

As previously announced, effective July 1, 2015, the Company completed the sale of substantially all of its U.S. business and senior care operations by selling all of the issued and outstanding shares of a subsidiary to a group of private investors (the “Purchaser”). At the time of the sale, EHSI’s senior care portfolio comprised 156 owned/leased centres (15,183 beds) located in 12 states. The U.S. Sale Transaction was completed for a value of US\$870 million (\$1.1 billion using the noon U.S./Canadian dollar exchange rate of 1.2474 on June 30, 2015), partially settled through the assumption by the Purchaser of mortgage loans and other third-party indebtedness relating to the U.S. business of approximately US\$655 million, and working capital and other specified adjustments, resulting in gross proceeds of US\$280.8 million representing US\$193.4 million received on July 1, 2015, and an intercompany dividend of US\$87.4 million received as part of a pre-closing reorganization on June 30, 2015 (the “Pre-closing Distribution”). The Company has agreed to indemnify the Purchaser for certain obligations of the U.S. operations related to tax, a corporate integrity agreement, and other items, and had recorded provisions totalling US\$25.2 million and a potential receivable of approximately US\$9.3 million, for a potential net liability of US\$15.9 million. In connection with these items, as at September 30, 2016, the Company had provisions remaining totalling US\$18.5 million and a receivable of US\$5.0 million. Total estimated taxes of the U.S. Sale Transaction were US\$33.1 million, resulting in net after-tax proceeds of approximately US\$231.8 million, including the Pre-closing Distribution. The U.S. Sale Transaction resulted in an after-tax gain of \$205.4 million (US\$146.9 million), before transactions costs, and included the realization of a foreign currency translation adjustment of \$22.0 million, previously recognized in accumulated other comprehensive income.

The U.S. Sale Transaction included non-cash proceeds of US\$6.2 million, which represented the net present value ascribed to an ongoing cash stream of US\$28.0 million, recorded as deferred consideration, relating to certain U.S. skilled nursing centres that were leased prior to the closing, offset in part by obligations of US\$21.8 million that were assumed related to these leases. On July 1, 2015, US\$6.8 million of the obligation was settled, and in the first nine months of 2016 a further US\$14.0 million was settled, leaving a balance owing of US\$1.0 million as at September 30, 2016, that was settled in October 2016. Cash of US\$14.0 million had been placed in escrow on July 1, 2015, to secure the obligations, of which US\$1.0 million remained in other assets on the consolidated statements of financial position as at September 30, 2016, and which was subsequently released in October 2016. The estimated benefit of this cash stream, net of the obligations, is anticipated to average US\$5 million per annum (pre-tax) over 15 years. There are significant credit risks associated with the realization of this cash stream attributable to factors outside of Extencicare’s control that could materially negatively impact the amounts that are expected to be received by the Company (refer to *notes 7 and 10* of the unaudited interim condensed consolidated financial statements).

In October 2014, EHSI completed and executed a settlement agreement with the U.S. Department of Justice (DOJ), the Office of the Inspector General (OIG) of the U.S. Department of Health and Human Services and multiple states, which fully and finally resolved the DOJ and OIG investigations and ancillary claims that were pending since 2010. As is standard practice in settlements of OIG and DOJ investigations, EHSI entered into a corporate integrity agreement, or CIA, with the OIG for a five-year period effective October 3, 2014. Under the terms of the U.S. Sale Transaction, Extencicare has agreed to share in the costs incurred in order to implement and comply with the requirements of the CIA. Extencicare’s annual cost sharing arrangement with the Purchaser is capped at US\$4.5 million, on the basis that the first US\$2.0 million aggregate annual amount of such costs will be borne by the Purchaser; the next US\$2.0 million aggregate annual amount will be borne by Extencicare; with the next US\$5.0 million aggregate annual amount to be shared equally between the Purchaser and Extencicare; and the balance of any excess costs incurred to be borne by the Purchaser. Extencicare estimates that its obligations to the Purchaser relating to the CIA will average approximately US\$2.0 million per year to October 2019. Though the actual costs for the Purchaser to comply with the CIA are difficult to estimate, the Company has included a provision for such costs in its provision for indemnification obligations, as discussed above. For further information refer to *note 8* of the unaudited interim condensed consolidated financial statements.

Not included in the U.S. Sale Transaction were 10 U.S. skilled nursing centres disposed of separately, either prior to or on June 30, 2015, for proceeds, net of debt assumed, of \$21.1 million, or approximately US\$11.1 million after tax, that resulted in a pre-tax gain of approximately \$3.8 million (US\$3.1 million). All of the net after-tax cash proceeds related to these 10 centres were distributed to the Company by its U.S. subsidiary in the form of intercompany cash dividends prior to

the closing of the U.S. Sale Transaction. In addition, net working capital of approximately \$5.5 million (US\$4.4 million) from these centres was retained by the Company, and included as part of the Pre-closing Distribution, discussed above.

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

Further information relating to the U.S. Sale Transaction is available in the Company's related material change report dated November 17, 2014, filed on SEDAR at [www.sedar.com](http://www.sedar.com) under Extencicare's issuer profile.

## **2015 Home Health Acquisition**

As previously announced, on April 30, 2015, the Company completed the Home Health Acquisition for \$84.3 million in cash, which included final working capital adjustments and settlement of amounts that had been held in escrow.

The Home Health Acquisition was financed with a bridge loan of \$80 million (the "Bridge Loan") and cash on hand. The Bridge Loan was repaid in full on July 2, 2015, from a portion of the proceeds from the U.S. Sale Transaction, and bore interest at an average rate of 5.93% per annum, incurring interest charges of approximately \$0.8 million. In addition, financing fees of \$1.4 million were incurred in connection with securing the Bridge Loan and were fully amortized in the 2015 second quarter.

For the 2016 third quarter, the Home Health Acquisition contributed revenue of approximately \$53.7 million, net operating income of approximately \$5.4 million, and AFFO of approximately \$3.7 million, or \$0.042 per basic share. For the nine months ended September 30, 2016, the Home Health Acquisition contributed revenue of approximately \$152.3 million, net operating income of approximately \$13.9 million, and AFFO of approximately \$9.3 million, or \$0.106 per basic share. For the eight months of ownership ending December 31, 2015, the Home Health Acquisition contributed revenue of approximately \$131.6 million, net operating income of approximately \$13.2 million, lease costs of approximately \$1.4 million, and AFFO of approximately \$8.4 million, or \$0.096 per basic share.

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

## **RBC Credit Facility**

Extencicare has a demand credit facility in the amount of \$47.3 million with the Royal Bank of Canada (the "RBC Credit Facility") that is secured by 13 class "C" LTC centres in Ontario and is guaranteed by certain Canadian subsidiaries of Extencicare. As at September 30, 2016, Extencicare had letters of credit totalling approximately \$43.2 million issued under the RBC Credit Facility, of which \$40.4 million secure our defined benefit pension plan obligations and the balance was in connection with the recently acquired centres and those under development. The letter of credit to secure the pension plan obligations renews annually based on an actuarial valuation, and decreased in May 2016 from \$42.8 million to \$40.4 million. The RBC Credit Facility has no financial covenants, but does contain normal and customary terms including annual re-appraisals of the centres that could limit the maximum amount available.

## **Tax Rules and Regulations**

In 2015, the Company received a notice of assessment from the Canada Revenue Agency (CRA) for the 2012 taxation year with regards to the deductibility of interest on intercompany debt between wholly owned subsidiaries of Extencicare. The CRA is likely to issue reassessments for the 2013 and 2014 taxation years on the same or similar basis, and as a result, in the 2015 third quarter, Extencicare recorded a provision of \$3.6 million for the full amount of the taxes in dispute for those periods, reflected as part of current tax expense. The Company has filed a notice of objection to appeal, and if successful in defending its position, in whole or in part, some or all of the provision will be reversed. Given the nature of this item, including the fact that it relates to prior periods, it has been excluded from the determination of AFFO and "earnings (loss) from continuing operations before separately reported items".

## Legal Proceedings and Regulatory Actions

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

## UPDATE OF REGULATORY AND FUNDING CHANGES AFFECTING RESULTS

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

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

## Ontario Redevelopment Program

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

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

In 2013, Extendicare participated in phase one of the program and redeveloped two class “C” centres (436 beds) that qualified for a construction funding subsidy of \$14.30 per bed per day over 25 years. In the 2015 third quarter, the MOHLTC confirmed that these two LTC centres were eligible to retroactively receive an additional \$3.35 per bed per day of construction funding subsidy and, the Company recorded the present value of this anticipated additional funding in the amount of \$9.8 million as an increase in government notes receivable, with an offset to the cost of the buildings. In the 2016 first quarter, the related MOHLTC agreements were finalized and funding of the additional subsidy commenced. Based on the finalized agreements, the number of redeveloped beds deemed eligible to receive the additional funding changed, resulting in a reassessment of the estimate of the present value of the additional funding to \$6.4 million. In addition, the Company has 11 “New” centres that were built since 1998, and therefore in aggregate Extendicare receives annual construction funding subsidies of \$7.7 million. Refer to *note 7* of the unaudited interim condensed consolidated financial statements, for additional information.

## Ontario Long-term Care Funding

Ontario is Extendicare’s largest market for its senior care services. Funding for Ontario long-term care centres is based on reimbursement for the level of care assessed to be required by the residents, in accordance with scheduled rates. The MOHLTC allocates funds through “funding envelopes”, specifically: nursing and personal care (NPC); programs and support services (PSS); and accommodation (which includes a sub-envelope for raw food). The funding for the NPC and PSS envelopes is generally adjusted annually based on the acuity of residents as determined by a classification assessment of resident care needs. The NPC, PSS and food envelopes are “flow-through” envelopes, whereby any deviation in actual costs from scheduled rates is either absorbed by the provider (if actual costs exceed funding allocations) or is returned to the MOHLTC (if actual costs are below funding allocations). With respect to the accommodation envelope, providers retain any excess funding received over costs incurred. The province sets the rates for standard accommodation, as well as the maximum amounts that a provider can charge for semi-private and private accommodation (preferred accommodation). The provider is allowed to bill and retain the premiums charged for preferred accommodation. The accommodation rates are substantially paid for by the resident; however, the province guarantees funding for standard accommodation through resident subsidies. Overall government funding is occupancy-based, but once the average occupancy level of 97% or higher is achieved, operators receive government funding based on 100% occupancy. In 2011, the MOHLTC implemented an occupancy protection program for occupancy levels between 90% and less than 97%, provided certain policy conditions are met. Under the occupancy protection program, providers with occupancy levels equal to 90% and less than 94% receive funding based on their actual occupancy plus 1%, and those with occupancy levels equal to 94% and less than 97% receive funding based on their actual occupancy plus 2%. For 2015, all of Extendicare’s LTC centres in Ontario achieved the 97% occupancy threshold, with an overall average of 98.2%.

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

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

In addition, LTC operators in Ontario are permitted to designate up to 60% of the resident capacity of a centre as preferred accommodation at higher fixed rates that vary according to the structural classification of the LTC centre. For beds that are not classified as “New” or “A” beds, the maximum preferred accommodation premiums increased effective July 1, 2016, by \$0.09 to \$8.09 per day for a semi-private room and by \$0.20 to \$18.20 per day for a private room. For beds that are classified as “New” and “A” beds, the maximum preferred accommodation premiums increased effective July 1, 2016, by \$0.13 to \$12.13 per day for a semi-private room and by \$0.28 to \$25.28 per day for a private room. As at September 30, 2016, Extendicare had 13 “New” LTC centres (1,847 beds) in Ontario, of which 1,099 beds offered preferred accommodation in the form of private rooms. We will benefit from this premium increase for preferred accommodation over time as new residents are admitted.

## **Alberta Long-term Care Legislation and Funding**

Alberta is Extendicare's second largest market for its senior care services. Since April 2010, AHS has been using an activity-based funding system for continuing care centres that includes the measurement of a resident's acuity through the use of a resident assessment instrument – minimum data set, or RAI-MDS, to determine the resident's level of care and resources required. The Alberta Continuing Care Association is actively engaged in discussions with the Alberta Government and AHS to further enhance care funding to accommodate higher expenses within continuing care, and to revise the existing funding model used within continuing care. It was anticipated that a revised care funding model would be implemented for fiscal 2016/2017; however, the provincial government has not communicated any changes to date, and are seeking public input into the current nursing home regulations to inform new or revised legislation expected in 2017.

With respect to the annual April 1<sup>st</sup>, government funding changes for long-term care providers for fiscal 2016/2017, incorporating changes to CMI, occupancy and an inflationary component, they are estimated to represent additional annual revenue for Extendicare of approximately \$1.2 million (2015 – \$1.4 million).

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

## **Ontario Home Health Care Legislation and Funding**

Extendicare's ParaMed Home Health Care division operates in six provinces across Canada, currently providing approximately 11 million hours of care annually, which we believe makes ParaMed the largest private-sector provider of publicly funded home health care in Canada, and the largest in Ontario. Based on the service volumes provided in the 2016 third quarter, the Ontario market represents approximately 82% of ParaMed's service volumes, of which approximately 97% is received from government-funded contracts at specified rates, and the remainder from private-pay clients.

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

In December 2015, the Ontario government released a discussion paper called *Patient's First: A Proposal to Strengthen Patient-Centered Health Care in Ontario*. In the discussion paper, the MOHLTC envisions that the provinces 14 Local Health Integration Networks (LHINs) will have a greatly expanded role, making them responsible and accountable for all health service planning and performance across the Ontario health care continuum. On June 2, 2016, Bill 210, now known as the "Patients First Act", was introduced into the legislature and then re-introduced on October 6, 2016, after the government prorogued the legislature in September. If passed, the proposed Act sets the stage for the legislative change process required to achieve the vision introduced in 2015. Currently, the Bill has been referred to the Standing Committee on the Legislative Assembly. Bill 210 amends the Local Health System Integration Act, 2006, and makes related amendments to more than twenty other pieces of legislation. Major elements of Bill 210 include the removal of the CCACs from the definition of "health services providers", and introduces rules governing the transfer of the CCACs' assets and staff to the LHINs, in addition to increasing the size and span of control of the LHIN boards. Extendicare is monitoring the impact of this change and working with sector associations to mitigate operational risk.

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

## 2014 ONTARIO BUDGET – HOME HEALTH CARE PSW WAGE INCREASE

As part of its July 2014 budget, the Ontario government announced a government-funded increase in the minimum wage for personal support workers, or PSWs, in the publicly funded home and community care sector by \$4.00 per hour over three years (2014 – \$1.50, 2015 – \$1.50 and 2016 – \$1.00) to a minimum of \$16.50 per hour. In June 2015, the government announced revisions to years two and three of the PSW wage enhancement initiative, which included establishing a new minimum base rate of \$15.50 per hour as of April 1, 2015, and \$16.50 per hour as of April 1, 2016, and limiting the eligibility for the April 1, 2015, wage increase to a maximum of \$19.00 per hour. For example, a qualifying PSW earning \$18.00 per hour would receive a \$1.00 per hour increase effective April 1, 2015, rather than the full \$1.50. In addition, the government is funding an additional 22.7% of the wage increase to cover incremental benefit costs. We estimate that the April 1, 2014, funding increase of \$1.50 in base wages and associated benefit costs increased our revenue and labour costs by approximately \$5.7 million for the nine months ended December 31, 2014, and by approximately \$7.5 million for the twelve months ended March 31, 2015. We estimate that the April 1, 2015, funded wage enhancement has further increased our revenue and labour costs by approximately \$12.1 million for the twelve months ended March 31, 2016, of which approximately \$4.4 million related to the operations of the Home Health Acquisition. The final funding increase of up to \$1.00 in base wages and associated benefit cost took effect on April 1, 2016, and is estimated to increase our annual revenue and labour costs by approximately \$7.0 million.

## LIQUIDITY AND CAPITAL RESOURCES

The following table summarizes the sources and uses of cash between our continuing and discontinued operations for each of the nine months ended September 30, 2016 and 2015.

<i>(thousands of dollars unless otherwise noted)</i>	Nine months ended September 30, 2016			Nine months ended September 30, 2015		
	Continuing	Discontinued	Total	Continuing	Discontinued	Total
Cash provided by operating activities, before working capital changes and interest and income taxes	69,338	(860)	68,478	60,728	66,829	127,557
Net change in operating assets and liabilities						
Accounts receivable	(3,148)	1,309	(1,839)	(10,805)	23,748	12,943
Other assets	8,756	363	9,119	(5,188)	1,903	(3,285)
Accounts payable and accrued liabilities	(35,743)	49	(35,694)	(2,958)	(20,631)	(23,589)
	(30,135)	1,721	(28,414)	(18,951)	5,020	(13,931)
Interest and taxes paid						
Interest paid	(21,660)	(12)	(21,672)	(22,445)	(17,713)	(40,158)
Interest received	8,093	–	8,093	4,633	128	4,761
Income taxes paid	(17,017)	(3)	(17,020)	(3,645)	(8,898)	(12,543)
Payments for U.S. self-insured liabilities	–	(27,442)	(27,442)	–	(30,505)	(30,505)
	(30,584)	(27,457)	(58,041)	(21,457)	(56,988)	(78,445)
<b>Net cash from operating activities</b>	<b>8,619</b>	<b>(26,596)</b>	<b>(17,977)</b>	20,320	14,861	35,181
<b>Net cash from investing activities</b>	<b>(44,739)</b>	<b>26,118</b>	<b>(18,621)</b>	(128,501)	159,589	31,088
<b>Net cash from financing activities</b>	<b>21,667</b>	<b>(131)</b>	<b>21,536</b>	(51,448)	72,825	21,377
<b>Net cash from discontinued operations</b>	<b>(609)</b>	<b>609</b>	<b>–</b>	314,687	(314,687)	–
Foreign exchange gain (loss) on U.S. cash held	(176)	–	(176)	269	4,108	4,377
<b>Increase (decrease) in cash and short-term investments</b>	<b>(15,238)</b>	<b>–</b>	<b>(15,238)</b>	155,327	(63,304)	92,023
Cash and short-term investments at beginning of year	103,622	–	103,622	35,495	63,304	98,799
<b>Cash and short-term investments at end of period</b>	<b>88,384</b>	<b>–</b>	<b>88,384</b>	190,822	–	190,822
Average U.S./Canadian dollar exchange rate			1.3218			1.2600

As at September 30, 2016, Extencicare had cash and short-term investments of \$88.4 million compared with \$103.6 million at the beginning of the year. The decline in cash of \$15.2 million included the unleveraged acquisition completed in February 2016 for \$40.5 million, \$12.3 million related to income taxes paid of \$27.0 million in excess of current income tax expense of \$14.7 million, related to timing of payment of prior year's taxes, including those related to the U.S. Sale Transaction, principal debt repayments of \$15.7 million, and growth capital expenditures of \$15.1 million, partially offset by the issuance of \$60.7 million of debt and the transfer of \$6.6 million (US\$5.0 million) of cash from the Captive's investments to the Company.

**Discontinued operations** for the first nine months of 2016 reflect VCPI's discontinued operations and the payment of claims for self-insured liabilities, totalling \$27.4 million (US\$20.8 million), that were funded by the Captive's investments held for self-insured liabilities, which are not included in cash and short-term investments.

**Net cash from operating activities** of the continuing operations was \$8.6 million in the first nine months of 2016 compared to \$20.3 million in the same 2015 period. The decline in cash from continuing operating activities of \$11.7 million was primarily due to improvements in earnings offset by an unfavourable net change in operating assets and liabilities of \$11.2 million and a net increase in interest and income taxes paid of \$9.1 million, largely due to the timing of payments. The net change in accounts payable and accrued liabilities included payments of \$18.0 million made this period that were funded by cash held in escrow that was recognized as a source of cash from investing activities, as described below.

**Net cash from investing activities** of the continuing operations was a use of cash of \$44.7 million in the first nine months of 2016 compared to a use of cash of \$128.5 million in the same 2015 period. The 2016 activity included the acquisition of two retirement communities for \$40.5 million in February 2016, taxes paid of \$9.9 million in connection with the U.S. Sale Transaction, and purchases of property, equipment and other intangible assets of \$21.1 million, partially offset by a release of funds held in escrow of \$18.0 million (US\$13.0 million) to support obligations assumed in respect of the former U.S. operations, the transfer of \$6.6 million from the Captive's investments held for self-insured liabilities, and the collection of other assets of \$2.2 million. The 2015 activity primarily related to the Home Health Acquisition of \$84.3 million, a deposit of \$19.2 million on the acquisition of a retirement community, funds held in escrow of \$18.2 million to support obligations from the U.S. Sale Transaction, and purchases of property, equipment and other intangible assets of \$12.3 million, partially offset by the collection of other assets.

The following table summarizes the components of our property, equipment and other intangible asset expenditures between our continuing and discontinued operations for each of the nine months ended September 30, 2016 and 2015. The increase in growth capex relates primarily to the retirement communities currently under development in Ontario. We are projecting to spend in the range of \$10 million to \$12 million in maintenance capex in 2016, and in the range of \$35 million to \$40 million in growth capex related primarily to the retirement development projects.

<i>(thousands of dollars)</i>	Nine months ended September 30, 2016			Nine months ended September 30, 2015		
	Continuing	Discontinued	Total	Continuing	Discontinued	Total
<b>Growth capex</b>						
Canadian operations	15,174		15,174	5,777	–	5,777
U.S. operations	–	702	702	–	539	539
Deduct: capitalized interest	(738)		(738)	–	–	–
<b>Growth capex</b>	<b>14,436</b>	<b>702</b>	15,138	5,777	539	6,316
<b>Maintenance capex</b>						
Canadian operations	6,700		6,700	6,533	–	6,533
U.S. operations	–	622	622	–	8,652	8,652
<b>Maintenance capex</b>	<b>6,700</b>	<b>622</b>	7,322	6,533	8,652	15,185
	<b>21,136</b>	<b>1,324</b>	22,460	12,310	9,191	21,501

**Net cash from financing activities** of the continuing operations was a source of cash of \$21.7 million in the first nine months of 2016 compared to a use of cash of \$51.4 million in the same 2015 period. The 2016 activity included the issuance of the Retirement Mortgages of \$56.3 million, a draw on our construction financing of \$4.4 million and the release of restricted cash of \$3.8 million, partially offset by scheduled debt repayments of \$15.6 million and cash dividends paid of \$26.7 million. The 2015 activity included the issuance and repayment of the \$80.0 million Bridge Loan to finance the Home Health Acquisition, partially offset by scheduled debt repayments of \$14.9 million, cash dividends paid of \$26.8 million, and Common Shares acquired for cancellation under a normal course issuer bid at a cost of \$8.0 million. For information on the change in long-term debt, refer to "Liquidity and Capital Resources – Long-term Debt".

**Net cash from discontinued operations** reflects the intercompany movements of cash between the discontinued and continuing operations. The 2016 activity of \$0.6 million relates to the net change in cash of VCPI. The \$314.7 million of cash received in the first nine months of 2015, related primarily to the net proceeds from the U.S. Sale Transaction and cross-border dividends received during the period.

## Capital Structure

The following table summarizes our shareholders' equity for the nine months ended September 30, 2016, and the 2015 year.

<i>(thousands of dollars unless otherwise noted)</i>	<b>Nine months ended September 30, 2016</b>	<b>Year 2015</b>	
<b>Shareholders' Equity</b>			
Common Shares	<b>488,455</b>	483,385	
Equity portion of convertible debentures	<b>5,573</b>	5,573	
Contributed surplus	<b>649</b>	–	
	<b>494,677</b>	488,958	
Accumulated deficit at beginning of year	<b>(315,051)</b>	(503,143)	
Net earnings for the period	<b>10,812</b>	232,078	
Dividends declared	<b>(31,785)</b>	(42,125)	
Purchase of Common Shares in excess of book value and other	<b>(4)</b>	(1,861)	
Accumulated deficit at end of period	<b>(336,028)</b>	(315,051)	
Accumulated other comprehensive income (loss)	<b>2,042</b>	(1,778)	
<b>Shareholders' equity</b>	<b>160,691</b>	172,129	
U.S./Canadian dollar exchange rate at end of period	<b>1.3117</b>	1.3840	
	<b>November 10, 2016</b>	<b>September 30, 2016</b>	December 31, 2015
<b>Share Information</b> <i>(thousands)</i>			
Common Shares (TSX symbol: EXE) <sup>(1)</sup>	<b>88,591.8</b>	<b>88,553.9</b>	87,953.3

(1) Closing market value per the TSX on September 30, 2016, was \$9.46.

The closing rates used to translate assets and liabilities of the U.S. operations were 1.3117 at September 30, 2016, and 1.3840 at December 31, 2015. As a result of the stronger Canadian dollar as at September 30, 2016, compared to December 31, 2015, the foreign currency translation adjustment account declined by \$1.6 million, due to the devaluation in net assets of our continuing self-sustaining U.S. operations, representing an increase (decrease) in net assets of approximately \$0.2 million for every one-cent weakening (strengthening) of the Canadian dollar against the U.S. dollar.

## DISTRIBUTIONS

In the first nine months of 2016, we generated AFFO of \$51.7 million and declared monthly dividends of \$0.04 per share, totalling \$31.8 million, which were paid out from February 16, 2016 to October 17, 2016. The portion distributed in cash was \$27.0 million, and \$4.8 million was by way of shares issued under a dividend reinvestment plan. A total of 600,580 Common Shares were issued in 2016 through the dividend reinvestment plan.

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

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

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

## **NORMAL COURSE ISSUER BID**

On December 30, 2015, Extencicare received the approval of the TSX to renew its normal course issuer bid (the “Bid”) to purchase for cancellation up to 8,610,000 Common Shares (approximately 10% of the public float) through the facilities of the TSX, and on alternative Canadian trading systems. The Bid commenced on January 5, 2016, and provides Extencicare with flexibility to repurchase Common Shares for cancellation until January 4, 2017, 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 59,253 Common Shares. The price that Extencicare 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. To date in 2016, the Company has not acquired any Common Shares for cancellation under the Bid.

During 2015, under a similar normal course issuer bid that commenced on December 31, 2014, and expired on December 30, 2015, the Company acquired 1,111,789 Common Shares for cancellation, at an average price of \$7.20 per share, for a total cost of \$8.0 million.

## **ACCRUAL FOR U.S. SELF-INSURED LIABILITIES**

As a result of the sale of our U.S. senior care operations, our expense for self-insured liabilities was reclassified to discontinued operations. However, the obligation to settle any claims incurred prior to the closing of the U.S. Sale Transaction, including claims incurred but yet to be reported, remains with Extencicare within the Captive. Consequently, the balance of the accrual for self-insured liabilities and the related investments held for self-insured liabilities remain on the consolidated statement of financial position as part of the Company’s continuing operations.

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. General and professional liability claims are the most volatile and significant of the risks for which Extencicare self-insures. Actual results can differ materially from the estimates made due to a number of factors including the assumptions used by management and other market factors.

As at September 30, 2016, the accrual for self-insured general and professional liabilities was \$110.3 million (US\$84.1 million) compared to \$148.4 million (US\$107.2 million) at the beginning of the year. The decline of US\$23.1 million reflected claim payments of US\$20.8 million and a release of reserves of US\$3.1 million, partially offset by US\$0.8 million in accretion of the discounted liability. The \$4.0 million (US\$3.1 million) release of reserves in the 2016 second quarter was reflected in discontinued operations, and followed the completion of an interim independent actuarial review that confirmed the adequacy of our reserves.

For the 2015 year, payments for self-insured liabilities were \$42.1 million (US\$32.9 million), and the expense for potential general and professional liability claims was \$29.3 million (US\$24.1 million), and included a release of reserves of \$5.2 million (US\$3.8 million) recorded in the 2015 fourth quarter, following the completion of our annual independent actuarial review, which confirmed the adequacy of our reserves.

Management regularly evaluates and periodically engages an independent third-party actuary to provide a report to determine the appropriateness of the carrying value of this liability. Our last independent actuarial review was conducted at the end of the 2016 second quarter, and the next one will be completed at the end of 2016. Assumptions underlying the determination of the liability are limited by the uncertainty of predicting future events and assessments regarding expectations of several factors. Such factors include, but are not limited to: the frequency and severity of claims, which can differ materially by jurisdiction; trends in claims along with unique and identifiable settlements; coverage limits of third-party reinsurance; the effectiveness of the claims management process; and the outcome of litigation. Therefore, management’s estimate of the accrual for general and professional liability claims is significantly influenced by assumptions that are subject to judgement by management and the actuary, which may cause the expense to fluctuate significantly from one reporting period to another. Differences between the ultimate claims costs and our historical expense for loss and actuarial assumptions and estimates could have a material adverse effect on our business, operating results and financial condition.

Most of the risks that Extencicare self-insures are long-term in nature, and accordingly, claim payments for any particular policy year occur over a long period of time. However, management estimates and allocates a current portion of the accrual for self-insured liabilities on the statement of financial position. As at September 30, 2016, management estimated that approximately \$29.9 million of the accrual for self-insured general and professional liabilities will be paid within the next year. The timing of payments is not directly within management's control; therefore, estimates could change in the future.

Within our Bermuda-based captive insurance company, we hold investments sufficient to support the accrual for self-insured liabilities and to meet the required statutory solvency and liquidity ratios. These invested funds are reported in other assets and totalled \$140.6 million (US\$107.2 million) as at September 30, 2016, compared to \$176.8 million (US\$127.7 million) as at December 31, 2015. As a result of the release of reserves for self-insured liabilities of US\$3.1 million in June 2016, the Captive transferred US\$5.0 million of its funds previously held for investment to the Company for general corporate use in August 2016. Management believes there are sufficient invested funds held to meet estimated current claims payment obligations.

## LONG-TERM DEBT

### *Continuity of Long-term Debt*

The following summarizes the changes in the carrying amounts of long-term debt for the nine months ended September 30, 2016, and the 2015 year.

<i>(millions of dollars)</i>	Nine months ended September 30, 2016	Year 2015		
	Total	Continuing	Discontinued	Total
<b>Long-term debt at beginning of year, prior to financing costs</b>	<b>461.6</b>	481.1	785.7	1,266.8
Issue of long-term debt				
Retirement Mortgages	<b>56.3</b>	–	–	–
Construction loans	<b>4.4</b>	–	–	–
Bridge Loan	–	80.0	–	80.0
Notes payable/other	–	–	83.3	83.3
Repayment of long-term debt	<b>(15.7)</b>	(20.3)	(8.1)	(28.4)
Repayment of Bridge Loan	–	(80.0)	–	(80.0)
Accretion of convertible debentures	<b>0.6</b>	0.8	–	0.8
Change due to period-end foreign exchange rate	–	–	61.0	61.0
U.S. Sale Transaction	–	–	(921.9)	(921.9)
	<b>507.2</b>	461.6	–	461.6
Financing costs at end of period	<b>(7.0)</b>	(7.5)	–	(7.5)
<b>Long-term debt at end of period</b>	<b>500.2</b>	454.1	–	454.1
Less: current portion	<b>(47.8)</b>	(25.4)	–	(25.4)
	<b>452.4</b>	428.7	–	428.7

Long-term debt totalled \$500.2 million as at September 30, 2016, compared with \$454.1 million as at December 31, 2015, representing an increase of \$46.1 million primarily due to securing the Retirement Mortgages of \$56.3 million and a \$4.4 million draw on construction loans, partially offset by scheduled debt repayments.

Details of the components, terms and conditions of long-term debt are provided in *note 9* of the unaudited interim condensed consolidated financial statements. Extencicare and its subsidiaries are in compliance with all of their respective financial covenants as at September 30, 2016.

### Long-term Debt Maturities and Weighted Average Interest Rates

Management has limited the amount of debt that may be subject to changes in interest rates, with all of its debt at fixed rates, other than the construction loans of \$4.4 million. The variable-rate Retirement Mortgages in the amount of \$56.3 million have effectively been converted to fixed rate financing with interest rate swaps over the full term. The following table summarizes key metrics of our consolidated long-term debt as at September 30, 2016, and December 31, 2015.

	September 30, 2016	December 31, 2015
Weighted average interest rate of long-term debt outstanding	5.2%	5.5%
Weighted average term to maturity of long-term debt outstanding	8.1 yrs	9.0 yrs
Weighted average term to maturity of long-term debt outstanding, excluding finance lease obligations	7.5 yrs	8.4 yrs
Trailing twelve months consolidated interest coverage ratio <sup>(1)</sup>	5.2 X	3.6 X
Trailing twelve months consolidated interest coverage ratio, excluding Bridge Loan finance costs of \$2.2 million <sup>(1)</sup>	5.2 X	4.0 X
<b>Debt to Gross Book Value (GBV)</b>		
Total assets (carrying value)	983,814	1,026,947
Accumulated depreciation on property and equipment	198,306	198,183
Accumulated amortization on other intangible assets	6,881	5,751
GBV	1,189,001	1,230,881
Debt <sup>(2)</sup>	510,064	465,060
<b>Debt to GBV</b>	<b>42.9%</b>	<b>37.8%</b>

(1) Interest coverage is defined as Adjusted EBITDA divided by net interest (interest expense before reduction of capitalized interest, net of interest revenue).

(2) Debt includes convertible debentures at face value of \$126.5 million, and excludes finance costs.

### CONTRACTUAL OBLIGATIONS

The table below provides summary information relating to the contractual obligations as at September 30, 2016. Due to the uncertainty as to the timing of payments to be made with respect to certain obligations, the table excludes our accrual for U.S. self-insured liabilities of \$110.3 million and our decommissioning provisions of \$8.1 million. In addition, the table excludes our defined benefit pension plan obligations, which are described more fully below.

(millions of dollars)	Total	To the end of 2016	2017	2018	2019	2020	After 2020
<b>Canadian Operations</b>							
Convertible debentures (at face value)	126.5	–	–	–	126.5	–	–
Long-term debt	292.3	8.2	37.8	20.2	11.3	55.9	158.9
Finance lease obligations	91.2	1.5	6.1	6.5	7.0	7.5	62.6
Operating lease obligations	8.6	0.8	3.0	2.2	1.8	0.4	0.4
Purchase obligations	73.5	20.8	40.2	12.5	–	–	–
<b>U.S. Continuing Operations <sup>(1)</sup></b>							
Finance lease obligations	0.1	–	0.1	–	–	–	–
	<b>592.2</b>	<b>31.3</b>	<b>87.2</b>	<b>41.4</b>	<b>146.6</b>	<b>63.8</b>	<b>221.9</b>

(1) Obligations denominated in U.S. dollars are translated to Canadian dollars at a rate of 1.3117.

### Defined Benefit Pension Plan Obligations

The contractual obligations table excludes our defined benefit pension plan obligations. The accrued benefit liability on our statement of financial position as at September 30, 2016, was \$39.2 million (2015 – \$40.9 million). We currently have defined benefit registered and supplementary plans covering certain executives, both of which have been closed to new entrants since 2000. The registered defined benefit plan was in an actuarial deficit of \$2.8 million with plan assets of \$5.5 million and accrued benefit obligations of \$8.3 million as at September 30, 2016 (2015 – an actuarial deficit of \$2.5 million with plan assets of \$5.4 million and accrued benefit obligations of \$7.9 million). The accrued benefit obligations of the supplementary plan were \$36.4 million as at September 30, 2016 (2015 – \$38.4 million). We do not set aside assets in connection with the supplementary plan and the benefit payments will be paid from cash from operations. The benefit obligations under the supplementary plan are secured by a letter of credit totalling \$40.4 million as at September 30, 2016 (2015 – \$42.8 million). This letter of credit renews annually based on an actuarial valuation of the pension obligations, and declined to \$40.4 million effective May 1, 2016. The annual benefit payments under the supplementary pension plan to be funded from cash from operations over the next five years are expected to be in the range of \$2.2 million to \$2.5 million, and the annual contributions to the registered pension plan over the next five years are expected to be less than \$0.1 million. Since the majority of our accrued benefit obligations represent our obligation under our non-registered supplementary plan, which is not required to be funded, changes in future market conditions are not

expected to have a material adverse effect on our cash flow requirements with respect to our pension obligations, or on our pension expense.

## **Future Liquidity and Capital Resources**

As at September 30, 2016, Extencicare's consolidated cash on hand totalled \$88.4 million, of which \$83.1 million was held by our Canadian operations, and \$5.3 million was held by our U.S. operations. Cash on hand at September 30, 2016, excludes restricted cash of \$3.2 million related primarily to the retirement development projects, excludes funds held in escrow of \$1.3 million (US\$1.0 million) to secure certain obligations assumed in connection with the U.S. Sale Transaction, and also excludes \$140.6 million (US\$107.2 million) of investments held by our Captive to support the accrual for U.S. self-insured liabilities of \$110.3 million (US\$84.1 million).

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

In addition, construction financings of up to \$51.4 million have been secured on the first three retirement projects under development, of which \$4.4 million was drawn as at September 30, 2016. These financings represent 63% of the estimated costs, and similar financing arrangements are anticipated for the fourth project. The Company has spent approximately \$22.9 million of the anticipated \$113.5 million cost to develop these retirement communities, which cost includes all amounts through the lease-up period until stabilized NOI is achieved, as well as an implied cost of capital.

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

## **RELATED PARTY TRANSACTIONS**

Tim Lukenda, Extencicare'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 which Mr. Lukenda has an approximate 7.1% direct and indirect interest, and with which Extencicare has an ongoing relationship through the provision of management services to the LTC centre in Ontario, Canada. Mr. Lukenda's employment contract provides a mechanism and process that effectively removes him from the decision-making process in situations where a conflict of interest may arise on any matter between the two companies.

## **RISKS AND UNCERTAINTIES**

There are certain risks inherent in an investment in securities and activities of Extencicare, which investors should carefully consider before investing in Extencicare. Risks and uncertainties are disclosed in Extencicare's latest Annual Information Form and in the Company's 2015 Annual Report. To the extent there have been any changes to those risks factors or uncertainties as of the date of this MD&A, they are discussed under the headings "Significant 2016 Events and Developments" and "Other Significant Developments".

## **ACCOUNTING POLICIES AND ESTIMATES**

### **Critical Accounting Policies and Estimates**

A full discussion of Extencicare's critical accounting policies and estimates was provided in the MD&A and the accompanying notes to the audited consolidated financial statements for the year ended December 31, 2015, contained in the Company's 2015 Annual Report. The disclosures in such report have not materially changed since that report was filed, and to the extent there have been any changes in management's estimates, they are discussed under the headings "Significant 2016 Events and Developments" and "Other Significant Developments".

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

valuation of financial assets and liabilities; the valuation of share-based compensation; and the accounting for tax uncertainties and the tax rates used for valuation of deferred tax assets. The recorded amounts for such items are based on management's best available information and are subject to assumptions and judgement, which may change as time progresses; accordingly, actual results could differ from those estimated.

## **Future Changes in Accounting Policies**

The following new standards, amendments to standards and interpretations, are effective for future annual periods, and have not been applied in preparing the financial results for the period ended September 30, 2016. These accounting standards are summarized below, and are more fully described in *note 3* of the unaudited interim condensed consolidated financial statements.

### **LEASES**

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

### **FINANCIAL INSTRUMENTS**

In July 2014, the IASB issued IFRS 9 "Financial Instruments" (IFRS 9 (2014)), which introduces new requirements for the classification and measurement of financial assets, and changes to financial liabilities, amends the impairment model for 'expected credit loss', and introduces a new general hedge accounting standard that aligns hedge accounting more closely with risk management. This standard will be effective for annual periods beginning on or after January 1, 2018, and will be applied retrospectively with some exemptions. Early adoption is permitted, and restatement of prior periods is not required. The Company is currently assessing the potential impact of this standard on its consolidated financial statements.

### **REVENUE RECOGNITION**

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

## **Disclosure Controls and Procedures and Internal Control over Financial Reporting**

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

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

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

Except as noted below, there were no changes in the Company's ICFR during the 2016 third quarter that have materially affected, or are reasonably likely to materially affect, the Company's ICFR.

Prior to June 30, 2016, in accordance with the provisions of National Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings*, management, including the CEO and CFO, had limited the scope of the design of the Company's DC&P and ICFR to exclude controls, policies and procedures of the home health care business acquired on April 30, 2015, referred to as the Home Health Acquisition.

The Home Health Acquisition's contribution to the Company's consolidated financial statements for the three and nine months ended September 30, 2016 was approximately 20.0% and 19.4% of consolidated revenue from continuing operations, respectively, and approximately 15.4% and 14.5% of consolidated net operating income from continuing operations, respectively. Additionally, at the time of the acquisition, the current assets and current liabilities of the acquired operations were approximately 6% and 5% of consolidated current assets and liabilities, excluding those designated as held for sale, respectively, and its long-term assets and long-term liabilities were approximately 13% and less than 1% of consolidated long-term assets and long-term liabilities, respectively.

The scope limitation is primarily based on the time required to assess the DC&P and ICFR of the operations of the Home Health Acquisition in a manner consistent with the Company's other operations. The assessment on the design effectiveness of DC&P and ICFR was completed at the end of the 2016 second quarter and the assessment of operating effectiveness is on track to be completed by the end of the 2016 fourth quarter. Further details related to the Home Health Acquisition are disclosed under the heading "Other Significant Developments – 2015 Home Health Acquisition" and in *note 4* of the unaudited interim condensed consolidated financial statements.

# EXTENDICARE<sup>®</sup>

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## CONSOLIDATED FINANCIAL STATEMENTS AND NOTES

 Nine Months Ended September 30, 2016

Dated: November 10, 2016

THE RIGHT  
CARE

THE RIGHT  
PLACE

THE RIGHT  
TIME

**Extendicare Inc.**  
**Interim Condensed Consolidated Statements of Financial Position**  
(unaudited)

<i>(in thousands of Canadian dollars)</i>	<i>notes</i>	<b>September 30, 2016</b>	December 31, 2015
<b>Assets</b>			
Current assets			
Cash and short-term investments		<b>88,384</b>	103,622
Restricted cash		<b>3,226</b>	2,509
Accounts receivable		<b>49,506</b>	52,678
Income taxes recoverable		<b>4,173</b>	77
Assets held for sale	5	<b>10,143</b>	-
Other assets	7	<b>29,946</b>	52,485
<b>Total current assets</b>		<b>185,378</b>	211,371
Non-current assets			
Property and equipment	6	<b>456,329</b>	426,191
Goodwill and other intangible assets		<b>92,517</b>	96,354
Other assets	7	<b>234,839</b>	283,044
Deferred tax assets		<b>14,751</b>	9,987
<b>Total non-current assets</b>		<b>798,436</b>	815,576
<b>Total Assets</b>	<b>21</b>	<b>983,814</b>	1,026,947
<b>Liabilities and Equity</b>			
Current liabilities			
Accounts payable and accrued liabilities		<b>118,358</b>	139,807
Income taxes payable		<b>3,273</b>	11,679
Long-term debt	9	<b>47,807</b>	25,395
Liabilities held for sale	5	<b>468</b>	-
Provisions	8	<b>29,907</b>	41,139
<b>Total current liabilities</b>		<b>199,813</b>	218,020
Non-current liabilities			
Long-term debt	9	<b>452,426</b>	428,679
Provisions	8	<b>112,716</b>	146,975
Other long-term liabilities	10	<b>38,516</b>	47,983
Deferred tax liabilities		<b>19,652</b>	13,161
<b>Total non-current liabilities</b>		<b>623,310</b>	636,798
<b>Total liabilities</b>	<b>21</b>	<b>823,123</b>	854,818
Share capital	12	<b>488,455</b>	483,385
Equity portion of convertible debentures		<b>5,573</b>	5,573
Contributed surplus		<b>649</b>	-
Accumulated deficit		<b>(336,028)</b>	(315,051)
Accumulated other comprehensive income (loss)		<b>2,042</b>	(1,778)
<b>Shareholders' Equity</b>		<b>160,691</b>	172,129
<b>Total Liabilities and Equity</b>		<b>983,814</b>	1,026,947

*See accompanying notes to unaudited condensed consolidated financial statements.*

*Commitments and contingencies (note 18).*

*Subsequent events (notes 9, 10, and 22).*

**Extendicare Inc.**  
**Interim Condensed Consolidated Statements of Earnings**  
(unaudited)

<i>(in thousands of Canadian dollars except for per share amounts)</i>	<i>notes</i>	Three months ended September 30		Nine months ended September 30	
		2016	2015	2016	2015
<b>CONTINUING OPERATIONS</b>					
<b>Revenue</b>					
Long-term care		152,473	149,723	451,193	440,010
Retirement living		3,996	-	11,034	-
Home health care		106,167	98,239	305,734	226,983
Management, consulting and other		5,460	5,594	15,943	13,696
<b>Total revenue</b>	<i>21</i>	<b>268,096</b>	253,556	<b>783,904</b>	680,689
Operating expenses		233,056	221,100	687,522	593,729
Administrative costs		7,843	7,891	22,708	22,008
Lease costs		1,672	1,627	4,985	4,273
<b>Total expenses</b>	<i>13</i>	<b>242,571</b>	230,618	<b>715,215</b>	620,010
<b>Earnings before depreciation, amortization, and other expense</b>		<b>25,525</b>	22,938	<b>68,689</b>	60,679
Depreciation and amortization		7,783	6,103	22,683	16,833
Other expense	<i>14</i>	-	802	2,341	3,291
<b>Earnings before net finance costs and income taxes</b>		<b>17,742</b>	16,033	<b>43,665</b>	40,555
Interest expense		7,082	6,735	20,348	23,125
Accretion of decommissioning provisions		87	87	261	261
Other accretion		533	543	1,612	1,577
Fair value adjustments	<i>15</i>	847	-	847	-
Loss (gain) on foreign exchange and financial instruments	<i>15</i>	(1,278)	(6,487)	3,478	(6,487)
Interest revenue		(2,698)	(3,067)	(8,091)	(4,652)
Net finance costs (income)		4,573	(2,189)	18,455	13,824
<b>Earnings before income taxes</b>		<b>13,169</b>	18,222	<b>25,210</b>	26,731
<b>Income tax expense (recovery)</b>					
Current		683	5,815	6,405	11,615
Deferred		2,531	1,198	638	(1,328)
Total income tax expense		3,214	7,013	7,043	10,287
<b>Earnings from continuing operations</b>		<b>9,955</b>	11,209	<b>18,167</b>	16,444
<b>DISCONTINUED OPERATIONS</b>					
Gain on sale of U.S. operations, net of income taxes		-	204,669	-	204,669
Earnings (loss) from discontinued operations, net of income taxes	<i>17</i>	(643)	418	(7,355)	420
<b>Net earnings</b>		<b>9,312</b>	216,296	<b>10,812</b>	221,533
<b>Basic Earnings per Share</b>					
Earnings from continuing operations	<i>16</i>	0.12	0.13	0.21	0.19
Net earnings	<i>16</i>	0.10	2.46	0.12	2.52
<b>Diluted Earnings per Share</b>					
Earnings from continuing operations	<i>16</i>	0.12	0.13	0.21	0.19
Net earnings	<i>16</i>	0.10	2.23	0.12	2.29

*See accompanying notes to unaudited condensed consolidated financial statements.*

## Extendicare Inc.

### Interim Condensed Consolidated Statements of Comprehensive Income

(unaudited)

	Three months ended September 30		Nine months ended September 30	
<i>(in thousands of Canadian dollars)</i>	2016	2015	2016	2015
<b>Net earnings</b>	<b>9,312</b>	216,296	<b>10,812</b>	221,533
<b>Other comprehensive income (loss), net of income taxes</b>				
Items that will not be reclassified to profit or loss:				
Defined benefit plan actuarial gains (losses), net of tax recovery of \$296 and \$653, respectively, for the quarters of 2016 and 2015, and tax expense of \$306 and tax recovery of \$611, respectively, for the nine months of 2016 and 2015	(820)	(1,813)	850	(1,695)
Total items that will not be reclassified to profit or loss	(820)	(1,813)	850	(1,695)
Items that are or may be reclassified subsequently to profit or loss:				
Unrealized gain (loss) on available-for-sale securities, net of tax of nil for the quarters and nine months of 2016 and 2015	807	(721)	6,277	(453)
Reclassification of realized gains on available-for-sale securities to earnings, net of tax of nil for the quarters and nine months of 2016 and 2015	(815)	(1,184)	(1,722)	(1,184)
Foreign currency translation adjustment reclassified to gain on sale from the U. S. Sale Transaction, net of nil tax	-	(21,521)	-	(21,521)
Other net change in foreign currency translation adjustment	299	974	(1,585)	12,392
Total items that are or may be reclassified subsequently to profit or loss	291	(22,452)	2,970	(10,766)
Other comprehensive income (loss), net of tax	(529)	(24,265)	3,820	(12,461)
<b>Total comprehensive income</b>	<b>8,783</b>	192,031	<b>14,632</b>	209,072

*See accompanying notes to unaudited condensed consolidated financial statements.*

**Extendicare Inc.**  
**Interim Condensed Consolidated Statements of Changes in Equity**

(unaudited)

<i>(in thousands of Canadian dollars)</i>	<b>Nine months ended September 30</b>			
	<b>2016</b>		2015	
	<i>Number of Shares</i>	<i>Amount</i>	<i>Number of Shares</i>	<i>Amount</i>
<b>Share capital</b>				
Balance at January 1	87,953,291	483,385	88,195,076	482,950
DRIP	600,580	5,070	670,658	4,808
Purchase of shares for cancellation	-	-	(1,111,789)	(6,091)
Balance at end of period	88,553,871	488,455	87,753,945	481,667
<b>Equity portion of convertible debentures</b>				
Balance at January 1		5,573		5,573
Balance at end of period		5,573		5,573
<b>Contributed surplus</b>				
Balance at January 1		-		48
Purchase of shares for cancellation in excess of book value		-		(48)
Share-based compensation		649		-
Balance at end of period		649		-
<b>Accumulated deficit</b>				
Balance at January 1		(315,051)		(503,143)
Net earnings		10,812		221,533
Dividends declared		(31,785)		(31,578)
Purchase of shares for cancellation in excess of book value		-		(1,863)
Other		(4)		-
Balance at end of period		(336,028)		(315,051)
<b>Accumulated other comprehensive income (loss)</b>				
Other comprehensive income:				
Foreign currency translation differences for foreign operations				
Balance at January 1		6,738		14,813
Foreign currency translation adjustment reclassified to gain on sale of U.S. operations (note 17)		-		(21,521)
Other change in the period		(1,585)		12,392
Balance at end of period		5,153		5,684
Net change in fair value of available-for-sale financial assets, net of tax				
Balance at January 1		3,349		7,001
Unrealized change in the period		6,277		(453)
Net change reclassified to profit or loss		(1,722)		(1,184)
Balance at end of period		7,904		5,364
Defined benefit plan actuarial losses, net of tax				
Balance at January 1		(11,865)		(9,746)
Change in the period		850		(1,695)
Balance at end of period		(11,015)		(11,441)
Accumulated other comprehensive income (loss)		2,042		(393)
<b>Shareholders' equity</b>		<b>160,691</b>		<b>171,796</b>

See accompanying notes to unaudited condensed consolidated financial statements.

**Extendicare Inc.**  
**Interim Condensed Consolidated Statements of Cash Flows**  
(unaudited)

<i>(in thousands of Canadian dollars)</i>	Three months ended September 30		Nine months ended September 30	
	2016	2015	2016	2015
<b>Operating Activities</b>				
Net earnings	9,312	216,296	10,812	221,533
Adjustments for:				
Depreciation and amortization	7,776	6,994	23,866	19,594
Expense for U.S. self-insured liabilities	-	-	-	34,495
Share-based compensation	253	-	649	-
Deferred taxes	3,399	(2,096)	1,123	(10,832)
Current taxes	744	52,388	14,684	62,465
Gain from sale of U.S. operations <i>(note 17)</i>	-	(251,064)	-	(251,064)
Net finance costs	5,008	4,306	14,143	40,531
Other expense (income)	(529)	3,349	(1,124)	16,950
Gains (loss) on foreign exchange and financial instruments	(431)	(6,699)	4,325	(6,164)
Other	-	63	-	49
	25,532	23,537	68,478	127,557
Net change in operating assets and liabilities				
Accounts receivable	(864)	(6,393)	(1,839)	12,943
Other assets	(660)	1,868	9,119	(3,285)
Accounts payable and accrued liabilities	(11,294)	(18,897)	(35,694)	(23,589)
	12,714	115	40,064	113,626
Payments for U.S. self-insured liabilities	(7,893)	(8,800)	(27,442)	(30,505)
Interest paid	(8,629)	(8,278)	(21,672)	(40,158)
Interest received	2,699	3,067	8,093	4,761
Income taxes paid	(3,797)	1,060	(17,020)	(12,543)
<b>Net cash from operating activities</b>	<b>(4,906)</b>	<b>(12,836)</b>	<b>(17,977)</b>	<b>35,181</b>
<b>Investing Activities</b>				
Purchase of property, equipment and other intangible assets	(10,305)	(9,612)	(22,460)	(21,501)
Acquisitions <i>(note 4)</i>	-	(697)	(40,500)	(84,335)
Net proceeds from (tax payments related to) sale of U.S. operations	(1,060)	155,576	(9,947)	155,576
Net proceeds from dispositions	-	(12,079)	-	21,066
Decrease in investments held for self-insured liabilities	12,300	7,320	31,696	(5,133)
Decrease (increase) in other assets <i>(note 7)</i>	8,357	(33,986)	22,590	(34,585)
<b>Net cash from investing activities</b>	<b>9,292</b>	<b>106,522</b>	<b>(18,621)</b>	<b>31,088</b>
<b>Financing Activities</b>				
Issue of long-term debt, excluding line of credit	58,451	-	60,705	163,341
Repayment of long-term debt, excluding line of credit	(5,202)	(69,554)	(15,689)	(103,331)
Decrease (increase) in restricted cash	1,305	3,047	3,782	(899)
Purchase of securities for cancellation	-	(487)	-	(7,999)
Dividends paid	(9,092)	(8,926)	(26,691)	(26,788)
Financing costs	(106)	-	(571)	(2,947)
<b>Net cash from financing activities</b>	<b>45,356</b>	<b>(75,920)</b>	<b>21,536</b>	<b>21,377</b>
Increase (decrease) in cash and short-term investments	49,742	17,766	(15,062)	87,646
Cash and short-term investments at beginning of period	38,608	173,212	103,622	98,799
Foreign exchange gain (loss) on cash held in foreign currency	34	(156)	(176)	4,377
<b>Cash and short-term investments at end of period</b>	<b>88,384</b>	<b>190,822</b>	<b>88,384</b>	<b>190,822</b>

*See accompanying notes to unaudited condensed consolidated financial statements.*

# Notes to Unaudited Interim Condensed Consolidated Financial Statements

NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015

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# Notes to Unaudited Interim Condensed Consolidated Financial Statements

NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015

(Tabular amounts in thousands of Canadian dollars, unless otherwise noted)

## 1. GENERAL INFORMATION AND NATURE OF THE BUSINESS

Extendicare Inc. (“Extendicare” or the “Company”) is a Canadian public company whose common shares (the “Common Shares”) trade on the Toronto Stock Exchange (TSX) under the symbol “EXE”. Extendicare and its predecessors have been operating since 1968, providing care and services to seniors in North America. The Company completed the sale of substantially all of its U.S. business, the operations of which were conducted through its wholly owned subsidiary, Extendicare Health Services, Inc. (EHSI), effective July 1, 2015, (the “U.S. Sale Transaction”) (*note 17*). This transaction was part of the Company’s strategic objective to be a leading provider of care and services for seniors focused solely in Canada. In addition, the Company completed the acquisition of a Canadian home health business on April 30, 2015, and six retirement communities since October 2015 (*note 4*).

In the 2016 second quarter, the board of directors of Extendicare (the “Board”) concluded that the Company should dispose of its non-strategic wholly owned U.S. information technology hosting and professional services business, Virtual Care Provider, Inc. (VCPI), which had been retained following the 2015 U.S. Sale Transaction. As a result, the Company classified VCPI’s assets and liabilities as held for sale. On October 31, 2016, the Company entered into a definitive agreement to dispose of substantially all of the assets used in the operations of VCPI’s business. (*notes 5, 17 and 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, Markham, Ontario, Canada, L3R 9W2.

## 2. BASIS OF PREPARATION

### a) Statement of Compliance

These interim condensed consolidated financial statements have been prepared in accordance with IAS 34 “Interim Financial Reporting”, as issued by the International Accounting Standards Board (IASB), and were approved by the board of directors of Extendicare Inc. (the “Board”) on November 10, 2016.

These interim condensed consolidated financial statements do not include all of the information required for full annual financial statements, and should be read in conjunction with Extendicare Inc.’s 2015 annual consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS). These interim condensed consolidated financial statements follow the same accounting policies and methods of application as the consolidated financial statements as at and for the year ended December 31, 2015.

### b) Basis of Measurement

The interim condensed consolidated financial statements have been prepared on the historical cost basis except for financial assets and liabilities classified or designated at fair value through profit or loss or designated as available for sale that have been measured at fair value, and assets and liabilities held for sale that have been measured at the lower of carrying amount and fair value less costs to sell.

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

### c) Use of Estimates and Judgement

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

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

The more subjective of such estimates are:

- valuation of purchase price components for acquisitions (*note 4*);
- valuation of deferred consideration (*notes 7 and 19(b)*);
- determination of the recoverable amount of cash generating units (CGUs) subject to an impairment test (*note 17*);
- valuation of indemnification provisions (*notes 8 and 17*);
- valuation of self-insured liabilities (*note 8 and 17*);
- valuation of interest rate swaps (*notes 9, 10 and 15*);
- valuation of financial assets and liabilities (*note 19(b)*);
- valuation of share-based compensation (*note 11*); and
- accounting for tax uncertainties and the tax rates used for valuation of deferred taxes.

In addition, the assessment of contingencies (*note 18*) is subject to judgements.

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

### **3. FUTURE CHANGES IN ACCOUNTING POLICIES**

The following new standards, amendments to standards and interpretations are effective for future annual periods, and have not been applied in preparing the financial results for the period ended September 30, 2016.

#### **Leases**

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

#### **Financial Instruments**

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

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

#### **Revenue Recognition**

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

## 4. 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. These six retirement communities contributed revenue of \$4.0 million, and \$0.1 million of net operating income (total revenue less operating expenses) for the three months ended September 30, 2016, and revenue and net operating income of \$11.0 million, and \$0.5 million, respectively, for the nine months ended September 30, 2016. For the period of ownership ending December 31, 2015, the acquired retirement communities contributed combined revenue of \$1.2 million and net operating income of \$0.3 million.

### 2016 Acquisition of Retirement Communities

#### WEST PARK CROSSING AND YORKTON CROSSING RETIREMENT COMMUNITIES

During the 2016 first quarter, the Company completed the acquisition of two retirement communities, which were accounted for as business combinations. There is no financial information for the period prior to the acquisitions in order to report the pro forma results from January 1, 2016, as these are newly built communities.

West Park Crossing Retirement Community (West Park) and Yorkton Crossing Retirement Community (Yorkton) were acquired on February 22, 2016, for an aggregate purchase price of \$40.5 million, inclusive of income support. The properties, located in Moose Jaw and Yorkton, Saskatchewan, respectively, are newly built 79-suite communities offering independent, enhanced and memory care services. The vendor has provided Extencicare with income support over 27 months of up to \$2.25 million on each community, for an aggregate of up to \$4.5 million in income support. This amount was held back from the \$40.5 million purchase price on closing, and is being released to Extencicare during the lease-up period based on an agreed-upon formula. The net amount of \$36.0 million has been allocated to property and equipment based on management's best estimate of fair values.

### 2015 Acquisition of Retirement Communities

During the 2015 fourth quarter, the Company completed the acquisition of four retirement communities, which were all accounted for as business combinations. The Company does not have the financial information for the period prior to the acquisitions in order to report the pro forma results from January 1, 2015.

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

Date of acquisition in 2015	October 1	December 1	December 1	December 1	Total
	Empire Crossing	Harvest	Stonebridge Crossing	Riverbend Crossing	
Location	Ontario	Ontario	Saskatchewan	Saskatchewan	
<i>(in millions of Canadian dollars)</i>	<i>(64 suites)</i>	<i>(100 suites)</i>	<i>(116 suites)</i>	<i>(68 suites)</i>	<i>(348 suites)</i>
<b>Net assets acquired:</b>					
Property and equipment	18.9	27.4	34.3	16.0	96.6
Trade payables and accrued liabilities	(0.1)	–	(0.1)	(0.1)	(0.3)
Total net assets acquired	\$ 18.8	\$ 27.4	\$ 34.2	\$ 15.9	\$ 96.3
<b>Consideration:</b>					
Consideration	20.2	28.4	34.3	16.0	98.9
Income support	(1.3)	(1.0)	–	–	(2.3)
Working capital adjustment	(0.1)	–	(0.1)	(0.1)	(0.3)
Cash paid	\$ 18.8	\$ 27.4	\$ 34.2	\$ 15.9	\$ 96.3

#### EMPIRE CROSSING RETIREMENT COMMUNITY

On October 1, 2015, the Company acquired Empire Crossing Retirement Community (Empire Crossing) for \$20.2 million in cash, including \$1.3 million of income support. Empire Crossing, located in Port Hope, Ontario, is a newly built 64-suite independent/enhanced living community that opened in May 2015. The vendor has provided Extencicare with income support of up to \$1.3 million over 24 months, which has been held back from the \$20.2 million purchase price, and is being released to Extencicare during the lease-up period based on an agreed upon formula.

**HARVEST RETIREMENT COMMUNITY**

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

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

On December 1, 2015, the Company acquired two retirement communities in Saskatchewan for an aggregate purchase price of \$50.3 million. Stonebridge Crossing, located in Saskatoon, is a newly built 116-suite independent/enhanced living community that opened in December 2012. Riverbend Crossing, located in Regina, is a newly built 68-suite senior care facility specializing in memory care that opened in August 2013.

**Home Health Acquisition**

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

The Home Health Acquisition was financed with a bridge loan of \$80 million (the "Bridge Loan") and cash on hand. The Bridge Loan was repaid in full on July 2, 2015, from a portion of the proceeds from the U.S. Sale Transaction (*note 17*), and bore interest at an average interest rate of 5.93% per annum. Financing fees incurred of \$1.4 million were recorded as part of the carrying value of the Bridge Loan and amortized using the effective interest method during the 2015 second quarter.

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

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

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

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

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

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

The Company does not have the financial information for the period prior to the acquisition in order to report the pro forma results from January 1, 2015. For the three months ended September 30, 2016, the Home Health Acquisition contributed revenue of \$53.7 million, net operating income of \$5.4 million and additional lease costs of \$0.5 million (2015 - \$49.1 million, \$4.8 million and \$0.5 million, respectively). For the nine months ended September 30, 2016, the Home Health Acquisition contributed revenue of \$152.3 million, net operating income of \$13.9 million and additional lease costs of \$1.5 million. For the eight months of ownership ending December 31, 2015, the Home Health Acquisition contributed revenue of \$131.6 million, net operating income of \$13.2 million, and lease costs of \$1.4 million.

## 5. DISPOSAL GROUP HELD FOR SALE

The assets and liabilities of VCPI's operations were classified as held for sale in 2016 (*notes 1 and 17*). As at September 30, 2016, assets held for sale include accounts receivable of \$6.9 million, other current assets of \$1.1 million and property and equipment of \$2.2 million, and liabilities held for sale include accounts payable and accrued liabilities of \$0.5 million (*notes 1 and 17*).

## 6. PROPERTY AND EQUIPMENT

	September 30, 2016	December 31, 2015
Land and land improvements	47,292	45,345
Buildings	509,400	478,238
Furniture and equipment	66,097	82,699
Leasehold improvements	2,336	2,186
Construction in progress	29,510	15,906
	654,635	624,374
less: accumulated depreciation	(198,306)	(198,183)
	456,329	426,191

During the first nine months of 2016, the Company capitalized \$0.7 million of borrowing costs related to development projects under construction at an average capitalization rate of 6.0%.

## 7. OTHER ASSETS

	September 30, 2016	December 31, 2015
Investments held for self-insured liabilities: available-for-sale securities, at fair value	140,603	176,770
Notes, mortgages and amounts receivable	85,992	100,393
Deferred consideration	36,878	38,990
Funds held in escrow	1,312	19,376
	264,785	335,529
less: current portion	29,946	52,485
	234,839	283,044

### Investments Held for Self-insured Liabilities

Extendicare holds investments within the Captive for self-insured liabilities that are subject to insurance regulatory requirements (*note 8*).

The investment portfolio comprises U.S. dollar-denominated cash and money market funds of \$110.2 million (December 31, 2015 - \$131.7 million), and investment-grade corporate and government securities of \$30.4 million (December 31, 2015 - \$45.1 million). Certain of these investments in the amount of \$81.9 million (US\$62.4 million) (December 31, 2015 - \$86.4 million or US\$62.4 million), have been pledged as collateral for letters of credit issued by the banker of the Captive in favour of ceding companies. As at September 30, 2016, all investments were categorized as available for sale.

## Notes, Mortgages and Amounts Receivable

Notes, mortgages and amounts receivable were primarily related to discounted amounts receivable due from government agencies, which represents the Ontario construction funding subsidy for newly constructed nursing centres, totalling \$64.6 million (December 31, 2015 - \$72.4 million) of which \$4.9 million (December 31, 2015 – \$6.2 million) is current. In 2013, the Company participated in phase one of the Ontario Ministry of Health and Long-Term Care redevelopment program and redeveloped two of its class “C” centres that qualified for a construction funding subsidy of \$14.30 per bed per day over 25 years, plus an additional \$3.35 per bed per day on a retroactive basis. Commencing in the 2016 first quarter, the Company received the additional subsidy and recorded the present value of the additional funding totalling \$6.4 million. The construction funding subsidies have been discounted at rates ranging from 3.27% to 6.5%, with the values being recorded as a reduction in the cost of the property and equipment related to the centres. The accretion of the note receivable is recognized in interest revenue as part of net finance costs.

Also included in notes, mortgages and amounts receivable is a \$6.6 million receivable as at September 30, 2016 (December 31, 2015 – \$12.0 million), resulting from the U.S. Sale Transaction (*note 17*).

## Deferred Consideration

As part of the proceeds from the U.S. Sale Transaction, the Company receives an ongoing cash stream for a period of 15 years relating to certain U.S. skilled nursing centres that were leased prior to the closing. The present value ascribed to these proceeds is reflected as deferred consideration, and it is recorded at amortized cost, accreted using the effective interest method. At September 30, 2016, the balance was \$36.9 million (US\$28.1 million) with \$3.1 million (US\$2.3 million) reflected as current in other assets. The foreign exchange impact on this asset is recognized in net earnings (*note 15*).

## Funds Held in Escrow

As part of the U.S. Sale Transaction, the Company assumed an obligation of EHSI in connection with the leased centres (*note 17*). As at September 30, 2016, funds held in escrow totalling \$1.3 million (US\$1.0 million) (December 31, 2015 – \$19.4 million or US\$14.0 million) secure the remaining obligations of \$1.3 million (US\$1.0 million) (December 31, 2015 – \$20.8 million or US\$15.0 million) assumed on disposition of the U.S. operations (*note 10*). The Company released US\$13.0 million during the nine months ending September 30, 2016, from escrow to settle the related liability; US\$5.0 million was released in the 2016 third quarter.

## 8. PROVISIONS

	September 30, 2016	December 31, 2015
Accrual for self-insured liabilities	110,311	148,429
Indemnification provisions	24,258	31,879
Decommissioning provisions	8,054	7,806
Total provisions	142,623	188,114
Less: current portion	29,907	41,139
	<b>112,716</b>	146,975

### Accrual for Self-Insured Liabilities

As a result of the U.S. Sale Transaction, the expense for self-insured liabilities is reflected in discontinued operations; however, the obligation to settle any claims incurred prior to the closing of the U.S. Sale Transaction, including claims incurred but yet to be reported, remains with Extencicare within the Captive. Consequently, neither the accrual for self-insured liabilities nor the investments held for self-insured liabilities (*note 7*) were classified as net assets of discontinued operations sold.

Within the U.S. long-term care industry, operators including the Company are subject to lawsuits alleging negligence, malpractice, or other related claims. The Company maintains liability insurance policies through third-party insurers as well as retaining 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 September 30, 2016, the accrual for self-insured general and professional liabilities was \$110.3 million (US\$84.1 million) compared to \$148.4 million (US\$107.2 million) at the beginning of the year. The decline of US\$23.1 million represented claim payments of \$27.4 million (US\$20.8 million) and a release of reserves of \$4.0 million (US\$3.1 million) in the 2016 second quarter reflected in discontinued operations (*note 17*), offset by accretion of \$1.0 million (US\$0.8 million) (September 2015 – \$1.0 million or US\$0.8 million).

In connection with these provisions, Extencicare holds investments within the Captive for self-insured liabilities that are subject to insurance regulatory requirements (*note 7*).

## Indemnification Provisions

As a result of the U.S. Sale Transaction (*note 17*), the Company has agreed to indemnify certain obligations of the U.S. operations related to tax and other items. The estimates of these items are assessed every period and any required revisions are reflected as part of other expense in discontinued operations. As at September 30, 2016, the remaining obligations totalled \$24.3 million (US\$18.5 million) (December 31, 2015 – \$31.9 million (US\$23.0 million)). Actual results can differ materially from the estimates made due to a number of factors including the assumptions used by management and other market forces.

## Decommissioning Provisions

The decommissioning provisions relate to possible asbestos remediation of Extencicare's pre-1980 constructed centres. This represents management's best estimate and actual amounts may differ.

## 9. LONG-TERM DEBT

	Interest rate	Year of Maturity	September 30, 2016	December 31, 2015
<b>Canadian Operations</b>				
Convertible unsecured subordinated debentures	6.0%	2019	123,706	123,085
CMHC mortgages	2.22% - 7.7%	2017 - 2037	141,530	151,191
Non-CMHC mortgages	3.11% - 5.637%	2020 - 2038	146,292	91,668
Construction loans	BA + 2.5%	on demand	4,455	-
Finance lease obligations	6.41% - 7.19%	2026 - 2028	91,162	95,433
			507,145	461,377
Financing costs			(7,037)	(7,571)
			500,108	453,806
<b>U.S. Operations</b>				
Finance lease obligations	6.5% - 10.25%	2016 - 2018	125	268
Total debt, net of financing costs			500,233	454,074
Less: current portion			47,807	25,395
Long-term debt, net of financing costs			452,426	428,679

A summary of significant changes in the long-term debt of continuing operations since December 31, 2015, is provided below.

### CMHC MORTGAGES

In October 2016, one of the mortgages in the amount of \$6.1 million, which matured in October 2016, was extended to April 2017.

### NON-CMHC MORTGAGES

In August 2016, the Company secured financing on three of the newly acquired retirement communities, Harvest, Stonebridge Crossing and Riverbend Crossing, representing non-revolving credit facilities aggregating \$56.3 million. These financings have seven-year terms, with a floating rate of prime plus 0.5% or banker's acceptance (BA) plus 1.9%. In conjunction with securing these credit facilities, the Company entered into interest rate swap contracts to lock in the interest rates at 3.11% for the full terms of these credit facilities. These interest rate swap contracts are designated at fair value

through profit or loss, and hedge accounting has not been applied. These interest rate swap contracts are carried at fair value, reflected on the statement of financial position as either an asset or a liability. Changes in fair value are recorded in the statements of earnings (*note 15*). As at September 30, 2016, the interest rate swaps were valued as a liability of \$0.8 million, which is included as part of other long-term liabilities (*note 10*).

## CONSTRUCTION LOANS

In May 2016, construction financing was secured on the first two of the development projects, Simcoe (70 suites) and Bolton (124 suites), for up to \$9.9 million and \$20.8 million, respectively. As at September 30, 2016, \$4.4 million has been drawn on the Simcoe construction loan. These two financings are cross-collateralized and provide for additional letter of credit facilities of \$500,000 and \$750,000, respectively, at a rate of 2.5% if utilized. Loan payments are interest-only based on a floating rate of 30-day BA plus 2.5%, with no standby fee. The construction loan for the Simcoe project is a demand facility that matures at the earlier of 42 months from closing or 24 months from the issuance of an occupancy permit and as a result, has been reflected as current. The construction loan for the Bolton project is a demand facility that matures at the earlier of 54 months from closing or 36 months from the issuance of the occupancy permit. Permanent financing for each of the communities will be sought upon maturity of the construction financing.

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

## CREDIT FACILITY

Extendicare has a demand credit facility with the Royal Bank of Canada (the “RBC Credit Facility”) that is secured by 13 class “C” nursing centres in Ontario and is guaranteed by certain Canadian subsidiaries of Extendicare. During the 2016 third quarter, the amount of the RBC Credit Facility increased from \$46.8 million to \$47.3 million, and is available for operating purposes, including letters of credit.

As at September 30, 2016, Extendicare had letters of credit totalling approximately \$43.2 million issued under the RBC Credit Facility, of which \$40.4 million secure our defined benefit pension plan obligations and the balance was in connection with the recently acquired centres and those under development. The letter of credit to secure the pension plan obligations renews annually based on an actuarial valuation, and decreased in May 2016 from \$42.8 million to \$40.4 million. The RBC Credit Facility has no financial covenants, but does contain normal and customary terms including annual re-appraisals of the centres that could limit the maximum amount available. The unutilized portion of the credit facility was \$4.1 million as at September 30, 2016.

## DEFERRED FINANCING COSTS

Below is a summary of the financing costs:

	September 30, 2016	December 31, 2015
<b>Canadian Operations</b>		
Convertible unsecured subordinated debentures	2,377	2,969
CMHC mortgages	3,010	3,388
Non-CMHC mortgages	1,367	893
Finance lease obligations	283	321
Total financing costs	7,037	7,571
Less: current portion	1,641	1,469
	<b>5,396</b>	<b>6,102</b>

Deferred financing costs are deducted against long-term debt and are amortized using the effective interest rate method over the term of the debt. Deferred financing costs included as part of long-term debt amounted to \$7.0 million as at September 30, 2016 (December 31, 2015 – \$7.6 million). The net decrease of \$0.6 million in 2016 related to the amortization of finance costs, offset in part by incremental costs of \$0.5 million related to securing the financing of the newly acquired retirement communities.

**10. OTHER LONG-TERM LIABILITIES**

	September 30, 2016	December 31, 2015
Accrued pension plan obligation	36,572	38,577
Obligations assumed on disposition of U.S. operations	-	8,304
Share appreciation rights ( <i>note 11</i> )	566	682
Interest rate swaps ( <i>note 9</i> )	847	-
Other	531	420
	<b>38,516</b>	<b>47,983</b>

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

On closing of the U.S. Sale Transaction, the Company assumed an obligation, of which US\$14.0 million was paid during the first nine months of 2016; the remaining balance of \$1.3 million (US\$1.0 million) as at September 30, 2016, was paid in October 2016 and is reflected as part of current accrued liabilities (December 31, 2015 – \$20.8 million (US\$15.0 million) with US\$9.0 million recorded as current). As at September 30, 2016, a matching amount remained in escrow to secure this obligation (*note 7*).

**11. SHARE-BASED COMPENSATION**

The Company's share-based compensation expense, which includes share appreciation rights (SARs), deferred share units (DSUs) and performance share units (PSUs), for the three months ended September 30, 2016, was an expense of \$0.9 million (2015 – expense of \$0.3 million) and for the nine months ended September 30, 2016, was an expense of \$1.2 million (2015 – expense of \$0.5 million). The share-based compensation expense is reflected as part of administrative costs.

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

	September 30, 2016	December 31, 2015
Accounts payable and accrued liabilities - SARs	647	550
Other long-term liabilities - SARs	566	682
Contributed surplus - DSUs	405	-
Contributed surplus - PSUs	244	-

The following are details related to the share-based compensation plans of the Company.

**Cash-settled Share Appreciation Rights Plan**

Prior to the implementation of a new long-term incentive plan in 2016 (*below*), SARs were granted at the discretion of the Board to directors and eligible employees of Extencicare. 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.

The vesting price represents the price at which the respective SARs were granted, and equates to the minimum Common Share price at which they can be vested. As at September 30, 2016, 597,000 SARs were outstanding (December 31, 2015 – 774,111), with an average remaining contractual life of 1.2 years (December 31, 2015 – 1.6 years). During 2015, at the discretion of the Board and under the terms of the SARs, the vesting of 420,000 rights was accelerated in connection with the U.S. Sale Transaction.

A summary of the SARs that have been granted to date by the Board to senior management and the directors as at September 30, 2016, is as follows:

	Nine months ended September 30, 2016		Twelve months ended December 31, 2015	
	Share Appreciation Rights	Weighted Average Vesting Price	Share Appreciation Rights	Weighted Average Vesting Price
Outstanding, beginning of period	774,111	\$ 6.93	1,312,555	\$ 7.18
Granted	-	-	396,000	7.17
Vested	(177,111)	6.52	(439,444)	8.11
Vested, U.S. Sale Transaction	-	-	(420,000)	6.71
Forfeited	-	-	(75,000)	6.90
Outstanding, end of period	597,000	\$ 7.05	774,111	\$ 6.93

### Equity-settled Long-term Incentive Plan

Effective April 7, 2016, the Board approved the implementation of a new long-term incentive plan the (LTIP) to provide for a new share-based component of executive and director compensation, which was approved by the shareholders in May 2016. Under the plan, the Board has the discretion to settle the PSU and DSU awards in cash, market-purchased Common Shares, or Common Shares issued from treasury. It is the Board's intent to settle the PSU and DSU awards in Common Shares issued from treasury. As a result, the PSU and DSU awards are accounted for as equity-settled awards. 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.

The LTIP is designed to encourage a greater alignment of interests between executives and directors and our shareholders, in the form of PSUs for our employees and DSUs for our non-employee directors. PSUs and DSUs granted under the LTIP will not carry any voting rights. 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.

With respect to DSU awards, beginning in 2016, non-employee directors will receive 50% of their annual Board retainer in the form of DSUs, granted on a quarterly basis. Non-employee directors have the option to receive some or all of their remaining cash retainer and meeting fees in DSUs. The DSUs vest immediately at the time of grant, and will be redeemed by the Company upon the non-employee director retiring or otherwise leaving the Board. During the nine months ended September 30, 2016, 45,027 DSU's were granted at a weighted average fair value \$8.99 per DSU at the grant date.

PSU awards granted to eligible employees vest after the end of three years from the date of grant, subject to specified performance criteria to be determined at the time of grant. The number of PSUs to ultimately vest will be determined based on a performance multiplier having a possible range of 0% (i.e. no PSUs vest) to 200% (i.e. twice the number of PSUs that were originally granted).

On April 7, 2016, the Board granted 167,343 PSUs to executives that vest on April 7, 2019. The number of PSUs that vest will depend on two performance metrics over the three-year performance period beginning January 1, 2016, being the Company's adjusted funds from operations (AFFO) performance relative to the Company's annual AFFO targets, and the Company's total shareholder return (TSR) performance relative to the S&P/TSX Completion Index (the "Index"). The value of each of the AFFO (non-market condition) and the TSR (market condition) components were measured separately on the grant date, as one award with two equal components.

The grant date value of each PSU was \$9.81 based on the fair value of each of the AFFO and TSR components. The fair value of the AFFO component was measured using the previous day's closing trading price of the Common Shares of \$9.59, for an AFFO component value of \$4.80. The fair value of the TSR component was measured using the Monte Carlo simulation method, for a TSR component value of \$5.01. The following assumptions were used in the Monte Carlo simulation model:

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

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

The DSUs vest immediately upon grant. None of the PSUs have vested as at September 30, 2016. The following is a summary of the Company's DSU and PSU activity:

	Deferred Share Units		Performance Share Units	
	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015
Units outstanding, beginning of year	-	-	-	-
Granted	45,027	-	167,343	-
Reinvested dividend equivalents	576	-	3,990	-
Units outstanding, end of period	45,603	-	171,333	-

## 12. SHARE CAPITAL

### Normal Course Issuer Bid

On December 30, 2015, Extencicare received the approval of the TSX to renew its normal course issuer bid (the "Bid") to purchase for cancellation up to 8,610,000 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 5, 2016, and provides Extencicare with flexibility to repurchase Common Shares for cancellation until January 4, 2017, 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 59,253 Common Shares. The price that Extencicare 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. To date in 2016, the Company has not acquired any Common Shares for cancellation under the Bid.

During 2015, under a similar normal course issuer bid that commenced on December 31, 2014, and expired on December 30, 2015, the Company acquired 1,111,789 Common Shares for cancellation, at an average price of \$7.20 per share, for a total cost of \$8.0 million.

## 13. EXPENSES BY NATURE

	Three months ended September 30		Nine months ended September 30	
	2016	2015	2016	2015
Employee wages and benefits	206,998	194,713	609,548	521,155
Food, drugs, supplies and other variable costs	11,238	11,938	32,791	33,593
Property based and other costs	22,663	22,340	67,891	60,989
Total operating expenses and administrative costs	240,899	228,991	710,230	615,737
Lease costs	1,672	1,627	4,985	4,273
<b>Total expenses</b>	<b>242,571</b>	<b>230,618</b>	<b>715,215</b>	<b>620,010</b>

## 14. OTHER EXPENSE

	Three months ended September 30		Nine months ended September 30	
	2016	2015	2016	2015
Acquisition costs - advisor fees	-	-	286	1,781
Integration costs - consulting fees	-	802	193	1,510
Proxy contest costs	-	-	1,862	-
<b>Other expense</b>	<b>-</b>	<b>802</b>	<b>2,341</b>	<b>3,291</b>

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

## 15. FINANCE COSTS AND FINANCE INCOME

### Foreign Exchange on U.S. Sale

In the three and nine months ended September 30, 2016, the Company recognized foreign exchange gains of \$0.7 million and losses of \$1.4 million, respectively, on net proceeds from the U.S. Sale Transaction that are denominated in U.S. dollars (*note 17*), of which gains of \$0.2 million for the nine months were realized. Foreign exchange gains of \$6.5 million were recognized in the three and nine months ended September 30, 2015, of which \$2.2 million was realized.

### Foreign Exchange on Deferred Consideration

As part of the proceeds from the U.S. Sale Transaction, the Company receives an ongoing cash stream, reflected as deferred consideration (*note 7*). The foreign exchange impact on this asset is recognized in net earnings. An unrealized foreign exchange gain of \$0.6 million and loss of \$2.1 million, respectively, was recorded for the three and nine months ended September 30, 2016.

### Fair Value Adjustment on Interest Rate Swaps

In August 2016, the Company entered into interest rate swap contracts to lock in the interest rates for certain non-CMHC mortgages. The fair value of these contracts as at September 30, 2016, resulted in a loss of \$0.8 million (*notes 9 and 10*).

## 16. EARNINGS (LOSS) PER SHARE

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

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

	Three months ended September 30		Nine months ended September 30	
	2016	2015	2016	2015
<b>Numerator for Basic and Diluted Earnings (Loss) per Share</b>				
<i>Earnings from continuing operations</i>				
Net earnings for basic earnings per share	9,312	216,296	10,812	221,533
Less: earnings (loss) from discontinued operations, net of tax	(643)	205,087	(7,355)	205,089
Earnings from continuing operations for basic earnings per share	9,955	11,209	18,167	16,444
Add: after-tax interest on convertible debt	2,080	2,068	5,315	5,266
Earnings from continuing operations for diluted earnings per share	12,035	13,277	23,482	21,710
<i>Net earnings</i>				
Net earnings for basic earnings per share	9,312	216,296	10,812	221,533
Add: after-tax interest on convertible debt	2,080	2,068	5,315	5,266
Net earnings for diluted earnings per share	11,392	218,364	16,127	226,799

	Three months ended September 30		Nine months ended September 30	
	2016	2015	2016	2015
<b>Denominator for Basic and Diluted Earnings per Share</b>				
Weighted average number of shares for basic earnings per share	<b>88,494,769</b>	87,662,866	<b>88,274,448</b>	87,739,670
Shares issued if all convertible debt was converted	<b>11,244,444</b>	11,244,444	<b>11,244,444</b>	11,244,444
Total for diluted earnings per share	<b>99,739,213</b>	98,907,310	<b>99,518,892</b>	98,984,114
<b>Basic Earnings (Loss) per Share</b> <i>(in dollars)</i>				
Earnings from continuing operations	<b>0.12</b>	0.13	<b>0.21</b>	0.19
Earnings (loss) from discontinued operations	<b>(0.02)</b>	2.33	<b>(0.09)</b>	2.33
Net earnings	<b>0.10</b>	2.46	<b>0.12</b>	2.52
<b>Diluted Earnings (Loss) per Share</b> <i>(in dollars)</i>				
Earnings from continuing operations	<b>0.12</b>	0.13	<b>0.21</b>	0.19
Earnings (loss) from discontinued operations	<b>(0.02)</b>	2.10	<b>(0.09)</b>	2.10
Net earnings	<b>0.10</b>	2.23	<b>0.12</b>	2.29

## 17. DISCONTINUED OPERATIONS

### VCPI

VCPI's operations were reclassified as discontinued in the 2016 second quarter following the Company's decision to actively market the sale of the operations. The carrying value of VCPI has been assessed for impairment. For the purpose of assessing the impairment, VCPI is considered a cash generating unit (CGU). The recoverable amount of a CGU is determined to be the greater of fair value less costs to sell and value-in-use calculations. Any impairment loss is allocated first to goodwill and intangible assets, and the remainder to property and equipment.

Fair value represents an estimate of proceeds less cost to sell. Since the Company will no longer be operating the VCPI operations after the sale, fair value less cost to sell represents the recoverable amount. The determination of recoverable amount can be significantly impacted by market conditions. Estimates and assumptions used in the determination of any impairment loss are based upon information that is known at the time, and are subject to change; actual results may differ.

On October 31, 2016, the Company entered into a definitive agreement with a third party to dispose of substantially all of the assets used in the operation of VCPI's business (*note 22*). The impairment assessment of VCPI using the expected proceeds, resulted in a pre-tax impairment loss of \$9.2 million (US\$7.1 million) during the nine months ended September 30, 2016, of which \$2.1 million (US\$1.6 million) was recognized in the 2016 third quarter and the balance in the 2016 second quarter (*note 22*).

### U.S. Sale Transaction

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

### INDEMNIFICATIONS

The proceeds from the U.S. Sale Transaction included a non-cash amount which represented the net present value ascribed to an ongoing cash stream, relating to certain U.S. skilled nursing centres that were leased prior to the closing (*note 7*), offset in part by obligations assumed that are related to these leases (*note 10*). In addition, the Company agreed to indemnify certain obligations of the U.S. operations related to tax, a corporate integrity agreement, and other items. In connection with these items, as at September 30, 2016, the Company had remaining provisions totalling \$24.3 million (US\$18.5 million) (*note 8*), and a receivable of \$6.6 million (US\$5.0 million) (*note 7*). Favourable changes to indemnifications and receivables totalled \$2.7 million and \$9.1 million for the three and nine months ending September 30, 2016, respectively, are reflected as other expense (income) in the results of discontinued operations (below).

In October 2014, EHSI completed and executed a settlement agreement with the U.S. Department of Justice (DOJ), the Office of the Inspector General (OIG) of the U.S. Department of Health and Human Services and multiple states. As is standard practice in settlements of OIG and DOJ investigations, EHSI entered into a corporate integrity agreement (the "CIA"), with the OIG for a five-year period effective October 3, 2014. Under the terms of the U.S. Sale Transaction, Extencicare 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 8*).

## Results of Discontinued Operations

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

	Three months ended September 30, 2016			Nine months ended September 30, 2016		
	VCPI	U.S. Sale	Total	VCPI	U.S. Sale	Total
Health technology services revenue	7,125	-	7,125	22,219	-	22,219
Operating expenses	5,956	-	5,956	18,750	-	18,750
Administrative costs	1,341	-	1,341	3,786	-	3,786
Lease costs	74	-	74	543	-	543
Total expenses	7,371	-	7,371	23,079	-	23,079
Loss before depreciation, amortization and other expense (income)	(246)	-	(246)	(860)	-	(860)
Depreciation and amortization	(7)	-	(7)	1,183	-	1,183
Impairment	2,141	-	2,141	9,256	-	9,256
Other expense (income)	77	(2,747)	(2,670)	217	(12,938)	(12,721)
Earnings (loss) before net finance costs and income taxes	(2,457)	2,747	290	(11,516)	12,938	1,422
Net finance costs	4	-	4	13	-	13
Earnings (loss) before income taxes	(2,461)	2,747	286	(11,529)	12,938	1,409
Income tax expense (recovery)	(32)	961	929	(19)	8,783	8,764
Earnings (loss) from discontinued operations	(2,429)	1,786	(643)	(11,510)	4,155	(7,355)

	Three months ended September 30, 2015			Nine months ended September 30, 2015		
	VCPI	U.S. Sale	Total	VCPI	U.S. Sale	Total
Nursing and assisted living centres revenue	-	-	-	-	633,133	633,133
Health technology services revenue	9,796	-	9,796	28,067	-	28,067
Outpatient therapy revenue	-	-	-	-	6,735	6,735
Management, consulting and other	-	-	-	-	15,775	15,775
Total revenue	9,796	-	9,796	28,067	655,643	683,710
Operating expenses	7,480	120	7,600	21,053	598,795	619,848
Administrative costs	1,074	380	1,454	3,731	24,041	27,772
Lease costs	204	-	204	583	3,173	3,756
Total expenses	8,758	500	9,258	25,367	626,009	651,376
Earnings (loss) before depreciation, amortization, and other expense	1,038	(500)	538	2,700	29,634	32,334
Depreciation and amortization	890	-	890	2,759	-	2,759
Other expense	-	2,547	2,547	-	13,659	13,659
Earnings (loss) before net finance costs and income taxes	148	(3,047)	(2,899)	(59)	15,975	15,916
Net finance costs	12	(212)	(200)	36	20,508	20,544
Earnings (loss) before income taxes	136	(2,835)	(2,699)	(95)	(4,533)	(4,628)
Income tax expense (recovery)	171	(3,288)	(3,117)	253	(5,301)	(5,048)
Earnings (loss) from discontinued operations, before gain on U.S. sale	(35)	453	418	(348)	768	420
Gain on U.S. sale, net of income taxes	-	204,669	204,669	-	204,669	204,669
Earnings (loss) from discontinued operations	(35)	205,122	205,087	(348)	205,437	205,089

	Three months ended September 30, 2016			Nine months ended September 30, 2016		
	VCPI	U.S. Sale	Total	VCPI	U.S. Sale	Total
<b>Cash Flows from Discontinued Operations</b>						
Net cash from operating activities	231	(7,893)	(7,662)	846	(27,442)	(26,596)
Net cash from investing activities	(286)	7,893	7,607	(1,324)	27,442	26,118
Net cash from financing activities	55	-	55	478	-	478
Effect on cash flows	-	-	-	-	-	-

	Three months ended September 30, 2015			Nine months ended September 30, 2015		
	VCPI	U.S. Sale	Total	VCPI	U.S. Sale	Total
<b>Cash Flows from Discontinued Operations</b>						
Net cash from operating activities	(1,756)	(9,582)	(11,338)	(1,572)	16,433	14,861
Net cash from investing activities	(1,279)	150,817	149,538	(1,435)	161,024	159,589
Net cash from financing activities	3,035	(170,911)	(167,876)	3,007	(244,869)	(241,862)
Foreign exchange gain on cash	-	(327)	(327)	-	4,108	4,108
Effect on cash flows	-	(30,003)	(30,003)	-	(63,304)	(63,304)

## 18. COMMITMENTS AND CONTINGENCIES

### Property and Equipment Commitments

Extendicare is developing four private-pay retirement communities in Simcoe, Bolton, Uxbridge and Bradford, all in Ontario, with 424 suites in total. The outstanding construction costs to complete these development projects as at September 30, 2016, are estimated to be \$73.5 million which will be substantially financed with external financing.

### Legal Proceedings and Regulatory Actions

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

## 19. FINANCIAL RISK MANAGEMENT

### (a) Management of Risks

#### 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 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 9*).

#### CURRENCY RISK

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

As a result of the U.S. Sale Transaction, our exposure to foreign currency risk as at September 30, 2016, has been significantly reduced. The following table outlines the net asset exposure to both the U.S. continuing operations and other items retained from the U.S. Sale Transaction (*note 17*).

<i>(in thousands of US\$)</i>	September 30, 2016	December 31, 2015
<b>Assets</b>		
Current assets <i>(includes assets held for sale)</i>	<b>42,698</b>	39,534
Investments held for self-insured liabilities	<b>107,191</b>	127,724
Property and equipment and other assets	<b>25,780</b>	36,887
<b>Liabilities</b>		
Current liabilities <i>(includes liabilities held for sale)</i>	<b>27,297</b>	60,111
Indemnification provisions	<b>18,491</b>	23,034
Other long-term liabilities	<b>63,777</b>	84,290
<b>Net asset exposure</b>	<b>66,104</b>	36,710

**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 September 30, 2016, U.S. operations accounted for less than 1% of its revenue from continuing operations (2015 – less than 1%).

Every one cent strengthening of the Canadian dollar against the U.S. dollar would impact net earnings and OCI by the amounts shown below. This analysis assumes that all other variables, in particular the interest rates, remain constant.

<i>Favourable (unfavourable) impact</i>	Nine months ended September 30, 2016	Twelve months ended December 31, 2015
Net earnings (loss)	<b>496</b>	154
Other comprehensive income (loss)	<b>165</b>	(521)

**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 September 30, 2016, construction loans of \$4.5 million, representing 1% of total debt, 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 9*).

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

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

	Carrying Amount	
	September 30, 2016	December 30, 2015
<b>Fixed-rate instruments:</b>		
Long-term debt <sup>(1)</sup>	<b>502,815</b>	461,645
Less: investments held for self-insured liabilities	-	(13,916)
<b>Net liability in fixed-rate instruments</b>	<b>502,815</b>	447,729
<b>Variable-rate instruments:</b>		
Long-term debt <sup>(1)</sup>	<b>4,455</b>	-
<b>Total liability in variable-rate instruments</b>	<b>4,455</b>	-

<sup>(1)</sup> Includes current portion and excludes netting of financing costs.

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

A change of 100 basis points in interest rates would have increased or decreased net earnings by the amounts shown below. 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.

<i>Favourable (unfavourable) impact</i>	2016		2015	
	100bp Increase	100bp Decrease	100bp Increase	100bp Decrease
Net earnings (loss)	(25)	25	-	-

**OTHER RISKS**

Other aspects of Extendicare's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements as at and for the year ended December 31, 2015.

**(b) Fair values of Financial Instruments**

<b>As at September 30, 2016</b>	Loans and Receivables	Available for Sale	Fair Value through Profit and Loss	Other Financial Liabilities	Total Carrying Amount	Fair Value
<b>Financial assets:</b>						
Cash and short-term investments	88,384	-	-	-	88,384	88,397
Restricted cash	3,226	-	-	-	3,226	3,226
Invested assets <sup>(1)</sup>	442	-	-	-	442	442
Accounts receivable	49,506	-	-	-	49,506	49,506
Notes, mortgages and amounts receivable <sup>(2)(3)</sup>	65,286	-	-	-	65,286	71,495
Deferred consideration <sup>(3)</sup>	36,878	-	-	-	36,878	36,881
Investments held for self-insured liabilities	-	140,603	-	-	140,603	140,603
	<b>243,722</b>	<b>140,603</b>	<b>-</b>	<b>-</b>	<b>384,325</b>	<b>390,550</b>
<b>Financial liabilities:</b>						
Accounts payable	-	-	-	2,526	2,526	2,526
Interest rate swaps	-	-	847	-	847	847
Long-term debt excluding convertible debentures <sup>(3)(4)</sup>	-	-	-	383,564	383,564	415,889
Convertible debentures	-	-	-	123,706	123,706	136,101
	<b>-</b>	<b>-</b>	<b>847</b>	<b>509,796</b>	<b>510,643</b>	<b>555,363</b>

<sup>(1)</sup> Included in other assets.

<sup>(2)</sup> Includes primarily amounts receivable from government.

<sup>(3)</sup> Includes current portion.

<sup>(4)</sup> Excludes netting of financing costs.

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

<sup>(1)</sup> Included in other assets.

<sup>(2)</sup> Includes primarily amounts receivable from government.

<sup>(3)</sup> Includes current portion.

<sup>(4)</sup> Excludes netting of financing costs.

## 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
<b>As at September 30, 2016:</b>				
Investments held for self-insured liabilities	<b>140,603</b>	-	-	<b>140,603</b>
Notes, mortgages and amounts receivable	-	<b>71,495</b>	-	<b>71,495</b>
Deferred consideration	-	-	<b>36,881</b>	<b>36,881</b>
Interest rate swaps	-	<b>847</b>	-	<b>847</b>
Convertible debentures	<b>136,101</b>	-	-	<b>136,101</b>
<b>As at December 31, 2015:</b>				
Investments held for self-insured liabilities	176,770	-	-	176,770
Notes, mortgages and amounts receivable	-	76,496	-	76,496
Deferred consideration	-	-	38,979	38,979
Convertible debentures	131,876	-	-	131,876

## 20. RELATED PARTY TRANSACTIONS

### 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 which Mr. Lukenda has an approximate 7.1% direct and indirect interest, and with which Extendicare has an ongoing relationship through the provision of management services to the LTC centre in Ontario, Canada. 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.

## 21. SEGMENTED INFORMATION

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

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

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

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

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

	Three months ended September 30, 2016							
<i>(in thousands of Canadian dollars)</i>	Long-term Care	Retirement Living	Home Health Care	Other Canadian Operations	Corporate Canada	Total Canada	Total U.S.	Total
<b>CONTINUING OPERATIONS</b>								
<b>Revenue</b>								
Long-term care	152,473	-	-	-	-	152,473	-	152,473
Retirement living	-	3,996	-	-	-	3,996	-	3,996
Home health care	-	-	106,167	-	-	106,167	-	106,167
Management, consulting and other	-	-	-	4,498	36	4,534	926	5,460
<b>Total revenue</b>	<b>152,473</b>	<b>3,996</b>	<b>106,167</b>	<b>4,498</b>	<b>36</b>	<b>267,170</b>	<b>926</b>	<b>268,096</b>
Operating expenses	132,372	3,887	94,828	1,969	-	233,056	-	233,056
Administrative costs	-	-	-	-	7,327	7,327	516	7,843
Lease costs	-	-	1,232	-	440	1,672	-	1,672
<b>Total expenses</b>	<b>132,372</b>	<b>3,887</b>	<b>96,060</b>	<b>1,969</b>	<b>7,767</b>	<b>242,055</b>	<b>516</b>	<b>242,571</b>
<b>Earnings (loss) before depreciation, amortization, and other expense</b>	<b>20,101</b>	<b>109</b>	<b>10,107</b>	<b>2,529</b>	<b>(7,731)</b>	<b>25,115</b>	<b>410</b>	<b>25,525</b>
Depreciation and amortization	-	-	-	-	7,783	7,783	-	7,783
<b>Earnings (loss) before net finance costs and income taxes</b>	<b>20,101</b>	<b>109</b>	<b>10,107</b>	<b>2,529</b>	<b>(15,514)</b>	<b>17,332</b>	<b>410</b>	<b>17,742</b>
Interest expense	-	-	-	-	7,082	7,082	-	7,082
Accretion of decommissioning provisions	-	-	-	-	87	87	-	87
Other accretion	-	-	-	-	207	207	326	533
Fair value adjustments	-	-	-	-	847	847	-	847
Gain on foreign exchange and financial instruments	-	-	-	-	(666)	(666)	(612)	(1,278)
Interest revenue	-	-	-	-	(829)	(829)	(1,869)	(2,698)
Net finance costs (income)	-	-	-	-	6,728	6,728	(2,155)	4,573
<b>Earnings (loss) before income taxes</b>	<b>20,101</b>	<b>109</b>	<b>10,107</b>	<b>2,529</b>	<b>(22,242)</b>	<b>10,604</b>	<b>2,565</b>	<b>13,169</b>
<b>Income tax expense (recovery)</b>								
Current	-	-	-	-	2,571	2,571	(1,888)	683
Deferred	-	-	-	-	98	98	2,433	2,531
Total income tax expense	-	-	-	-	2,669	2,669	545	3,214
<b>Earnings (loss) from continuing operations</b>	<b>20,101</b>	<b>109</b>	<b>10,107</b>	<b>2,529</b>	<b>(24,911)</b>	<b>7,935</b>	<b>2,020</b>	<b>9,955</b>
<b>DISCONTINUED OPERATIONS</b>								
Loss from discontinued operations, net of income taxes	-	-	-	-	-	-	(643)	(643)
<b>Net earnings (loss)</b>	<b>20,101</b>	<b>109</b>	<b>10,107</b>	<b>2,529</b>	<b>(24,911)</b>	<b>7,935</b>	<b>1,377</b>	<b>9,312</b>

	Nine months ended September 30, 2016							
<i>(in thousands of Canadian dollars)</i>	Long-term Care	Retirement Living	Home Health Care	Other Canadian Operations	Corporate Canada	Total Canada	Total U.S.	Total
<b>CONTINUING OPERATIONS</b>								
<b>Revenue</b>								
Long-term care	451,193	-	-	-	-	451,193	-	451,193
Retirement living	-	11,034	-	-	-	11,034	-	11,034
Home health care	-	-	305,734	-	-	305,734	-	305,734
Management, consulting and other	-	-	-	13,753	44	13,797	2,146	15,943
<b>Total revenue</b>	<b>451,193</b>	<b>11,034</b>	<b>305,734</b>	<b>13,753</b>	<b>44</b>	<b>781,758</b>	<b>2,146</b>	<b>783,904</b>
Operating expenses	395,190	10,517	275,503	6,312	-	687,522	-	687,522
Administrative costs	-	-	-	-	20,827	20,827	1,881	22,708
Lease costs	-	-	3,665	-	1,320	4,985	-	4,985
<b>Total expenses</b>	<b>395,190</b>	<b>10,517</b>	<b>279,168</b>	<b>6,312</b>	<b>22,147</b>	<b>713,334</b>	<b>1,881</b>	<b>715,215</b>
<b>Earnings (loss) before depreciation, amortization, and other expense</b>	<b>56,003</b>	<b>517</b>	<b>26,566</b>	<b>7,441</b>	<b>(22,103)</b>	<b>68,424</b>	<b>265</b>	<b>68,689</b>
Depreciation and amortization	-	-	-	-	22,683	22,683	-	22,683
Other expense	-	-	-	-	2,341	2,341	-	2,341
<b>Earnings (loss) before net finance costs and income taxes</b>	<b>56,003</b>	<b>517</b>	<b>26,566</b>	<b>7,441</b>	<b>(47,127)</b>	<b>43,400</b>	<b>265</b>	<b>43,665</b>
Interest expense	-	-	-	-	20,348	20,348	-	20,348
Accretion of decommissioning provisions	-	-	-	-	261	261	-	261
Other accretion	-	-	-	-	621	621	991	1,612
Fair value adjustments	-	-	-	-	847	847	-	847
Loss on foreign exchange and financial instruments	-	-	-	-	1,345	1,345	2,133	3,478
Interest revenue	-	-	-	-	(2,425)	(2,425)	(5,666)	(8,091)
Net finance costs (income)	-	-	-	-	20,997	20,997	(2,542)	18,455
<b>Earnings (loss) before income taxes</b>	<b>56,003</b>	<b>517</b>	<b>26,566</b>	<b>7,441</b>	<b>(68,124)</b>	<b>22,403</b>	<b>2,807</b>	<b>25,210</b>
<b>Income tax expense (recovery)</b>								
Current	-	-	-	-	7,421	7,421	(1,016)	6,405
Deferred	-	-	-	-	(1,874)	(1,874)	2,512	638
Total income tax expense	-	-	-	-	5,547	5,547	1,496	7,043
<b>Earnings (loss) from continuing operations</b>	<b>56,003</b>	<b>517</b>	<b>26,566</b>	<b>7,441</b>	<b>(73,671)</b>	<b>16,856</b>	<b>1,311</b>	<b>18,167</b>
<b>DISCONTINUED OPERATIONS</b>								
Loss from discontinued operations, net of income taxes	-	-	-	-	-	-	(7,355)	(7,355)
<b>Net earnings (loss)</b>	<b>56,003</b>	<b>517</b>	<b>26,566</b>	<b>7,441</b>	<b>(73,671)</b>	<b>16,856</b>	<b>(6,044)</b>	<b>10,812</b>

## Notes to Unaudited Interim Condensed Consolidated Financial Statements

	Three months ended September 30, 2015						
	Long-term Care	Home Health Care	Other Canadian Operations	Corporate Canada	Total Canada	Total U.S.	Total
<i>(in thousands of Canadian dollars)</i>							
<b>CONTINUING OPERATIONS</b>							
<b>Revenue</b>							
Long-term care	149,723	-	-	-	149,723	-	149,723
Home health care	-	98,239	-	-	98,239	-	98,239
Management, consulting and other	-	-	4,090	4	4,094	1,500	5,594
<b>Total revenue</b>	<b>149,723</b>	<b>98,239</b>	<b>4,090</b>	<b>4</b>	<b>252,056</b>	<b>1,500</b>	<b>253,556</b>
Operating expenses	131,771	87,531	1,798	-	221,100	-	221,100
Administrative costs	-	-	-	6,158	6,158	1,733	7,891
Lease costs	-	1,228	-	399	1,627	-	1,627
<b>Total expenses</b>	<b>131,771</b>	<b>88,759</b>	<b>1,798</b>	<b>6,557</b>	<b>228,885</b>	<b>1,733</b>	<b>230,618</b>
<b>Earnings (loss) before depreciation, amortization, and other expense</b>	<b>17,952</b>	<b>9,480</b>	<b>2,292</b>	<b>(6,553)</b>	<b>23,171</b>	<b>(233)</b>	<b>22,938</b>
Depreciation and amortization	-	-	-	6,103	6,103	-	6,103
Other expense	-	-	-	802	802	-	802
<b>Earnings (loss) before net finance costs and income taxes</b>	<b>17,952</b>	<b>9,480</b>	<b>2,292</b>	<b>(13,458)</b>	<b>16,266</b>	<b>(233)</b>	<b>16,033</b>
Interest expense	-	-	-	6,735	6,735	-	6,735
Accretion of decommissioning provisions	-	-	-	87	87	-	87
Other accretion	-	-	-	195	195	348	543
Gain on foreign exchange and financial instruments	-	-	-	(6,487)	(6,487)	-	(6,487)
Interest revenue	-	-	-	(1,272)	(1,272)	(1,795)	(3,067)
Net finance income	-	-	-	(742)	(742)	(1,447)	(2,189)
<b>Earnings (loss) before income taxes</b>	<b>17,952</b>	<b>9,480</b>	<b>2,292</b>	<b>(12,716)</b>	<b>17,008</b>	<b>1,214</b>	<b>18,222</b>
<b>Income tax expense</b>							
Current	-	-	-	5,335	5,335	480	5,815
Deferred	-	-	-	936	936	262	1,198
Total income tax expense	-	-	-	6,271	6,271	742	7,013
<b>Earnings (loss) from continuing operations</b>	<b>17,952</b>	<b>9,480</b>	<b>2,292</b>	<b>(18,987)</b>	<b>10,737</b>	<b>472</b>	<b>11,209</b>
<b>DISCONTINUED OPERATIONS</b>							
Gain on sale of U.S. operations, net of income taxes	-	-	-	-	-	204,669	204,669
Earnings from discontinued operations, net of income taxes	-	-	-	-	-	418	418
<b>Net earnings (loss)</b>	<b>17,952</b>	<b>9,480</b>	<b>2,292</b>	<b>(18,987)</b>	<b>10,737</b>	<b>205,559</b>	<b>216,296</b>

	Nine months ended September 30, 2015						
	Long-term Care	Home Health Care	Other Canadian Operations	Corporate Canada	Total Canada	Total U.S.	Total
<i>(in thousands of Canadian dollars)</i>							
<b>CONTINUING OPERATIONS</b>							
<b>Revenue</b>							
Long-term care	440,010	-	-	-	440,010	-	440,010
Home health care	-	226,983	-	-	226,983	-	226,983
Management, consulting and other	-	-	11,818	34	11,852	1,844	13,696
<b>Total revenue</b>	<b>440,010</b>	<b>226,983</b>	<b>11,818</b>	<b>34</b>	<b>678,845</b>	<b>1,844</b>	<b>680,689</b>
Operating expenses	387,121	201,166	5,442	-	593,729	-	593,729
Administrative costs	-	-	-	16,787	16,787	5,221	22,008
Lease costs	-	3,029	-	1,244	4,273	-	4,273
<b>Total expenses</b>	<b>387,121</b>	<b>204,195</b>	<b>5,442</b>	<b>18,031</b>	<b>614,789</b>	<b>5,221</b>	<b>620,010</b>
<b>Earnings (loss) before depreciation, amortization, and other expense</b>	<b>52,889</b>	<b>22,788</b>	<b>6,376</b>	<b>(17,997)</b>	<b>64,056</b>	<b>(3,377)</b>	<b>60,679</b>
Depreciation and amortization	-	-	-	16,833	16,833	-	16,833
Other expense	-	-	-	3,291	3,291	-	3,291
<b>Earnings (loss) before net finance costs and income taxes</b>	<b>52,889</b>	<b>22,788</b>	<b>6,376</b>	<b>(38,121)</b>	<b>43,932</b>	<b>(3,377)</b>	<b>40,555</b>
Interest expense	-	-	-	23,125	23,125	-	23,125
Accretion of decommissioning provisions	-	-	-	261	261	-	261
Other accretion	-	-	-	575	575	1,002	1,577
Gain on foreign exchange and financial instruments	-	-	-	(6,487)	(6,487)	-	(6,487)
Interest revenue	-	-	-	(2,857)	(2,857)	(1,795)	(4,652)
Net finance costs (income)	-	-	-	14,617	14,617	(793)	13,824
<b>Earnings (loss) before income taxes</b>	<b>52,889</b>	<b>22,788</b>	<b>6,376</b>	<b>(52,738)</b>	<b>29,315</b>	<b>(2,584)</b>	<b>26,731</b>
<b>Income tax expense (recovery)</b>							
Current	-	-	-	11,255	11,255	360	11,615
Deferred	-	-	-	(1,590)	(1,590)	262	(1,328)
Total income tax expense	-	-	-	9,665	9,665	622	10,287
<b>Earnings (loss) from continuing operations</b>	<b>52,889</b>	<b>22,788</b>	<b>6,376</b>	<b>(62,403)</b>	<b>19,650</b>	<b>(3,206)</b>	<b>16,444</b>
<b>DISCONTINUED OPERATIONS</b>							
Gain on sale of U.S. operations, net of income taxes	-	-	-	-	-	204,669	204,669
Earnings from discontinued operations, net of income taxes	-	-	-	-	-	420	420
<b>Net earnings (loss)</b>	<b>52,889</b>	<b>22,788</b>	<b>6,376</b>	<b>(62,403)</b>	<b>19,650</b>	<b>201,883</b>	<b>221,533</b>

<i>(in thousands of Canadian dollars)</i>	September 30, 2016			
	Total Canada	Total U.S.	Eliminations	Total
<b>Assets</b>				
Current assets				
Cash and short-term investments	83,072	5,312	-	88,384
Restricted cash	3,226	-	-	3,226
Accounts receivable	64,522	2,838	(17,854)	49,506
Income taxes recoverable	1,031	3,142	-	4,173
Assets held for sale	-	10,143	-	10,143
Other assets	26,590	3,356	-	29,946
<b>Total current assets</b>	<b>178,441</b>	<b>24,791</b>	<b>(17,854)</b>	<b>185,378</b>
Non-current assets				
Property and equipment	456,329	-	-	456,329
Goodwill and other intangible assets	92,517	-	-	92,517
Other assets	60,422	174,417	-	234,839
Deferred tax assets	14,751	-	-	14,751
<b>Total non-current assets</b>	<b>624,019</b>	<b>174,417</b>	<b>-</b>	<b>798,436</b>
<b>Total Assets</b>	<b>802,460</b>	<b>199,208</b>	<b>(17,854)</b>	<b>983,814</b>
<b>Liabilities and Equity</b>				
Current liabilities				
Accounts payable and accrued liabilities	113,702	22,510	(17,854)	118,358
Income taxes payable	3,273	-	-	3,273
Long-term debt	47,735	72	-	47,807
Liabilities held for sale	-	468	-	468
Provisions	656	29,251	-	29,907
<b>Total current liabilities</b>	<b>165,366</b>	<b>52,301</b>	<b>(17,854)</b>	<b>199,813</b>
Non-current liabilities				
Long-term debt	452,373	53	-	452,426
Provisions	32,986	79,730	-	112,716
Other long-term liabilities	38,516	-	-	38,516
Deferred tax liabilities	15,299	4,353	-	19,652
<b>Total non-current liabilities</b>	<b>539,174</b>	<b>84,136</b>	<b>-</b>	<b>623,310</b>
<b>Total liabilities</b>	<b>704,540</b>	<b>136,437</b>	<b>(17,854)</b>	<b>823,123</b>
Share capital	336,655	151,800	-	488,455
Equity portion of convertible debentures	5,573	-	-	5,573
Contributed surplus	649	-	-	649
Accumulated deficit	(233,712)	(102,316)	-	(336,028)
Accumulated other comprehensive income (loss)	(11,245)	13,287	-	2,042
<b>Shareholders' equity</b>	<b>97,920</b>	<b>62,771</b>	<b>-</b>	<b>160,691</b>
<b>Total Liabilities and Equity</b>	<b>802,460</b>	<b>199,208</b>	<b>(17,854)</b>	<b>983,814</b>
<b>Total Capital Expenditures</b>				
Continuing operations	21,874	-	-	21,874
Discontinued operations	-	1,324	-	1,324
<b>Capital Expenditures</b>	<b>21,874</b>	<b>1,324</b>	<b>-</b>	<b>23,198</b>

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

## **22. SUBSEQUENT EVENTS**

On October 31, 2016, the Company entered into a definitive agreement with a third party (the “VCPI Purchaser”) to dispose of substantially all of the assets used in the operation of VCPI’s business for cash proceeds of US\$8.5 million, prior to working capital adjustments and transaction costs. The VCPI Purchaser will continue the operation of the business following the close of the transaction, which is anticipated to occur by the end of 2016, subject to the satisfaction of certain closing conditions (*notes 5 and 17*).

**EXTENDICARE<sup>®</sup>**