

1996  
Annual  
Report

# EXTENDICARE



# CORPORATE PROFILE

Extendicare Inc. is the fourth largest operator of long-term care centres in North America with resident capacity at December 31, 1996, of 26,474 in 260 facilities in the United States, Canada and the United Kingdom. In addition, the Corporation manages two hospitals in Canada and owns and operates one in the United Kingdom. Extendicare also provides medical specialty services, including subacute and rehabilitative therapy services, institutional pharmacy services, and other medical supplies and services in the United States; and home care and rehabilitative therapy services in Canada.

With more than 34,400 employees, Extendicare is committed to providing superior-quality, cost-effective health care services. Our goal is to be the first choice for health care in each of the communities we serve. We believe our continued growth is the measure of our success in meeting health care needs and expectations.

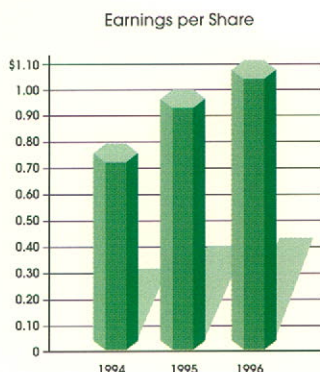
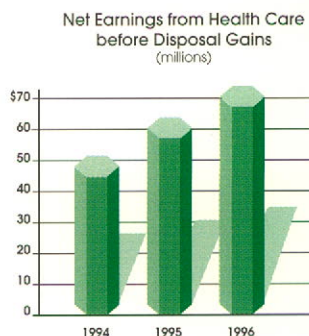
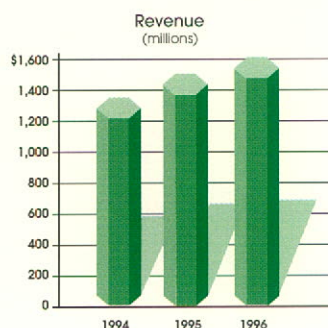
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### Cover

*A client and her pet enjoy a companionable moment at home with a visiting Para-Med caregiver.*

# FINANCIAL HIGHLIGHTS



## Overview of Financial Highlights

	1996	1995	1994
	(thousands of dollars except per share amounts)		
Revenue	<b>1,488,686</b>	1,375,990	1,244,823
Earnings before lease costs, depreciation, interest and income taxes	<b>199,184</b>	173,561	149,641
Net earnings from health care before undernoted	<b>66,524</b>	57,315	45,766
Gain on disposal of other assets	<b>4,950</b>	3,121	
Net earnings from health care	<b>71,474</b>	60,436	45,766
Share of earnings of Crown Life	<b>9,767</b>	9,480	8,704
Net earnings	<b>81,241</b>	69,916	54,470
Earnings per share			
Health care operations before disposal gains and after preferred share dividends	<b>0.86</b>	0.75	0.59
Gain on disposal of other assets	<b>0.07</b>	0.05	
Life insurance	<b>0.13</b>	0.14	0.14
	<b>1.06</b>	0.94	0.73
Total assets	<b>1,302,158</b>	1,163,497	1,021,601
Shareholders' equity	<b>458,612</b>	332,058	273,021
Property and equipment capital expenditures	<b>92,917</b>	88,194	51,970
Expenditures for acquisitions	<b>32,593</b>	38,148	46,597

## MESSAGE TO SHAREHOLDERS

We are pleased to report to you that once again Extencicare achieved record revenues, net earnings and earnings per share. These achievements are due in large part to the efforts of our 34,400 employees in the United States, Canada and the United Kingdom. Their commitment to the individuals they serve, and their own deeply felt beliefs that the tasks they perform daily are critical to the well-being of our patients and residents, is the foundation of our success.

In this report, we have provided you with an overview of the broad range of health care services and products we provide. As well, we have included comments from employees, who serve your company in a variety of positions, on their feelings about the importance of the tasks they perform and the people they serve. We hope you will share with us the pride we feel in this dedicated group of health care professionals who comprise the Extencicare team. They are the bedrock on which we will continue to build a strong and profitable company. We thank them for their commitment and their efforts to meet the various physical, emotional, and spiritual needs of those served by Extencicare on a daily basis.

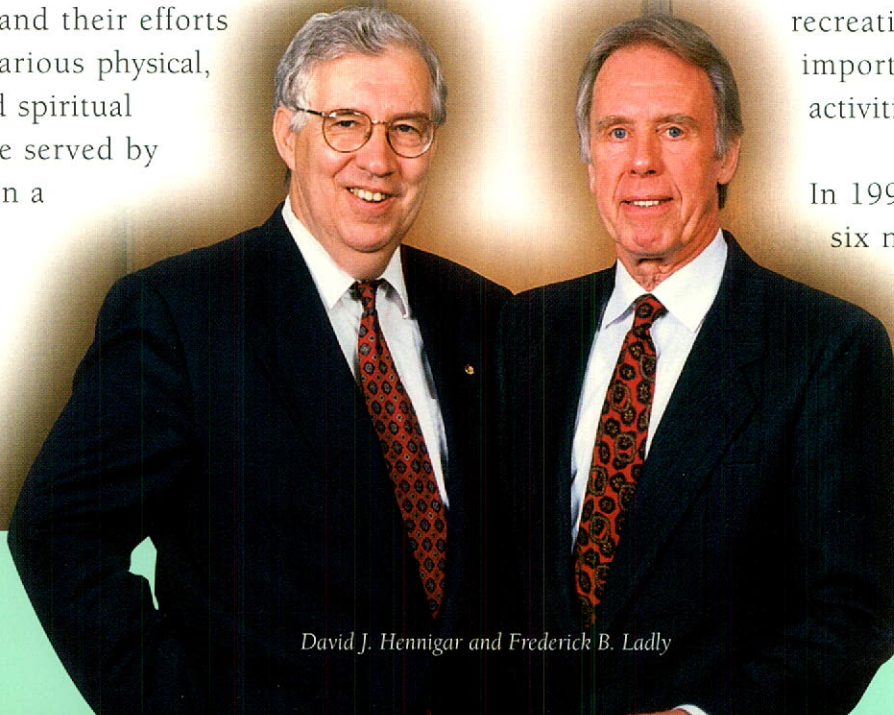
In review, our United States operations, which represent 76 percent of revenue, continued to expand, to meet our expectations, and to adjust appropriately to regulatory and funding changes. At the same time, they are moving quickly to take advantage of new opportunities in the marketplace.

In 1996, we continued to expand our United States operations through acquisition, construction, additional services provided by the UPC Health Network and new management contracts with other health care facilities.

During the year, we acquired two nursing centres, adding 441 beds, expanded three nursing centres for an additional 90 beds, and entered into management contracts with eight facilities — one in Ohio, one in Indiana and six in Pennsylvania — with a total capacity of 695 beds. Our assisted living operations continued to expand to meet the growing demands of the American marketplace for facilities that provide a wide range of services such as assistance

with medications, recreation and, most important, help with activities of daily living.

In 1996, we opened six new assisted



*David J. Hennigar and Frederick B. Ladly*

living centres in four states with a total of 189 units and, at year end, had eight assisted living facilities with 390 units under construction.

We continued to expand our therapy services and increase the number of therapists in our employ rather than use contracted services. In 1996, we employed over 400 licensed and certified therapists. Approximately 68 percent of the therapists providing services are contracted for by the Corporation compared with 80 percent in 1995. We also increased the number of expanded therapy units in 1996 from 60 to 78, through construction and conversion of space. We expect both of these trends to continue.

Our Canadian nursing centre and home care operations, which represent 22 percent of revenue, have remained stable and profitable. In 1997, Extendicare will carry out extensive renovations to seven nursing centres in three provinces to enhance living and recreation space.

Our United Kingdom operations, which represent two percent of revenue, have not performed to our expectations. Inconsistencies resulting from local control of funding and admissions to nursing centres is an industry-wide problem in the United Kingdom and has caused the decline in our United Kingdom operating performance.

However, we completed construction of and opened two nursing centres in the United Kingdom in 1996, and commenced construction of another major addition.

During 1996, Extendicare sold one Canadian nursing centre and three United States nursing centres, and ceased operation of one facility on expiry of the lease. The operations of these facilities were not meeting Extendicare's performance criteria. In addition, renovations and upgrades have been made in certain facilities that reduced resident capacity.

As we look ahead to our plans for the current fiscal year, we intend to:

- expand nursing and assisted living centre capacity through acquisition and construction;
- expand our rehabilitation programs and capabilities through the enhancement of internal capacity, outpatient services and services to managed and other non-affiliated facilities;
- expand the number of facilities to which we provide full or partial management services;
- expand the activities of the UPC Health Network, thus allowing us to take advantage of the growing need of smaller United States health care providers to purchase various services from the UPC Health Network ranging from rehabilitation to hospice, and from institutional pharmacy to purchasing;

- expand, through the UPC Health Network, the scope of our managed care services. Although managed care is currently a small part of revenue, we are positioning Extencicare to respond to this rapidly changing environment;
- expand the contract management services we provide to public-sector facilities in Canada;
- focus the sales and marketing activities of our home care operations on the private sector, including auto, life and health insurance companies; and
- participate in an industry-wide effort to improve funding and referral relationships with local government bodies in the United Kingdom.

We completed four significant corporate transactions during the year:

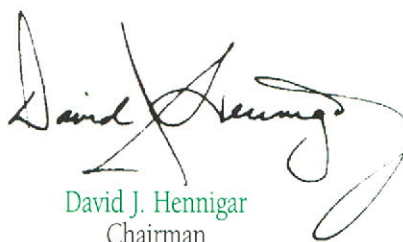
- At the Shareholders' Meeting in April 1996, approval was given to the splitting of Extencicare's Common Shares on a two-for-one basis, the subsequent exchange of one Common Share for one Multiple Voting Share (entitled to 10 votes per share), and the exchange of one Non-voting Class A Share for one Subordinate Voting Share (entitled to one vote per share).
- In May 1996, Extencicare raised \$69.7 million from the issue of 4,250,000 Subordinate Voting Shares.

□ At the same time, to enhance our shareholder base, we listed our Subordinate Voting Shares on the New York Stock Exchange under the symbol EXE.A.

□ In December 1996, Extencicare redeemed all of its outstanding Class I Preferred Shares, Series I for \$25.4 million, thereby reducing future annual preferred share dividends to approximately \$1.0 million.

In summary, we have completed another record year and the groundwork has been laid for a continuation of that success. To better understand the operations and financial position of your company, we urge you to review the operational and financial information that is provided in this report.

We would like to thank our shareholders for their comments and support, and our employees for their dedication to the principles of exemplary care upon which we have built your company.



David J. Hennigar  
Chairman

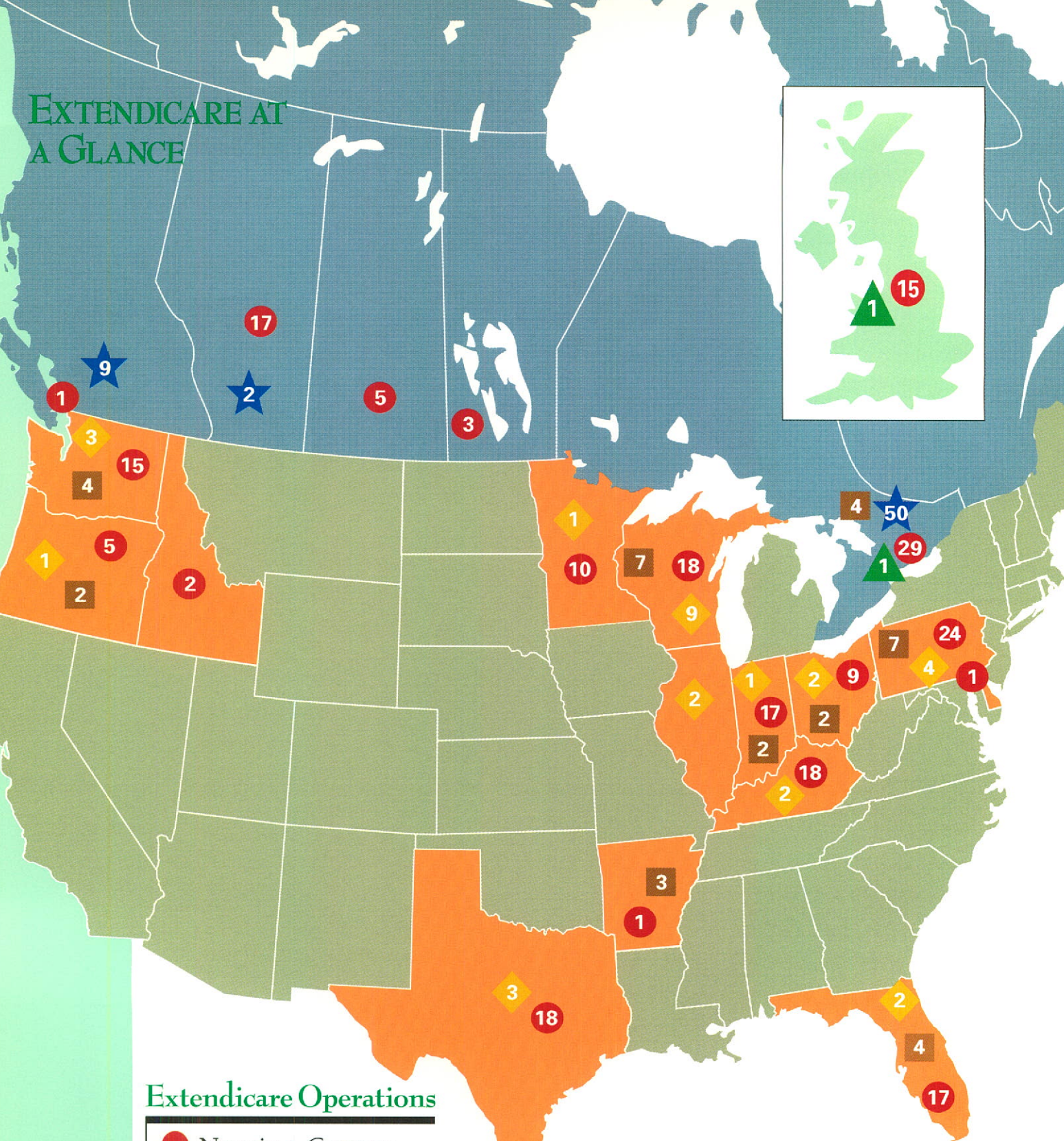


Frederick B. Ladly  
Chief Executive Officer  
and Deputy Chairman

## QUARTERLY FINANCIAL INFORMATION

	<u>1st</u>	<u>2nd</u>	<u>3rd</u>	<u>4th</u>	<u>Total</u>
	(thousands of dollars unless otherwise noted)				
<b>Year ended December 31, 1996</b>					
Revenue	365,362	368,113	377,319	377,892	1,488,686
Earnings before lease costs, depreciation, interest and income taxes	47,253	47,987	51,022	52,922	199,184
Earnings from operations	21,551	21,582	25,062	27,091	95,286
Net earnings from health care before undernoted	14,969	15,651	17,747	18,157	66,524
Gain on disposal of other assets		4,950			4,950
Net earnings from health care	14,969	20,601	17,747	18,157	71,474
Share of earnings of Crown Life	1,928	2,154	2,540	3,145	9,767
Net earnings	<u>16,897</u>	<u>22,755</u>	<u>20,287</u>	<u>21,302</u>	<u>81,241</u>
Earnings per share (dollars)					
Health care operations before disposal gains and after preferred share dividends	0.20	0.20	0.23	0.23	0.86
Gain on disposal of other assets		0.07			0.07
Life insurance	0.03	0.03	0.03	0.04	0.13
	<u>0.23</u>	<u>0.30</u>	<u>0.26</u>	<u>0.27</u>	<u>1.06</u>
Quarterly price range (TSE) of Subordinate Voting Shares (dollars)					
High	19.000	19.250	16.600	18.650	
Low	14.125	16.100	14.250	15.350	
<b>Year ended December 31, 1995</b>					
Revenue	336,607	335,945	343,170	360,268	1,375,990
Earnings before lease costs, depreciation, interest and income taxes	40,992	43,012	43,650	45,907	173,561
Earnings from operations	17,801	19,964	20,110	21,446	79,321
Net earnings from health care before undernoted	13,207	14,370	14,523	15,215	57,315
Gain on disposal of other assets	3,121				3,121
Net earnings from health care	16,328	14,370	14,523	15,215	60,436
Share of earnings of Crown Life	1,662	2,925	2,521	2,372	9,480
Net earnings	<u>17,990</u>	<u>17,295</u>	<u>17,044</u>	<u>17,587</u>	<u>69,916</u>
Earnings per share (dollars)					
Health care operations before disposal gains and after preferred share dividends	0.17	0.19	0.19	0.20	0.75
Gain on disposal of other assets	0.05				0.05
Life insurance	0.03	0.04	0.04	0.03	0.14
	<u>0.25</u>	<u>0.23</u>	<u>0.23</u>	<u>0.23</u>	<u>0.94</u>
Quarterly price range (TSE) of Subordinate Voting Shares (dollars)					
High	11.875	13.250	15.000	15.125	
Low	9.625	11.500	12.500	13.250	

# EXTENDICARE AT A GLANCE

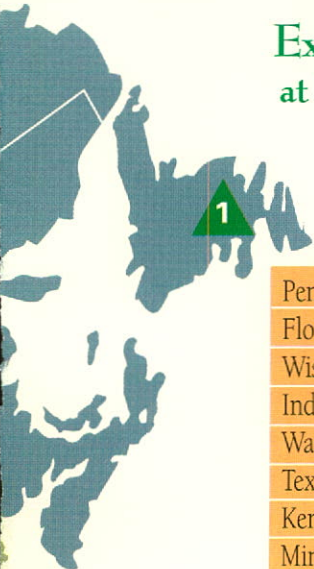


## Extendicare Operations

- Nursing Centres
- Assisted Living and Retirement Centres
- ▲ Hospitals
- ◆ UPC Health Network
- ★ Para-Med and AIM



## Extendicare Inc. Facilities and Resident Capacity at December 31, 1996



	Owned		Leased		Managed		TOTAL	
	Facilities	Resident Capacity	Facilities	Resident Capacity	Facilities	Resident Capacity	Facilities	Resident Capacity
Pennsylvania	20	2,201	-	-	11	810	31	3,011
Florida	21	2,084	-	-	-	-	21	2,084
Wisconsin	25	2,061	-	-	-	-	25	2,061
Indiana	12	1,055	6	686	1	240	19	1,981
Washington	16	1,612	3	307	-	-	19	1,919
Texas	5	716	13	1,022	-	-	18	1,738
Kentucky	18	1,511	-	-	-	-	18	1,511
Minnesota	10	1,394	-	-	-	-	10	1,394
Ohio	7	544	3	350	1	70	11	964
Oregon	5	335	2	135	-	-	7	470
Arkansas	4	287	-	-	-	-	4	287
Idaho	2	232	-	-	-	-	2	232
Maryland	1	132	-	-	-	-	1	132
<b>Total United States</b>	<b>146</b>	<b>14,164</b>	<b>27</b>	<b>2,500</b>	<b>13</b>	<b>1,120</b>	<b>186</b>	<b>17,784</b>
Ontario	26	4,015	-	-	8	902	34	4,917
Alberta	14	1,183	-	-	3	389	17	1,572
Saskatchewan	5	654	-	-	-	-	5	654
Manitoba	2	458	-	-	1	120	3	578
Newfoundland	-	-	-	-	1	400	1	400
British Columbia	1	75	-	-	-	-	1	75
<b>Total Canada</b>	<b>48</b>	<b>6,385</b>	<b>-</b>	<b>-</b>	<b>13</b>	<b>1,811</b>	<b>61</b>	<b>8,196</b>
Total United Kingdom	15	968	-	-	1	81	16	1,049
<b>TOTAL</b>	<b>209</b>	<b>21,517</b>	<b>27</b>	<b>2,500</b>	<b>27</b>	<b>3,012</b>	<b>263</b>	<b>27,029</b>

## Facility Type and Resident Capacity

	United States		Canada		United Kingdom		TOTAL	
	Facilities	Resident Capacity	Facilities	Resident Capacity	Facilities	Resident Capacity	Facilities	Resident Capacity
Nursing Centres	155	16,644	55	7,304	15	1,014	225	24,962
Assisted Living and Retirement Centres	31	1,140	4	372	-	-	35	1,512
Hospitals	-	-	2	520	1	35	3	555
<b>TOTAL</b>	<b>186</b>	<b>17,784</b>	<b>61</b>	<b>8,196</b>	<b>16</b>	<b>1,049</b>	<b>263</b>	<b>27,029</b>

# LONG-TERM CARE SERVICES

## Nursing Care

Extencare provides nursing care to many thousands of residents each year in its 225 nursing centres in the United States, Canada and the United Kingdom.

Services range from basic nursing to more complex care, such as enhanced rehabilitation therapies and infusion therapies. In many facilities, we also provide specialized services to individuals with conditions such as Alzheimer's disease, related dementias and acquired brain injury. Dignity and respect are the hallmarks of our philosophy of care. We implement rigorous standards that management and staff at all levels constantly assess and update so that we may meet the physical, spiritual, social, emotional and intellectual needs of our residents.

**"I walk around**  
the corridors and clients' rooms during my course of duty, and I am asked about my family and pets. The clients tell me about their families and their worries, and how their day has been. I feel part of their lives. Important to them. "I'm glad you're here today," and "Did you have a nice day off?"

When I first came to work here I was told, "Look on these people as your family. Treat them as you would like your parents to be treated in these circumstances." I have always tried to do that. I love all my clients and try to do my best for them at all times. In return, I receive caring and affection from them.

They ask me if I am being met and taken home after work, because it is dark and they worry about me walking home alone.

It is a good feeling to be included in people's lives and cared about by my clients. The caring is the essence of my job. I belong, and that makes me happy and gives me the feeling of job satisfaction. This is what my job does for me."

*Ann King*  
Care Assistant

Bickleigh Down Nursing Home  
United Kingdom



*A certified physical therapist provides gait balance training to a patient recovering from a stroke.*

*A licensed occupational therapist conducts a hand dexterity exercise for fine motor coordination.*



Our facilities employ licensed and certified nurses, therapists, and certified or specially trained health care aides who provide care as prescribed by each resident's attending physician in collaboration with an interdisciplinary care team.

Extendicare believes that a local presence and local management are key factors in its success. To that end, the managers of our care centres work closely with local government officials, health care professionals, community leaders and advocacy groups to ensure that our services are an integral part of each community's health care system. We monitor our facilities and services to ensure that they meet specific quality and operational performance criteria, and actively seek to acquire and build facilities that will allow us to meet each community's specific need for a continuum of services.

**“Restorative care: a new job of the 90s. I soon found out that the task-oriented part of me had to be adjusted quickly when working one-to-one with a resident. The task was theirs, not mine, to improve leg strength, mobility or often self-concept. My role was the facilitator, the shoulder to lean on. Time management: wow! Can I be flexible? Residents are busy! Activity programs, daily care, family visits. I have been like a “fly on the wall,” watching how other departments complement each other in providing quality of life for the residents. I’ve met a milliner, engineers, artists, world travellers, poets, a mother of 10 (or was that 12?), accountants and a lawyer, whom I will never, never forget! Discharging a resident from the program is a lesson in letting go. Yet the next challenge awaits!”**

*Karen Graham*  
Restorative Care Aide  
Extendicare/Starwood  
Nepean, Ontario

*Residents gather for cards and conversation in the living room of a newly constructed assisted living facility.*



the United States, we expect a strong demand for these services in the foreseeable future. At the end of 1996, we were operating 31 assisted living centres and we expect to continue with our aggressive construction program.

## Assisted Living

In our assisted living facilities, we provide homelike accommodation, meals and assistance in the activities of daily living to seniors who require some help, but not the level of nursing care provided in a nursing centre. An assisted living facility enhances the value of the existing nursing centre in those situations where the two facilities operate side by side, and allows us to better serve our communities by providing a continuum of service that meets a wider variety of needs.

Owing to the rapidly increasing segment of the American population seeking assisted living accommodation and the relative immaturity of the assisted living market in

## Management and Consulting

In Canada and the United States, Extendicare manages hospitals and other long-term care centres for not-for-profit boards and private organizations seeking to improve their level of care and enhance their operating efficiencies. Most of these contracts include management, accounting and purchasing services, policy and procedure manuals, staff training and reimbursement assistance. In Canada, we oversee the design, construction, development and management of long-term care and chronic care centres, as well as provide consulting services in administration, nursing, dietary, quality assurance and other health care specialties.

## MEDICAL SPECIALTY SERVICES

Through 30 regional service centres and satellite locations, the UPC Health Network provides a continuum of health care services, programs and products to institutions and individuals of all ages in the United States.

## Subacute and Rehabilitative Therapy

The American health care system is applying pressure on acute and managed care providers to discharge patients more rapidly to less intensive and low-cost care environments. In response to this market trend, all of Extencare's nursing centres in the United States have expanded their ability to provide patient-centred, outcome-oriented subacute and rehabilitative care.

*Certified and licensed staff members discuss a continuing plan of care with a patient.*



“The contagious effect of a yawn can be compared to the effect volunteers can have on those around them. When they display kindness, friendship, humour or affection, the results can be felt like a ripple on a pond. If a volunteer enhances the life of a resident, the resident becomes happier and more appreciative of the staff, and the staff enjoys assisting the resident. The kindness and goodwill is then passed on and the effect produces benefits for everyone. Volunteers are very special people, and as a Coordinator of Volunteers, I see the difference they make for each of us, every day.”

*Debra Gale*  
Coordinator of Volunteers  
Extencare/Sunset  
Regina, Saskatchewan

Patients requiring subacute care are medically stable, yet require specialized therapy and other services that are more intensive than traditional nursing facility care, but less than acute hospital care. These services may include wound care, and respiratory, infusion and intravenous therapies. We provide rehabilitative therapy services on an inpatient and outpatient basis to clients who require, for example, physical or occupational therapy, or speech-language pathology. Our subacute and rehabilitation teams seek to return each patient to maximum functional independence with many patients typically being discharged within 30 to 90 days.

Currently, 78 of our United States nursing centres operate expanded therapy units, comprising 1,500 to 5,000 square feet of therapy space, with further development planned.

Accident Injury Management Clinics Inc. (AIM), through 16 clinics in Ontario, is meeting the needs of a relatively new and growing market in Canada: rehabilitative therapy services for individuals injured in automobile and work-related accidents, or involved with disability



*A therapeutic recreation specialist conducts an exercise class for residents requiring subacute care.*

claims. Revenue relating to rehabilitative services is generated from individuals and insurance and is not part of the government health plan.

## **Institutional Pharmacy**

Institutional pharmacy services include unit-dose medication distribution, computerized patient documentation, full-service consulting and on-call service to more than 31,000 beds in nursing centres, assisted living centres, and other health care institutions. Each of the 11 regional pharmaceutical service locations in eight states is staffed with licensed, registered pharmacists, and quality control staff who ensure maximum efficiency and compliance with regulations.

## Medical Supplies and Services

The UPC Health Network also distributes durable medical equipment and supplies, and provides a wide range of products and services such as intravenous therapy products, respiratory, oxygen and enteral therapies to individuals in hospitals, long-term care facilities and in their own homes.

*A UPC Health Network Pharmacy Technician uses the unit-dose distribution system to provide a one-month supply of medication as prescribed by a physician to a Network customer.*



“Fourteen years ago, I applied at Meadowcrest as a nurse’s aide. That’s when I found myself. I can’t say my job is easy because it definitely isn’t. But it has become easier when I know my residents have eaten, they’re clean, their hair has been combed, they’re neatly dressed and comfortable. Also, my job is easier when their family members are pleased. I go home after my eight hours tired, but with a peaceful mind, ready to return the next day because I know I have done my very best at what I love to do. I feel that God is pleased with me as I use the tools He has given me: a caring heart, two feet to get a glass of water or a sweater, eyes to be aware of any type of need, and a mouth to speak a kind word.”

*Loretta Warren*  
Certified Nursing Assistant  
Meadowcrest Nursing Center  
Bethel Park, Pennsylvania

## **“I am a housekeeper.**

The residents tell me their problems or something that happened in the past. What they really need is for someone to listen to them.

Since I am in their room cleaning, I listen – which is always important. I do small things like watering plants and running errands. I know the residents appreciate it by the smile on their face. Their quality of life is in our hands.”

*Glenda Dawson*  
Housekeeping Aide  
Extendicare/Scottish  
Calgary, Alberta

## **“It doesn’t matter**

if we are doing ambulation, applying splints to limbs or assisting residents in the special feeding program – there is a sense of accomplishment at the end of a work day. I strive to gain the residents’ cooperation, respect and confidence.

The challenge of working with the elderly is so fulfilling.

They are always eager to improve their condition.

A caring touch and a smile open the door of the heart to the spirit. When we’re involved with and caring about each other, the healing is already taking place.”

*Carol Moore*  
Restorative Aide  
Puget Sound Healthcare Center  
Olympia, Washington

## **HOME CARE SERVICES**

Through Para-Med Health Services, Extendicare is the largest private-sector provider of home care services in Canada, delivering more than five million hours of care and support services to clients of all ages in 45 branches located in Alberta, British Columbia and Ontario.

Para-Med’s professional and para-professional staff are skilled in providing complex nursing care, occupational and physiotherapy, speech-language pathology, and home support.

Para-Med is also active in organizing community programs, such as respite care, support for disabled children in schools, and immunization clinics. In 1996, Para-Med launched a joint venture with Canada’s largest drug store chain to annually immunize healthy adults against influenza.

*A registered nurse monitors her client’s blood pressure in the privacy and comfort of his own home.*





## GROUP PURCHASING SERVICES

In the United States and Canada, Extendicare provides cost-effective purchasing services of food, supplies and capital equipment to its own facilities and non-affiliated long-term care providers. These services — which are provided through individual facility contracts — allow facilities to choose a combination of local and national vendors and benefit from the negotiated savings which result from high-volume usage.



“I’m a nurse who monitors children while they sleep. In this beautiful non-action, action can quickly occur as these kids are “trach kids” who are fed through G-tubes. The biggest difference I make is for my patients: keeping airways open, combating infections, and giving the upper edge on thriving. This is an awesome responsibility, but also an opportunity I wouldn’t trade. Another difference I make is for these kids’ primary caregivers. I allow parents to sleep and become refreshed for their “tomorrows.” Even though I’ve seen yawns stifled in the morning, I know that my being there offers peace of mind and enough sleep to carry on. Hope and love make remarkable differences, and are things I desire to freely give, as I have freely received them both. It’s good to be alive to make a difference!”

*Cheryl Robinson*  
Licensed Practical Nurse  
Para-Med Health Services  
Calgary, Alberta

## CROWN LIFE

Now in its 97th year of operation, Crown Life Insurance Company operates in North American and selected international markets. The company provides life insurance, health insurance and pension programs to individuals and groups, and reinsurance services to other insurance companies.

Extendicare has a 32.2 percent ownership interest in Crown Life. Based in Regina, Saskatchewan, Crown Life serves its customers from sales and service offices in Canada, the United States, the Atlantic and Caribbean islands, Hong Kong and Macau.

Crown Life's operating results for 1996 reflected an increase in net income for the fifth consecutive year, together with growth in premium revenue across the company's operations. Total revenue in 1996 was \$1.3 billion, and assets under management at December 31, 1996, were \$6.6 billion. Extendicare's share of Crown Life earnings was \$9.8 million for 1996 compared with \$9.5 million for 1995.

Crown Life currently has two priorities: business growth and systems renewal. Business volumes increased six percent in 1996, and were 15 percent higher in Canadian and reinsurance operations. Expenditures for systems renewal, which totalled \$15 million in 1996, are intended to reduce long-term operating costs, provide easier service for customers, and allow for faster product development. In recognition of the company's progress, four rating agencies raised their credit ratings for Crown Life in 1996.

## MANAGEMENT DISCUSSION AND ANALYSIS

In the United States, the Corporation's wholly owned subsidiary, United Health, Inc. (United Health), operates long-term care facilities in 13 states under the trade name Unicare. United Health provides inpatient routine nursing care and medical specialty services on an inpatient and outpatient basis as well as to non-affiliated nursing centres and home-bound individuals. Medical specialty services are primarily comprised of rehabilitative and subacute care, pharmaceutical products and services, and medical supplies and services.

In Canada, the Corporation's wholly owned subsidiary, Extendicare (Canada) Inc., operates nursing and retirement centres in five provinces. It is a major provider of home health care in three provinces through its Para-Med Health Services (Para-Med) division and, through Accident Injury Management Clinics Inc. (AIM), Extendicare provides rehabilitative services in Ontario. The Corporation also manages two hospitals in two provinces.

In the United Kingdom, the Corporation's wholly owned subsidiary, Extendicare (U.K.) Limited, operates 15 long-term care facilities and a private hospital.

At December 31, 1996, Extendicare operated 263 facilities (1995 - 252) with capacity to care for 27,029 residents (1995 - 26,682). Reference is made to the table on page 7 which details the facilities and resident capacity by area. With the exception of Ontario, Canada, and Pennsylvania, United States, in which the Corporation operates 34 and 31 facilities, respectively, no more than 10 percent of the Corporation's facilities are located in any one province or state. Nursing and assisted living facilities are located in groups within geographic proximity to each other, thereby allowing for regional development of ancillary businesses, cost-effective management control and reduced travel costs.

## Significant Events in 1996 and 1995

### Acquisitions

The Corporation invested \$32.6 million in 1996 for the acquisition in the United States of four nursing centres, including two previously leased, and the operating assets of an institutional pharmacy. The two newly acquired facilities increased resident capacity by 441.

The Corporation invested \$38.1 million in 1995 for the following acquisitions: in the United States, five nursing centres, including three previously leased, and a 60 percent partnership interest in an institutional pharmacy in Florida; in the United Kingdom, four nursing centres; and in Canada, a 51 percent interest in AIM, an Ontario-based rehabilitative therapy business. The six newly acquired facilities increased resident capacity by 422.

### Dispositions

The Corporation realized proceeds of \$12.8 million during 1996 on the sale of one Canadian nursing centre and three United States nursing centres. In addition, the Corporation ceased operation of one facility on expiry of the lease. No significant gain or loss was realized upon the disposal of these facilities, which reduced resident capacity by 709.

## Construction

During 1996, the Corporation completed construction of and opened six assisted living centres and three nursing centre additions in the United States, and two nursing centres in the United Kingdom. These activities increased resident capacity by 433. In addition, through construction and conversion of space, the Corporation added 18 expanded therapy units in the United States.

At December 31, 1996, the Corporation had commenced construction of eight assisted living facilities, one nursing centre, three nursing centre additions, four therapy unit additions and one assisted living centre addition in the United States. In addition, construction commenced on a nursing centre addition in the United Kingdom. These projects will be completed in 1997, and will increase resident capacity by 579.

During 1995, the Corporation completed construction of and opened five assisted living centres, one nursing centre, two nursing centre additions and 17 therapy unit additions in the United States, and two nursing centre additions in the United Kingdom. These activities increased resident capacity by 344.

## Share Capital Transactions

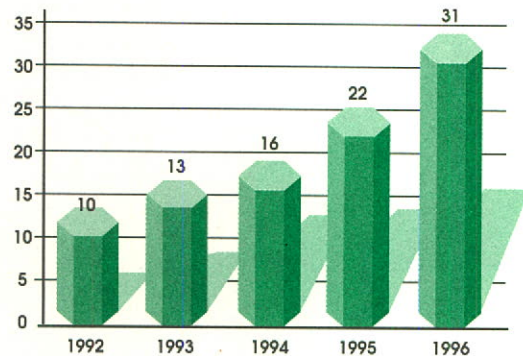
Shareholders in April 1996 approved the splitting of the Corporation's Common Shares on a two-for-one basis, the subsequent exchange of one Common Share for one Multiple Voting Share (entitled to 10 votes per share), and the exchange of one Non-voting Class A Share for one Subordinate Voting Share (entitled to one vote per share).

In May 1996, the Corporation raised \$69.7 million through the issue of 4,250,000 Subordinate Voting Shares at \$16.40 per share, registered its Subordinate Voting Shares with the United States Securities Exchange Commission, and listed its Subordinate Voting Shares on the New York Stock Exchange. Proceeds from the share issue were used to repay \$5.2 million of debt with the remainder held for investment in health care operations.

In December 1996, the Corporation redeemed all of the 1,017,332 outstanding Class I Preferred Shares, Series I at \$25 per share. The redemption and cancellation of these shares has reduced annual dividend requirements by \$2.0 million.

The Corporation successfully completed in 1995 offers to purchase Class II Preferred Shares and Class I Preferred Shares, Series 2, 3 and 4, for Subordinate Voting Shares, resulting in the cancellation of 76 percent of such shares outstanding, and the issue of 5,768,288 Subordinate Voting Shares. Based on a prime rate of 4.75 percent, these buybacks reduced annual dividend requirements by \$3.1 million.

U.S. Assisted Living Centres



## Other

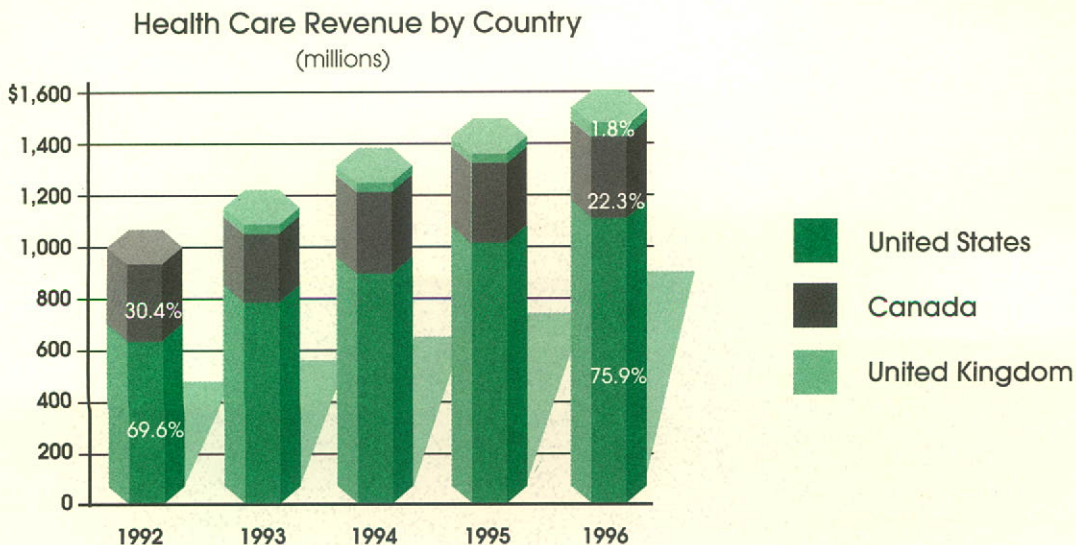
In the second quarter of 1996, the Corporation realized a gain of \$4.9 million on the sale of surplus real estate.

In the first quarter of 1995, the Corporation realized a gain of \$3.1 million as a result of the early payment of a non-interest bearing note receivable due April 30, 1996.

## Results of Operations

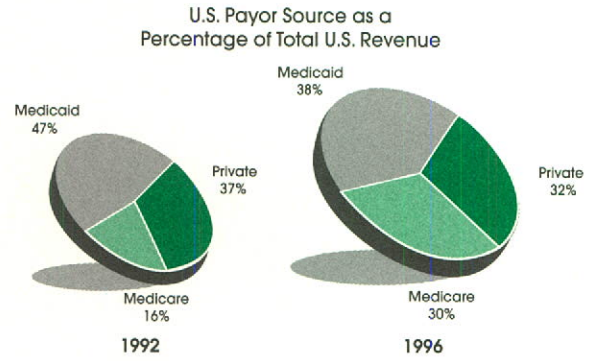
The following table sets forth details of revenue and earnings as a percentage of total revenue:

	Year ended December 31		
	1996	1995	1994
	(percent)		
Revenue			
Nursing and assisted living centres			
United States	48.4	49.8	51.7
Canada	15.3	16.4	17.9
United Kingdom	1.8	1.6	1.3
	<u>65.5</u>	<u>67.8</u>	<u>70.9</u>
Medical specialty - United States	26.6	24.1	20.7
Home care services - Canada	6.9	6.9	7.4
Other	1.0	1.2	1.0
	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
Operating and administrative costs	<u>86.6</u>	<u>87.4</u>	<u>88.0</u>
Earnings before lease costs, depreciation, interest and income taxes	13.4	12.6	12.0
Property costs	4.3	4.2	4.3
Interest, net	2.7	2.6	2.7
Earnings from operations	<u>6.4</u>	<u>5.8</u>	<u>5.0</u>



In the United States, the Corporation receives payment for its services and products from federal (Medicare) and state (Medicaid) funded cost reimbursement programs, as well as from private payors. The private-pay classification includes payments from individuals, commercial insurers, health maintenance organizations, and other fee-based payment sources, including Blue Cross associations and the Veteran's Administration. The following table sets forth the Corporation's private pay, Medicare and Medicaid sources of revenue by percent of total United States revenue:

	<b>Year ended December 31</b>		
	<b>1996</b>	<b>1995</b>	<b>1994</b>
		(percent)	
Private pay	<b>32</b>	33	35
Medicare	<b>30</b>	26	22
Medicaid	<b>38</b>	41	43



The Corporation's average occupancy level for 1996 was 90.8 percent compared with 91.4 percent in 1995.

The majority of the Corporation's operations are in the United States (75.9 percent of revenue). The average annual exchange rate used to translate the results of the United States operations to Canadian dollars was: 1.3635 for 1996; 1.3723 for 1995; and 1.3659 for 1994.

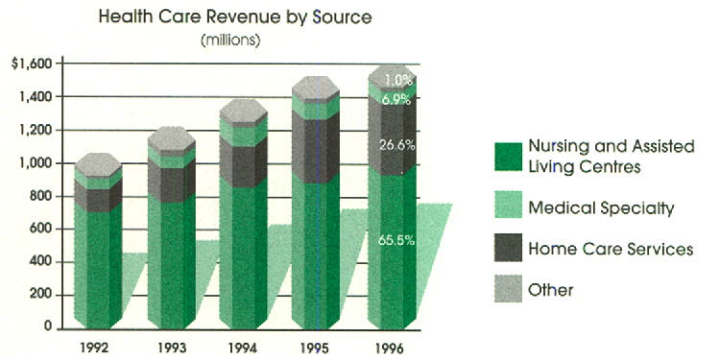
### Year ended December 31, 1996, Compared to Year ended December 31, 1995

#### Revenue

Revenue for 1996 was \$1.49 billion, representing an increase of \$112.7 million (8.2 percent) from \$1.38 billion in 1995.

The Corporation's revenue from routine nursing centre care and assisted living centres represented 65.5 percent of total revenue for 1996. Revenue from these sources increased \$42.8 million (4.6 percent) to \$975.7 million from \$932.9 million in 1995. The increase by country is as follows:

	<b>Increase in 1996</b>	
	(\$ millions)	(percent)
Nursing and assisted living centres revenue		
United States	36.4	5.3
Canada	1.9	0.8
United Kingdom	4.5	20.5
	<b>42.8</b>	<b>4.6</b>



Of the \$36.4 million revenue increase in United States nursing and assisted living centres, \$24.0 million resulted from the acquisition and opening of newly constructed facilities, net of divestitures. The remaining increase in revenue of \$12.4 million was realized from facilities which the Corporation operated during each of 1996 and 1995 ("same-facility"). Same-facility revenue increased between years due to rate/case mix increases (\$25.1 million) and retroactive rate settlements (\$8.5 million), partially offset by a decline in occupancy (\$16.5 million) and the stronger Canadian dollar on translation (\$4.7 million). Earned patient days for same-facility operations declined 2.5 percent between years primarily due to the following factors:

- Certain of the Corporation's markets experienced the impact of alternative settings, such as assisted living centres or home care services, for previously longer-stay but less medically needy residents;
- A decline in occupancy in the state of Washington due to the state's efforts to find alternative sources of placement for nursing facility residents negatively impacted total occupancy by 1.3 percent; and
- Overall occupancy was also negatively impacted by a continuing higher proportion of residents requiring shorter stays as part of a rehabilitation condition. The shorter average length of stays creates higher turnover in facilities leaving gaps in occupied beds and the requirement for more intensive marketing.

The increase in United Kingdom nursing centre revenue of \$4.5 million relates primarily to the acquisition and construction of new facilities in 1996 and 1995.

Medical specialty revenue generated in the United States increased \$64.1 million in 1996 (19.3 percent). Included in this increase was \$7.5 million resulting from the acquisition of two institutional pharmacies, and \$8.5 million from the acquisition and construction of nursing centres, net of divestitures. The remaining increase in medical specialty revenue of \$48.1 million was due to the increase in the provision of therapy services, partially offset by the stronger Canadian dollar (\$2.6 million). Pharmacy operations serviced an average of 30,784 beds in nursing centres, assisted living centres and other health care institutions in 1996 compared with 27,745 in 1995.

Home care revenue includes the operations of Para-Med home care services and AIM rehabilitative therapy services. Revenue from these operations increased \$8.9 million or 9.4 percent. The acquisition of AIM in 1995 contributed \$3.0 million to the increase with the remaining \$5.9 million increase being derived from Para-Med due to rate increases and increased hours of service. In 1996, Para-Med provided 5.1 million hours of service compared with 5.0 million in 1995.

Other revenue, comprised primarily from group purchasing services and income on investments held for self-insured liabilities, declined \$3.0 million. This decline was due primarily to the subcontracting of part of the group purchasing services and is offset by savings in operating costs.

### Operating and Administrative Costs

Operating and administrative costs increased \$87.1 million, or 7.2 percent, which was less than the expansion of the Corporation's revenue base. Acquisitions and construction of facilities, net of divestitures, in 1996 and 1995, resulted in increased operating and administrative costs between years of approximately \$40.4 million. The stronger Canadian dollar resulted in lower year-over-year operating and administrative costs of \$6.6 million.

Operating and administrative costs from same-facility operations increased approximately \$53.3 million of which wage-related expenses amounted to approximately \$27.4 million and other costs amounted to \$25.9 million.

### Earnings before Lease Costs, Depreciation, Interest and Income Taxes

The resulting earnings before lease costs, depreciation, interest and income taxes of \$199.2 million represents a 14.7 percent increase over \$173.6 million in 1995. These earnings as a percent of revenue increased to 13.4 percent from 12.6 percent in the prior year.

### Property Costs

Property costs, representing lease costs, depreciation and amortization charges of \$64.5 million increased \$6.3 million over 1995 as a result of depreciation on capital expenditures.

### Interest

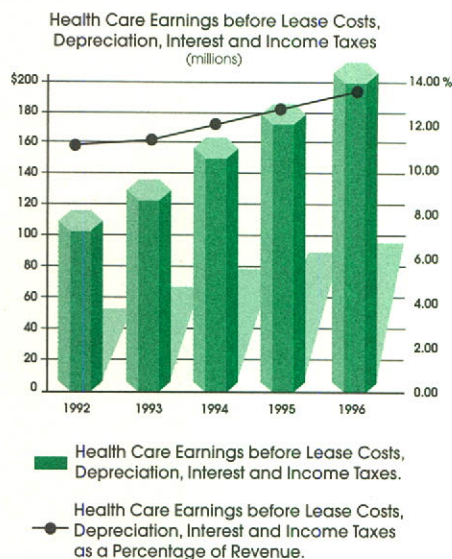
Interest expense increased to \$39.4 million in 1996 from \$36.1 million in 1995, primarily as a result of higher debt levels due to the acquisition of facilities, partially offset by lower borrowing rates and increased short-term investments as a result of the May 1996 share issue.

### Start-up Costs

The Corporation absorbed pre-tax start-up costs associated with newly constructed facilities and new services in 1996 of approximately \$3.6 million compared with \$2.0 million in 1995.

### Income Taxes

Income taxes for 1996 increased to \$28.2 million from \$22.0 million in 1995 primarily as a result of the increase in income from United States operations, which are fully taxable, and the discontinuance of the jobs tax credit program. The Corporation does not currently pay income taxes in Canada due to the availability of prior years' loss carryforwards.





### Life Insurance

The Corporation has a 32.2 percent ownership interest in Crown Life Insurance Company (19.3 percent fully diluted). Crown Life offers a full range of life and health insurance and pension programs to individuals and groups and provides reinsurance services to other insurance companies.

The Corporation's share of Crown Life earnings for 1996 was \$9.8 million compared with \$9.5 million in 1995.

Crown Life shareholders' income, after preferred share dividends, was \$30.3 million in 1996 compared with \$29.4 million in 1995. Improvements were realized due to higher premium revenue and reduced expenses, partially offset by lower investment income due to a lower base of invested assets.

### Net Earnings

Net earnings for the year were \$81.2 million compared with \$69.9 million in 1995, an increase of 16.2 percent. Results for 1996 and 1995 include gains on disposal of other assets of \$4.9 million and \$3.1 million, respectively. After deducting preferred share dividends, earnings per share were \$1.06 compared with \$0.94 for the same period in 1995.

## Year ended December 31, 1995, Compared to Year ended December 31, 1994

### Revenue

Revenue for 1995 was \$1.38 billion, representing an increase of \$131.2 million (10.5 percent) from \$1.24 billion in 1994.

The Corporation's revenue from routine nursing centre care and assisted living centres represented 67.8 percent of total revenue for 1995. Revenue from these sources increased \$50.7 million (5.7 percent) to \$932.9 million from \$882.2 million in 1995. The increase by country is as follows:

	Increase in 1995	
	(\$ millions)	(percent)
Nursing and assisted living centres revenue		
United States	41.7	6.5
Canada	3.6	1.6
United Kingdom	5.4	32.4
	<u>50.7</u>	<u>5.7</u>

Of the \$41.7 million revenue increase in United States nursing and assisted living centres, \$12.0 million resulted from the acquisition and opening of newly constructed facilities, net of divestitures. The remaining increase in revenue of \$29.7 million was realized from facilities which the Corporation operated during each of 1995 and 1994. Same-facility revenue increased between years due to rate/case mix increases (\$43.4 million) and the stronger U.S. dollar on translation (\$3.2 million), partially offset by a decline in occupancy (\$16.9 million). Earned patient days for same-facility operations declined 2.6 percent between years primarily due to the following factors: an increase in the number of residents requiring shorter stays as part of a subacute care rehabilitation condition; the effects of the start-up process associated with newly constructed bed additions; and the impact of alternative resident settings (assisted living centres, hospitals and home health care).

Canadian nursing centre revenue increased 1.6 percent primarily due to increased rates.

United Kingdom revenue increased \$5.4 million to \$22.0 million in 1995. Acquisitions in 1995 and 1994 increased revenue by \$4.8 million. Same-facility revenue accounted for the remaining \$0.6 million increase, primarily due to improved average occupancy levels to 89.6 percent in 1995 from 86.1 percent in 1994. The total average occupancy levels for all owned nursing facilities decreased in 1995 to 82.6 percent compared with 85.3 percent in 1994. This decline was primarily due to the start-up process associated with the construction of two additions and one newly opened facility in 1995. Delays in admissions as a result of local authorities managing their spending also contributed to the decline in occupancy levels.

Medical specialty revenue generated in the United States increased \$74.9 million in 1995 (29.1 percent). Included in this increase was \$8.2 million from the acquisition and opening of newly constructed nursing facilities, net of divestitures, and \$5.2 million resulting from an investment in an institutional pharmacy partnership and acquisition of a respiratory therapy business. The remaining increase in medical specialty revenue of \$61.5 million was due primarily to the increase in the provision of therapy services. During 1995 and 1994, the Corporation completed construction of 22 therapy unit additions. In addition, pharmacy operations serviced on average 27,745 beds in nursing centres, assisted living centres and other health care institutions in 1995 compared with 25,000 in 1994.

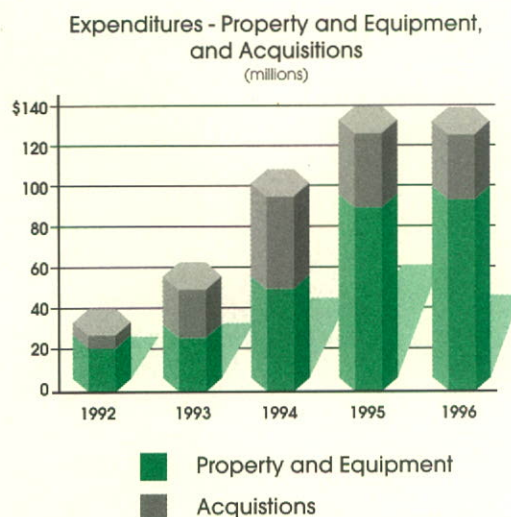
Home care revenue increased \$1.9 million, or 2.1 percent, primarily due to increased hours of service to 5.0 million in 1995 from 4.9 million in 1994.

The increase in other revenue of \$3.6 million was primarily due to increased investment income earned on investments held for self-insured liabilities.

### Operating and Administrative Costs

Operating and administrative costs increased \$107.2 million, or 9.8 percent, which was less than the expansion of the Corporation's revenue base. Acquisitions and construction of facilities, net of divestitures, in 1995 and 1994, resulted in increased operating and administrative costs of approximately \$21.6 million. The stronger U.S. dollar resulted in higher year-over-year operating and administrative costs of approximately \$4.2 million.

Operating and administrative costs from same-facility operations increased approximately \$81.4 million of which wage-related expenses amounted to approximately \$32.6 million and other costs amounted to \$48.4 million.



### Earnings before Lease Costs, Depreciation, Interest and Income Taxes

The resulting earnings before lease costs, depreciation, interest and income taxes of \$173.6 million represents a 16.0 percent increase over \$149.6 million in 1994. These earnings as a percent of revenue increased to 12.6 percent from 12.0 percent in 1994, largely as a result of expansion of subacute care and rehabilitative therapy services, and pharmacy operations as referred to above.

### Property Costs

Property costs, representing lease costs, depreciation and amortization charges, increased \$4.2 million over 1994 as a result of depreciation on capital expenditures.

### Interest

Interest expense increased to \$36.1 million in 1995 from \$33.4 million in 1994, primarily as a result of higher debt levels due to the acquisition of facilities.

### Start-up Costs

The Corporation absorbed pre-tax start-up costs associated with newly constructed facilities and new services in 1995 of approximately \$2.0 million. The impact of these activities in 1994 was not significant.

### **Income Taxes**

Income taxes for 1995 increased to \$22.0 million from \$17.0 million in 1994 primarily as a result of increased pre-tax earnings.

### **Life Insurance**

The Corporation's 32.2 percent share of Crown Life earnings for 1995 was \$9.5 million compared with \$8.7 million in 1994.

Crown Life shareholders' income, after preferred share dividends, was \$29.4 million in 1995 compared with \$27.0 million in 1994. The improvement resulted from improved mortality experience and generally improved operating results across all business lines. These improvements were partially offset by provisions for replacement of computer systems.

### **Net Earnings**

Net earnings for the year were \$69.9 million compared with \$54.5 million in 1994, an increase of 28.4 percent. Results for 1995 include a gain on disposal of other assets of \$3.1 million. After deducting preferred share dividends, earnings per share were \$0.94 compared with \$0.73 for the same period in 1994.

## **Financial Position and Cash Flow**

### **Assets**

Total assets increased by \$138.7 million to \$1,302.2 million at December 31, 1996, from \$1,163.5 million at December 31, 1995. Fluctuations in foreign currency translation resulted in a year-over-year increase in total assets of \$12.5 million.

The following describes the changes in the Corporation's assets and liabilities and their related cash flow impact on the statements of changes in financial position:

### **Property and Equipment**

Property and equipment increased \$74.9 million to \$718.9 million from \$644.0 million in 1995 as a result of:

- acquisitions (\$31.9 million);
- capital expenditures (\$92.9 million); and
- the stronger U.S. dollar (\$10.3 million);

partially offset by depreciation expense recorded in the year (\$46.4 million) and nursing centre and miscellaneous asset sales (\$13.8 million).

Property and equipment capital expenditures during 1996 totalling \$92.9 million were comprised of approximately \$61.0 million related to the construction of facilities, bed additions, therapy unit additions and other major renovation projects. In the United States, the Corporation completed construction of and opened six assisted living facilities and three nursing centre additions, and added 18 expanded therapy units through construction and conversion of space. Construction commenced on eight assisted living facilities, one nursing centre, three nursing centre additions, four therapy unit additions and one assisted living centre addition, for completion in 1997. In the United Kingdom, the Corporation completed construction of two nursing centres, and commenced construction of a nursing centre addition for completion in 1997. Routine capital expenditures were approximately \$31.9 million, representing required periodic capital improvements and routine replacement of capital items.

Property and equipment capital expenditures during 1995 totalling \$88.2 million were comprised of approximately \$48.0 million related to the construction of facilities, bed additions, therapy unit additions and other major renovation projects. In the United States, the Corporation completed construction of and opened five assisted living facilities, one nursing facility, two nursing centre additions, and 17 therapy unit additions. In the United Kingdom, construction was completed on two nursing centre additions. Routine capital expenditures were approximately \$40.2 million, representing required periodic capital improvements and routine replacement of capital items.

### **Other Assets**

Other assets decreased \$7.5 million to \$129.5 million from \$137.0 million primarily due to a decline in investments held for self-insured liabilities as a result of a decline in required accruals for self-insured liabilities.

The Corporation insures a portion of its general liability and workers' compensation risks related to its United States health care operations through its wholly owned insurance subsidiaries. Funds have been invested to support self-insured liabilities and, as such, these funds are not available for operations. At December 31, 1996, the investments held for self-insured liabilities amounted to \$86.7 million compared with \$95.0 million at December 31, 1995. The investments support actuarial liabilities and meet regulatory capital requirements.

### **Investment in Crown Life**

The Corporation's investment in Crown Life, which is accounted for on an equity basis, increased to \$113.0 million at December 31, 1996, from \$101.7 million at December 31, 1995.

On July 31, 1995, Crown Life issued \$75.0 million of Series A Debentures and \$75.0 million of Series B Debentures which mature on July 31, 2094, and July 31, 2030, respectively. The debentures are convertible at the option of the holders into common shares of Crown Life at a price of \$65.00 per share until July 31, 2005. Conversion of all of the debentures at December 31, 1996, would dilute the Corporation's equity in Crown Life to 19.3 percent and its equity carrying value therein to \$96.7 million.

## **Non-current Liabilities**

Non-current liabilities, including the portion due within one year, increased to \$524.4 million at December 31, 1996, from \$481.8 million at the beginning of the year. Debt levels increased primarily to finance acquisitions and construction projects. The weighted average interest rate of all non-current liabilities at December 31, 1996, was approximately 8.0 percent. Non-current liabilities, net of short-term investments and notes and mortgages receivable, amounted to \$433.2 million, of which \$10.5 million was subject to floating rates.

The Corporation has bank lines of credit which may be drawn in Canadian or United States dollars, consisting of an operating line of Cdn\$25.0 million for general corporate purposes and a revolving term line of credit of Cdn\$50.0 million for the acquisition of health care assets. This line has a term to February 1999. At December 31, 1996, the Corporation did not have an amount drawn on this bank line of credit.

The Corporation issued in 1996 an \$11.2 million mortgage at 8.3 percent, due 2006, and US\$40.0 million of mortgage notes, at 7.67 percent. Principal payments on the United States mortgage notes are due over 12 years based on amortization over 20 years. The proceeds from the mortgages were used to repay bank loans.

United Health has bank lines of credit totalling US\$75.0 million. During 1996, the agreement was extended to April 30, 1999. The line provides for the conversion of up to US\$50.0 million to term loans repayable over five years. Borrowing availability under these lines of credit at December 31, 1996, amounted to US\$46.2 million.

During 1995, United Health issued US\$40.0 million of mortgage notes having maturities ranging from seven to 15 years at rates of 7.43 percent on US\$18.0 million and 7.63 percent on US\$22.0 million, the proceeds of which were used to repay bank loans.

Extendicare (U.K.) Limited has bank lines of credit totalling £15.0 million for the purposes of funding acquisitions and construction, and has a £350,000 short-term operating line. At December 31, 1996, £1.1 million was available under these facilities.

Certain debt agreements of United Health include covenants with respect to the payment of dividends and reduction of capital. As at December 31, 1996, US\$42.7 million could be distributed.

## Shareholders' Equity

	<b>At December 31</b>		
	<u>1996</u>	<u>1995</u>	<u>1994</u>
		(\$ millions)	
Shareholders' equity			
Preferred equity	<b>23.5</b>	49.5	121.2
Common equity	<b>435.1</b>	282.6	151.8
	<u><b>458.6</b></u>	<u>332.1</u>	<u>273.0</u>

The stated value of preferred share capital has declined to \$23.5 million at December 31, 1996. Details of share transactions are provided in Note 6 to the Consolidated Financial Statements. As a result of the reduction in preferred shares over the past three years, the Corporation's annual preferred share dividend requirements have been reduced by \$5.4 million to \$1.0 million, based on a current prime rate of 4.75 percent. A portion of the Corporation's preferred dividend requirements vary with the Canadian prime interest rate. A one percent fluctuation in interest rates will affect the annual amount of preferred share dividends by \$170,000.

Common shareholders' equity has increased to \$435.1 million at December 31, 1996. Extencicare issued 4,250,000 of Subordinate Voting Shares in 1996 for \$69.7 million. During 1995, the Corporation issued Subordinate Voting Shares with a stated value of \$78.8 million in consideration for the purchase of preferred shares. Details of these transactions are provided in Note 6 to the Consolidated Financial Statements. Earnings in each of the three years further increased common shareholders' equity, partially offset by preferred share dividends and share issue and reorganization costs.

## Liquidity and Capital Resources

The Corporation had cash and short-term investments, net of short-term indebtedness, at December 31, 1996, of \$73.8 million, and net working capital, excluding cash, of \$16.4 million.

Cash flow generated from continuing operations before working capital changes was \$111.4 million in 1996 compared with \$110.8 million in 1995 and \$92.7 million in 1994 as a result of the improvement in operating earnings. The Corporation experienced an increase in operating working capital, excluding cash, of \$14.9 million, \$14.0 million and \$24.1 million in 1996, 1995 and 1994, respectively. The Corporation has been experiencing growth in both receivables and payables as operations expand.

Crown Life operates under the Insurance Companies Act which outlines provisions with respect to the corporate governance of life insurance companies, including distribution of capital and retained earnings. The Corporation does not anticipate receiving dividends from Crown Life in the near future.

The current level of cash flow and available bank lines of credit are sufficient to support ongoing operations and capital expenditures, service debt obligations and pay preferred share dividends. There were approximately \$141.0 million of unused commitments under available bank lines of credit at December 31, 1996.

The Corporation's long-term debt as a percent of total debt and capital has improved to 53.3 percent at December 31, 1996, from 59.2 percent at December 31, 1995.

## Environment

The long-term care industry faces the challenge of providing superior-quality patient care services in an environment of rising costs, competition for residents, and fiscal pressures for reduction in the rate of growth of health care expenditures by both government and private-payor sources. In the United States, where 75.9 percent of the Corporation's revenue is generated, the health care industry as a whole faces increased uncertainty as a result of national, state and private industry efforts to reform health care delivery and payment systems. The Corporation is unable to predict whether any health care legislation at the federal or state level will be passed in the future, but it continues to monitor all proposed legislation and analyze its potential impact in order to formulate the Corporation's business strategies.



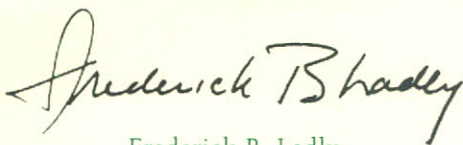
# MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Extendicare Inc. and other financial information contained in this annual report are the responsibility of management. The consolidated financial statements have been prepared in conformity with Canadian generally accepted accounting principles, using management's best estimates and judgements, where appropriate. In the opinion of management, these consolidated financial statements reflect fairly the financial position, results of operations and changes in financial position of the Corporation within reasonable limits of materiality. The financial information contained elsewhere in this annual report has been reviewed to ensure consistency with that in the consolidated financial statements.

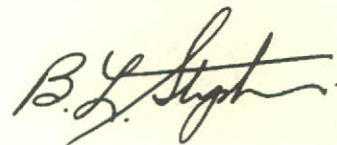
A system of internal accounting and administrative controls is maintained by management to provide reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition and that financial records are properly maintained to provide accurate and reliable financial statements.

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

These consolidated financial statements have been audited, in accordance with generally accepted auditing standards, by KPMG, Chartered Accountants, who were appointed by the shareholders. KPMG have full and unrestricted access to the Audit Committee to discuss their audit and their related findings as to the integrity of the Corporation's financial reporting. The Auditors' Report outlining the scope of their examination and their opinion on the consolidated financial statements is presented on page 48.



Frederick B. Ladly  
Chief Executive Officer  
and Deputy Chairman



Barry L. Stephens  
Vice-President, Finance,  
Chief Financial Officer  
and Secretary

February 14, 1997

# CONSOLIDATED BALANCE SHEETS

December 31

1996                      1995

(thousands of dollars)

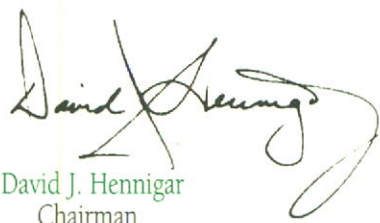
## Assets

Current assets		
Cash and short-term investments	89,425	50,007
Accounts receivable	225,142	201,099
Deferred income taxes	9,675	13,210
Inventories, supplies and prepaid expenses	16,587	16,488
	<u>340,829</u>	<u>280,804</u>
Property and equipment (note 3)	718,857	643,993
Other assets (note 4)	129,499	136,974
	<u>1,189,185</u>	<u>1,061,771</u>
Investment in Crown Life Insurance Company	112,973	101,726
	<u>1,302,158</u>	<u>1,163,497</u>

## Liabilities and Shareholders' Equity

Current liabilities		
Short-term indebtedness	15,577	44,723
Accounts payable and accrued liabilities	196,082	193,180
Non-current liabilities due within one year	38,873	18,817
	<u>250,532</u>	<u>256,720</u>
Accrual for self-insured liabilities	61,099	68,834
Non-current liabilities (note 5)	485,544	463,011
Deferred income taxes	44,975	41,818
Minority interests	1,396	1,056
	<u>843,546</u>	<u>831,439</u>
Shareholders' equity (note 6)	458,612	332,058
	<u>1,302,158</u>	<u>1,163,497</u>

## Approved by the Board



David J. Hennigar  
Chairman



Frederick B. Ladly  
Chief Executive Officer  
and Deputy Chairman

# CONSOLIDATED STATEMENTS OF EARNINGS

Year ended December 31

1996 1995 1994

(thousands of dollars except per share amounts)

## Revenue

Nursing and assisted living centres			
United States	721,143	684,795	643,143
Canada	227,938	226,054	222,406
United Kingdom	26,570	22,045	16,647
Medical specialty - United States	396,370	332,257	257,361
Home care services - Canada	102,939	94,080	92,137
Other	13,726	16,759	13,129
	<u>1,488,686</u>	<u>1,375,990</u>	<u>1,244,823</u>
<b>Operating and administrative costs</b>	<u>1,289,502</u>	<u>1,202,429</u>	<u>1,095,182</u>
<b>Earnings before lease costs, depreciation and interest</b>	<u>199,184</u>	<u>173,561</u>	<u>149,641</u>
<b>Other</b>			
Lease costs	16,305	16,053	15,400
Depreciation and amortization	48,148	42,126	38,590
Interest, net	39,445	36,061	33,410
Gain on sale of nursing centres			(478)
	<u>103,898</u>	<u>94,240</u>	<u>86,922</u>
<b>Earnings from operations</b>	<u>95,286</u>	<u>79,321</u>	<u>62,719</u>
Gain on disposal of other assets	4,950	3,121	
<b>Earnings before income taxes</b>	<u>100,236</u>	<u>82,442</u>	<u>62,719</u>
<b>Income taxes</b> (note 7)			
Current	21,828	18,964	14,153
Deferred	6,336	3,042	2,800
	<u>28,164</u>	<u>22,006</u>	<u>16,953</u>
Net earnings from health care before minority interests	<u>72,072</u>	<u>60,436</u>	<u>45,766</u>
Minority interests	<u>598</u>		
<b>Net earnings from health care</b>	<u>71,474</u>	<u>60,436</u>	<u>45,766</u>
<b>Share of earnings of Crown Life</b>	<u>9,767</u>	<u>9,480</u>	<u>8,704</u>
<b>Net earnings for the year</b>	<u>81,241</u>	<u>69,916</u>	<u>54,470</u>
<b>Earnings per share</b> (note 8)	<u>1.06</u>	<u>0.94</u>	<u>0.73</u>

# CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

	<b>Year ended December 31</b>		
	<u>1996</u>	<u>1995</u>	<u>1994</u>
	(thousands of dollars)		
<b>Cash provided by operations</b>			
Earnings	<b>81,241</b>	69,916	54,470
Items not involving cash			
Depreciation and amortization	<b>48,148</b>	42,126	38,590
Increase (decrease) in accrual for self-insured liabilities	<b>(8,024)</b>	7,908	9,266
Deferred income taxes and other items	<b>4,707</b>	3,439	(914)
Undistributed share of earnings of Crown Life	<b>(9,767)</b>	(9,480)	(8,704)
Gain on disposal of other assets	<b>(4,950)</b>	(3,121)	
	<b><u>111,355</u></b>	<u>110,788</u>	<u>92,708</u>
Net change in operating working capital, excluding cash (note 9)	<b><u>(14,888)</u></b>	<u>(13,997)</u>	<u>(24,101)</u>
	<b><u>96,467</u></b>	<u>96,791</u>	<u>68,607</u>
<b>Cash provided by (used in) investment activities</b>			
Property and equipment	<b>(92,917)</b>	(88,194)	(51,970)
Acquisitions	<b>(32,593)</b>	(38,148)	(46,597)
Nursing centre sale proceeds	<b>12,759</b>		5,716
Other assets	<b>3,767</b>	9,639	9,485
	<b><u>(108,984)</u></b>	<u>(116,703)</u>	<u>(83,366)</u>
<b>Cash provided by (used in) financing activities</b>			
Issue of non-current liabilities	<b>66,679</b>	77,184	38,868
Repayment of non-current liabilities	<b>(28,959)</b>	(49,946)	(20,701)
Decrease (increase) in investments held for self-insured liabilities	<b>8,754</b>	(17,650)	(25,148)
Preferred share dividends	<b>(3,603)</b>	(7,033)	(7,969)
Purchase of preferred shares for cancellation	<b>(25,463)</b>	(74,160)	(4,207)
Issue of Subordinate Voting Shares	<b>70,549</b>	78,831	1,052
Other	<b>(6,876)</b>	(3,254)	2,229
	<b><u>81,081</u></b>	<u>3,972</u>	<u>(15,876)</u>
<b>Increase (decrease) in cash</b>	<b>68,564</b>	(15,940)	(30,635)
Cash at beginning of year	<b>5,284</b>	21,224	51,859
<b>Cash at end of year</b>	<b><u>73,848</u></b>	<u>5,284</u>	<u>21,224</u>

Cash is represented by cash and short-term investments net of short-term indebtedness.

# CONSOLIDATED STATEMENTS OF RETAINED EARNINGS (DEFICIT)

	Year ended December 31		
	1996	1995	1994
		(thousands of dollars)	
<b>Retained earnings (deficit) at beginning of year</b>	<u>4,363</u>	<u>(60,942)</u>	<u>(108,270)</u>
Add			
Net earnings for the year	81,241	69,916	54,470
Transfer from contributed surplus (note 6)	496	10,743	1,627
	<u>81,737</u>	<u>80,659</u>	<u>56,097</u>
	<u>86,100</u>	<u>19,717</u>	<u>(52,173)</u>
Deduct			
Preferred share dividends	2,985	6,203	7,916
Share issue and reorganization costs	4,451		
Cost of Class II Preferred Shares, Series 1 purchased and cancelled in excess of book value		8,518	
Preferred share acquisition costs		633	
Share of Crown Life capital restructuring costs			853
	<u>7,436</u>	<u>15,354</u>	<u>8,769</u>
<b>Retained earnings (deficit) at end of year</b> (note 6)	<u>78,664</u>	<u>4,363</u>	<u>(60,942)</u>

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 1996, 1995 and 1994

## **1. Summary of Accounting Policies**

The significant accounting policies of Extencicare Inc. and its subsidiary companies are set out below. These policies are in accordance with Canadian generally accepted accounting principles applied on a consistent basis.

### *(A) Principles of Consolidation*

The consolidated financial statements include those of the Corporation and its subsidiaries. Health care operations are conducted through wholly owned subsidiaries United Health, Inc. in the United States, Extencicare (Canada) Inc. in Canada, and Extencicare (U.K.) Limited in the United Kingdom, and their respective subsidiaries.

The equity method is used to account for the Corporation's 32.2% (19.3% fully diluted) ownership interest in Crown Life Insurance Company.

### *(B) Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

### *(C) Foreign Currency Translation*

Foreign operations and foreign currency denominated items are translated to Canadian dollars.

Revenues and expenses of self-sustaining foreign operations are translated at average rates of exchange in effect during the period. Assets and liabilities are translated at the exchange rates in effect at the balance sheet date. Unrealized exchange gains or losses arising on translation are deferred and included in shareholders' equity in the foreign currency translation adjustment account.

Other assets and liabilities denominated in foreign currencies are translated at the exchange rates in effect at the balance sheet date. Translation gains and losses are reflected in earnings in the period in which they arise except for gains and losses relating to non-current monetary items. Translation gains and losses relating to these items are deferred and amortized on a straight-line basis over the remaining life of the respective item.

### *(D) Short-term Investments*

Short-term investments, comprised of money market instruments, are stated at cost which approximates net realizable value.

### *(E) Property and Equipment*

Property and equipment is stated at cost less accumulated depreciation. Provisions for depreciation are computed by the straight-line method at rates based on the following estimated life expectancies:

Buildings	-	20 to 40 years;
Furniture and equipment	-	varying periods not exceeding 15 years;
Leasehold improvements	-	the shorter of the useful life of the improvements or the initial term of the lease; and, in certain cases, the initial term of the lease plus one renewal period, not to exceed 25 years.

*(F) Deferred charges*

Costs associated with obtaining financing are deferred and amortized over the life of the related debt. The costs of acquiring leasehold rights are deferred and amortized over the term of the lease including renewal options. Deferred charges are stated at cost less accumulated amortization.

*(G) Goodwill*

Goodwill, which is stated at cost less amortization, represents the cost of acquired net assets in excess of their fair market values. Amortization is computed using the straight-line method over periods not exceeding 40 years.

*(H) Investments Held and Accrual for Self-insured Liabilities*

The Corporation, for the purposes of gaining direct access to the reinsurance market and controlling the overall cost of insurance coverage, wholly owns two insurance subsidiaries. Laurier Indemnity Company and Laurier Indemnity Company, Ltd. provide workers' compensation as well as general and professional liability insurance coverage to the Corporation's U.S. subsidiary, United Health, Inc. The Corporation accrues for its self-insured liabilities on the basis of independent actuarial estimates which are determined annually. Through the insurance subsidiaries, the Corporation invests funds to support the accrual for self-insured liabilities. These funds are classified in other assets as investments held for self-insured liabilities.

*(I) Revenue*

Nursing centre revenue in the United States results from the payment for services and products from federal and state funded cost reimbursement programs as well as private-pay residents. The Corporation derived approximately 68%, 67% and 65% of its United States revenue in 1996, 1995 and 1994, respectively, from services provided under various federal (Medicare) and state (Medicaid) medical assistance programs. Reimbursement under these programs is made either on a prospective or retrospective basis subject to the determination of reasonable and reimbursable costs of providing such services. Such determinations of costs require interpretation of the various federal and state regulations and the application of cost-funding techniques and are subject to audit and adjustment by the respective programs. Provisions for estimated third-party payor settlements are provided in the period the related services are rendered and are adjusted, if necessary, as final settlements are determined.

The Corporation's cost of care for its United States Medicare patients sometimes exceeds regional reimbursement limits established by Medicare. The Corporation, as of December 31, 1996, had outstanding formal waiver requests for 35 cost reports covering applicable facility costs with respect to years prior to fiscal 1996. Action has not been taken yet by the Health Care Financing Administration (HCFA) on such requests. The Corporation anticipates that additional waiver requests will be filed with HCFA for selected facilities for 1996 once facility cost reports are subsequently prepared. The Corporation, as of December 31, 1996, has not recorded as revenue the excess amounts represented through the waiver requests due to not having received intermediary approval and limited experience with actual dollar amounts of such requests being subsequently approved and realized.

Adjustments relating to prior years' recorded revenue increased revenue in 1996, 1995 and 1994 by \$10,924,000, \$3,558,000 and \$676,000, respectively.

Accounts receivable at December 31, 1996 and 1995, include estimated settlements from United States third-party payors of \$43,797,000 and \$41,794,000, respectively.

In Canada, the fees charged by the Corporation for its nursing centres and home care services are regulated by provincial authorities. A substantial portion of these fees are funded by provincial programs.

In the United Kingdom, a substantial portion of the Corporation's fees are funded by government agencies, either directly to the Corporation, or through government assistance to residents. The fees paid by government agencies are based on care requirements and financial means assessments for each resident.

*(j) Income Taxes*

Deferred income taxes result from claiming depreciation and other items for tax purposes in amounts which differ from those recorded in the accounts.

**2. Acquisitions and Dispositions**

The following acquisitions have been accounted for by the purchase method and earnings have been included from the effective dates of acquisition. The net assets acquired are as follows:

	<u>1996</u>	<u>1995</u>	<u>1994</u>
		(thousands of dollars)	
Net non-cash assets acquired			
Working capital (deficiency), excluding cash	<b>271</b>	(6)	1,211
Property and equipment and other assets	<b>31,949</b>	36,384	47,327
Non-current liabilities assumed		(112)	(3,151)
Deferred income taxes		(52)	(3,683)
	<u><b>32,220</b></u>	<u>36,214</u>	<u>41,704</u>
Goodwill	<b>373</b>	1,934	4,893
Net non-cash assets acquired	<u><b>32,593</b></u>	<u>38,148</u>	<u>46,597</u>
Cash (indebtedness) acquired		(71)	3,650
Net assets acquired	<u><b>32,593</b></u>	<u>38,077</u>	<u>50,247</u>
Consideration given			
Cash	<b>32,593</b>	35,935	49,340
Subordinate Voting Shares		2,142	
Promissory notes			907
	<u><b>32,593</b></u>	<u>38,077</u>	<u>50,247</u>



During 1996, the Corporation acquired the property and equipment of four nursing centres (two previously leased) and the operating assets of an institutional pharmacy operation in the United States.

During 1995, the Corporation acquired the property and equipment of five nursing centres (three previously leased) in the United States and four nursing centres in the United Kingdom. The Corporation also acquired a 60% interest in York Hannover Partnership, an institutional pharmacy operation in Florida, United States, and a 51% interest in Accident Injury Management Clinics Inc. (AIM), a rehabilitative therapy business, in Ontario, Canada.

During 1994, the Corporation acquired the property and equipment of four nursing centres and an assisted living centre in the United States, and one nursing centre in the United Kingdom. The Corporation also acquired all of the issued and outstanding shares of a company engaged in operating five nursing centres in the United States. In addition, in the United States, the Corporation acquired the operating assets of a respiratory care services company.

During 1996, the Corporation sold surplus real estate in the United States resulting in a gain of \$4,950,000. In addition, the Corporation sold one Canadian nursing centre and three United States nursing centres, and ceased operation of one facility on expiry of the lease. No significant gain or loss was realized upon the disposal of the nursing centres.

### 3. Property and Equipment

	<u>1996</u>	<u>1995</u>
	(thousands of dollars)	
Land	<b>60,823</b>	53,189
Buildings	<b>742,016</b>	672,186
Furniture and equipment	<b>155,620</b>	135,009
Leasehold improvements	<b>25,558</b>	19,038
Construction in progress	<b>29,635</b>	26,247
	<b><u>1,013,652</u></b>	<u>905,669</u>
Accumulated depreciation and amortization	<b>294,795</b>	261,676
	<b><u>718,857</u></b>	<u>643,993</u>

The above includes \$655,000 (1995 - \$547,000) of net assets under capital leases.

### 4. Other Assets

	<u>1996</u>	<u>1995</u>
	(thousands of dollars)	
Investments held for self-insured liabilities	<b>86,685</b>	95,025
Notes and mortgages receivable	<b>22,957</b>	22,672
Deferred charges and goodwill	<b>19,857</b>	19,277
	<b><u>129,499</u></b>	<u>136,974</u>

## 5. Non-current Liabilities

	<u>1996</u>	<u>1995</u>
	(thousands of dollars)	
<i>Payable in Canadian Dollars</i>		
Mortgages		
7.86% to 10.25%, maturing through to 2013	<b>149,891</b>	140,170
At rates varying with prime, due 1997	<b>21,100</b>	21,100
Obligations under capital leases (note 11)	<b>70</b>	101
<i>Payable in United States Dollars</i>		
Bank loans and loans under bank lines of credit, at rates varying with prime and/or LIBOR, maturing through to 2004	<b>58,144</b>	69,364
Mortgages and Industrial Development Revenue Bonds		
4.155% to 10%, maturing through to 2014	<b>69,171</b>	70,597
At varying rates, due 2010	<b>4,387</b>	4,604
Notes payable		
6.91% to 10.75%, maturing through to 2013	<b>184,673</b>	142,455
At rates varying with prime and/or LIBOR, maturing through to 2004	<b>3,362</b>	3,908
Obligations under capital leases (note 11)	<b>183</b>	244
<i>Payable in Pounds Sterling</i>		
Bank loans, secured, due 2005		
At rates varying with prime	<b>33,436</b>	18,690
At rates varying with prime between 10.97% and 12.47%		10,595
	<b>524,417</b>	481,828
Less due within one year and included in current liabilities	<b>38,873</b>	18,817
	<b>485,544</b>	463,011

Substantially all United States dollar non-current liabilities, with the exception of bank loans totalling \$11,421,000 (1995 - \$34,099,000) and obligations under capital leases, are secured by mortgages or pledges with respect to certain nursing and assisted living centres in the United States.

The weighted average interest rate of all non-current liabilities at December 31, 1996, is approximately 8.0% (1995 - 8.6%).

United Health, Inc. has entered into an interest rate swap agreement with a bank which effectively changes the interest rate on US\$32,000,000 of floating rate Industrial Development Revenue Bonds due 2014 to a fixed rate of 4.155% during the period the swap agreement is in effect. The interest rate swap agreement took effect in April 1995 and matures in October 2000.

Principal payments on non-current liabilities due within the next five fiscal years, exclusive of those obligations under capital leases, after giving effect to renewal privileges, are as follows:

	(thousands of dollars)
1997	38,830
1998	41,758
1999	22,913
2000	19,985
2001	11,986

United States debt agreements include covenants with respect to the payment of dividends and reduction of capital by United Health, Inc. As at December 31, 1996, US\$42,700,000 could be distributed.

## 6. Shareholders' Equity

The authorized capital of the Corporation consists of an unlimited number of:

Class I preferred shares, issuable in series; Class II preferred shares, issuable in series; Subordinate Voting Shares; and Multiple Voting Shares, convertible on the basis of one Subordinate Voting Share for each Multiple Voting Share. All preferred shares are redeemable at the option of the Corporation.

Shareholders' equity is comprised as follows:

	1996		1995		1994	
	Number	Amount	Number	Amount	Number	Amount
			(thousands of dollars for amounts)			
Class I Preferred Shares						
Convertible, Series I			1,017,332	25,433	1,097,232	27,430
Cumulative Redeemable, Series 2	353,705	8,843	355,105	8,878	835,947	20,899
Adjustable Dividend, Series 3	165,243	4,131	185,278	4,632	579,211	14,480
Adjustable Dividend, Series 4	169,307	4,233	149,272	3,732	1,252,524	31,313
Class II Preferred Shares, Series 1	382,979	6,319	357,739	5,903	2,589,870	42,733
Subordinate Voting Shares	60,971,394	288,314	54,947,806	213,879	46,590,886	130,637
Multiple Voting Shares	14,024,734	34,897	15,579,972	38,767	17,348,204	43,167
1996 Warrants			55,972	923	89,457	1,476
		<u>346,737</u>		<u>302,147</u>		<u>312,135</u>
Retained earnings (deficit)		78,664		4,363		(60,942)
Foreign currency translation adjustment account		33,211		25,548		34,263
		<u>458,612</u>		<u>332,058</u>		<u>285,456</u>
Deduct cost of shares acquired and held by a related company						
Adjustable Dividend Preferred Shares, Series 4					178,000	2,545
Class II Preferred Shares, Series 1					770,600	9,890
						<u>12,435</u>
		<u>458,612</u>		<u>332,058</u>		<u>273,021</u>

The Convertible Preferred Shares, Series I were entitled to receive fixed cumulative preferential cash dividends at a rate of \$2.00 per annum. On December 23, 1996, the Corporation redeemed all of these outstanding shares.

The Cumulative Redeemable Preferred Shares, Series 2 are entitled to receive quarterly cumulative preferential cash dividends in an amount determined by applying \$25.00 to one-quarter of 71% of the average Canadian prime rate of interest for the quarter ended immediately before the relevant dividend payment date.

The Adjustable Dividend Preferred Shares, Series 3 are entitled to receive quarterly cumulative preferential cash dividends in an amount determined by applying \$25.00 to one-quarter of 72% of an interest rate to be determined every five years by reference to yields on selected Government of Canada bonds (which rate has been set at 4.92% for the period commencing February 16, 1996, and ending February 15, 2001; previously the rate was 7.35%). The Series 3 Preferred Shares are convertible into Adjustable Dividend Preferred Shares, Series 4 on a share-for-share basis on February 16, 2001, and on each fifth anniversary thereof.

The Adjustable Dividend Preferred Shares, Series 4 are entitled to receive quarterly cumulative preferential cash dividends in an amount determined by applying \$25.00 to one-quarter of 72% of the average Canadian prime rate of interest for the quarter ended immediately before the relevant dividend payment date. The Series 4 Preferred Shares are convertible into Series 3 Preferred Shares on a share-for-share basis on February 16, 2001, and on each fifth anniversary thereof.

The Class II Preferred Shares, Series 1 are entitled to receive monthly cumulative cash dividends in an amount determined by applying \$25.00 to one-twelfth of the defined Annual Dividend Rate applicable to that calendar month. The Annual Dividend Rate for a calendar month is calculated with reference to the Canadian prime rate of interest and the defined Calculated Trading Price of the Class II Preferred Shares, Series 1.

The Subordinate Voting Shares entitle the holders thereof to quarterly preferential dividends cumulative within each financial year, aggregating 2.5 cents per share in each financial quarter, after which each Multiple Voting Share and Subordinate Voting Share participates equally in all further dividends.

On April 25, 1996, the Corporation's shareholders approved an amendment to the articles of the Corporation whereby:

- (a) each Non-voting Class A Share of the Corporation was redesignated as a Subordinate Voting Share with one vote per Subordinate Voting Share;
- (b) each Common Share of the Corporation was split into two Common Shares; and
- (c) each Common Share of the Corporation was redesignated as a Multiple Voting Share with 10 votes per Multiple Voting Share.

References in these financial statements to Subordinate Voting Shares and Multiple Voting Shares prior to April 25, 1996, shall be read as referring to Non-voting Class A Shares and Common Shares after giving effect to the two-for-one split of the Common Shares.

The following is a summary of share capital transactions:

	1996		1995		1994	
	Number	Amount	Number	Amount	Number	Amount
(thousands of dollars for amounts)						
<i>Class I Preferred Shares</i>						
<i>Series I</i>						
Redeemed December 23, 1996	(1,017,332)	(25,433)				
Purchased pursuant to purchase obligation			(79,900)	(1,997)	(115,300)	(2,883)
<i>Series 2</i>						
Purchased pursuant to purchase obligation	(1,400)	(35)	(22,600)	(565)	(68,518)	(1,713)
Shares acquired pursuant to issuer bid			(458,242)	(11,456)		
<i>Series 3</i>						
Converted to Series 4 shares	(20,035)	(501)				
Shares acquired pursuant to issuer bid			(1,103,252)	(27,581)		
<i>Series 4</i>						
Issued on conversion of Series 3 shares	20,035	501				
Shares acquired pursuant to issuer bid			(393,933)	(9,848)		
<i>Class II Preferred Shares, Series 1</i>						
Issued on conversion of 1996 Warrants	25,240	416	32,785	542	24,640	407
Shares acquired pursuant to issuer bid			(2,264,916)	(37,372)		
<i>Subordinate Voting Shares</i>						
Issued May 14, 1996, for cash	4,250,000	69,700				
Issued on conversion of Multiple Voting Shares and 1996 Warrants	1,556,238	3,886	1,768,932	4,412	6,042,250	15,035
Issued pursuant to options	217,350	849	666,700	4,914	211,300	1,052
Issued on acquisition of preferred shares			5,768,288	71,774		
Issued on purchase of AIM (note 2)			153,000	2,142		
<i>Multiple Voting Shares</i>						
Converted to Subordinate Voting Shares	(1,555,238)	(3,870)	(1,768,232)	(4,400)	(6,042,250)	(15,035)
<i>1996 Warrants</i>						
Expired July 2, 1996	(29,732)	(491)				
Converted to Class II Preferred Shares	(25,240)	(416)	(32,785)	(541)	(24,640)	(407)
Converted to Subordinate Voting Shares	(1,000)	(16)	(700)	(12)		

The Corporation's accumulated contributed surplus during 1996 of \$496,000 (1995 - \$10,743,000; 1994 - \$1,627,000) arising on the purchase for cancellation of preferred shares, the expiration of warrants in 1996, and the cancellation of shares held by a related company in 1995, was transferred to retained earnings (deficit).

A total of 5,552,050 Subordinate Voting Shares have been reserved under stock option plans of which a total of 1,555,650 Subordinate Voting Shares have been granted. These options have exercise prices ranging from \$1.41 to \$17.75 and expire over various dates to June 2002. The Corporation granted options during 1996 for 26,000 Subordinate Voting Shares (1995 - 700,000; 1994 - 100,000) at an exercise price of \$17.75 (1995 - \$13.25; 1994 - \$9.125) which expire April 2001 (1995 - April 2000; 1994 - December 1999).

## 7. Income Taxes

The provision for income taxes is comprised as follows:

	<u>1996</u>	<u>1995</u>	<u>1994</u>
		(thousands of dollars)	
Earnings from health care before income taxes	<u>100,236</u>	<u>82,442</u>	<u>62,719</u>
Income taxes at statutory Canadian rate of 44.62% (1995 - 44.58%; 1994 - 44.34%)	<u>44,725</u>	36,753	27,809
Income tax effect relating to the following items:			
Tax rate variance re foreign subsidiaries	<u>(7,287)</u>	(4,204)	(3,323)
Benefit of operating loss utilization	<u>(5,741)</u>	(6,564)	(6,352)
Non-taxable income	<u>(3,495)</u>	(1,838)	(522)
Jobs tax credit		(2,997)	(1,418)
Other items	<u>(38)</u>	<u>856</u>	<u>759</u>
	<u>28,164</u>	<u>22,006</u>	<u>16,953</u>

The Corporation has the following operating losses available to reduce future taxable income, the benefit of which has not been reflected in these financial statements:

	(thousands of dollars)
Year of expiry: 1997	6,092
1998	2,342
1999	4,643
2000	1,205
2001	6,103
2002	1,966
2003	3,503

## 8. Earnings per Share

Per share amounts are based on net earnings reduced by preferred share dividends relating to each period (1996 - \$3,286,000; 1995 - \$6,534,000; 1994 - \$8,073,000). Net earnings after preferred share dividends are allocated to Subordinate Voting Shares and Multiple Voting Shares outstanding on an equal per share basis.

Fully diluted earnings per share for the years ended December 31, 1996 and 1995, are \$1.02 and \$0.92, respectively. The calculation of fully diluted earnings per share is based on the following assumptions:

- (a) conversion at the beginning of the year of Crown Life's convertible subordinated debentures issued July 31, 1995;
- (b) the exercise at the beginning of the year of outstanding options, the proceeds of which would have been used to reduce non-current liabilities; and
- (c) for comparative periods, the exercise at the beginning of the year of the former 1996 Warrants for Class II Preferred Shares, Series 1.

The weighted average number of Subordinate and Multiple Voting Shares utilized in the per share calculations are as follows:

	<u>1996</u>	<u>1995</u> (number of shares)	<u>1994</u>
Basic	<b>73,361,685</b>	67,109,365	63,836,665
Fully diluted	<b>74,917,335</b>	68,861,365	63,836,665

### 9. Details of Changes in Non-cash Operating Working Capital

The components of the net change in operating working capital, excluding cash, are as follows:

	<u>1996</u>	<u>1995</u> (thousands of dollars)	<u>1994</u>
Accounts receivable	<b>(21,199)</b>	(35,905)	(37,901)
Inventory, supplies and prepaid expenses	<b>(146)</b>	(1,434)	(455)
Accounts payable and accrued liabilities	<b>4,703</b>	21,020	13,518
Income taxes payable	<b>1,754</b>	2,322	737
	<b><u>(14,888)</u></b>	<u>(13,997)</u>	<u>(24,101)</u>

### 10. Other Segmented Information

Operations and identifiable assets by geographic segment are as follows:

	<u>1996</u>	<u>1995</u> (thousands of dollars)	<u>1994</u>
Revenue			
United States	<b>1,129,861</b>	1,031,584	912,268
Canada	<b>332,255</b>	322,361	315,908
United Kingdom	<b>26,570</b>	22,045	16,647
	<b><u>1,488,686</u></b>	<u>1,375,990</u>	<u>1,244,823</u>
Earnings before interest and income taxes			
United States	<b>107,406</b>	85,435	68,762
Canada	<b>24,435</b>	26,239	24,224
United Kingdom	<b>2,890</b>	3,708	2,665
	<b><u>134,731</u></b>	<u>115,382</u>	<u>95,651</u>
Identifiable assets			
United States	<b>879,554</b>	798,681	692,518
Canada	<b>225,318</b>	197,327	191,789
United Kingdom	<b>84,313</b>	65,763	42,955
	<b><u>1,189,185</u></b>	<u>1,061,771</u>	<u>927,262</u>
Investment in Crown Life Insurance Company, equity basis	<b>112,973</b>	101,726	94,339
	<b><u>1,302,158</u></b>	<u>1,163,497</u>	<u>1,021,601</u>

Operating earnings for 1996 include depreciation and amortization of \$48,148,000 (1995 - \$42,126,000; 1994 - \$38,590,000) of which \$40,733,000 (1995 - \$35,698,000; 1994 - \$32,375,000) is attributable to U.S. operations; \$5,368,000 (1995 - \$5,007,000; 1994 - \$4,867,000) to Canadian operations; and \$2,047,000 (1995 - \$1,421,000; 1994 - \$1,348,000) to U.K. operations.

Interest income in the amount of \$5,123,000 (1995 - \$4,369,000; 1994 - \$3,757,000) has been deducted from interest expense.

## 11. Other Commitments

At December 31, 1996, the Corporation was committed under non-cancellable leases requiring future minimum rentals as follows:

	<u>Capital Leases</u>	<u>Operating Leases</u>	<u>Total</u>
		(thousands of dollars)	
1997	58	12,427	12,485
1998	60	10,327	10,387
1999	40	9,176	9,216
2000	25	6,696	6,721
2001	23	4,261	4,284
Thereafter	89	32,821	32,910
Total minimum payments	<u>295</u>	<u>75,708</u>	<u>76,003</u>
Less amount representing interest	42		
Obligations under capital leases	<u>253</u>		

At December 31, 1996, the Corporation had capital expenditure purchase commitments outstanding of approximately \$28,258,000.

## 12. Pensions

Retirement compensation arrangements, including a defined benefit plan, are maintained with certain employee groups.

Pension costs related to current service are charged to income as services are rendered. Variations between fund experience and actuarial estimates as well as past service costs, if any, are amortized to income over the estimated average remaining service lives of the employee groups covered by the plans.

Based on the most recent actuarial valuation, the aggregate present value of the accrued pension benefit was \$12,841,000 (1995 - \$11,987,000). The aggregate market value of assets in the plans was \$4,876,000 (1995 - \$4,111,000). The unfunded obligations have been accrued and are reflected in these financial statements.



### 13. Fair Value of Financial Instruments

With the exception of the following, the fair value of financial instruments approximates their recorded values.

	1996		1995	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
				(thousands of dollars)
Notes and mortgages receivable	24,731	24,931	24,302	24,438
Investments held for self-insured liabilities	86,685	86,916	95,025	97,002
Non-current liabilities	524,417	526,629	481,828	480,591

The fair values for notes and mortgages receivable and non-current liabilities are based on the amount of future cash flows associated with each instrument discounted using current applicable rates for similar instruments of comparable maturity and credit quality.

The fair values for investments held for self-insured liabilities are based on quoted market prices. These investments are subject to insurance regulatory requirements. At year end, the bond portfolio was comprised of double-A or triple-A United States dollar denominated corporate and government bonds. The marketable securities within the investments held for self-insured liabilities are all considered to be available for sale.

### 14. Contingent Liabilities

The Corporation and its consolidated subsidiaries are defendants in actions brought against them from time to time in connection with their operations. While it is not possible to estimate the outcome of the various proceedings at this time, such actions generally are resolved within amounts provided. The Corporation does not believe that it will incur any significant additional loss or expense.

Crown Life is a defendant in a number of lawsuits involving the sale on a "vanishing premium" basis of participating whole life insurance policies in the United States. Preliminary approval was received in 1996 from the U.S. Federal Court for a settlement which has been agreed between Crown Life and counsel representing a class of U.S. policyholders who purchased such policies from Crown Life. Crown Life has reduced the participating policyholders' retained earnings for the estimated amounts involved. The Corporation's investment in Crown Life is in its non-participating business rather than its participating business and, as such, the Corporation did not record a share of the estimated costs charged. The extent, if any, to which the non-participating business may be affected by the ultimate outcome of the lawsuits is not determinable at this time. Crown Life believes it has acted responsibly and appropriately at all times with respect to these policies and has agreed to the above-noted settlement in order to avoid the cost, delays and uncertainty involved in protracted litigation. Crown Life will vigorously contest all lawsuits not resolved by the class settlement while at the same time seeking settlements to avoid the uncertainty and delay of litigation.

# AUDITORS' REPORT

## To the Shareholders of Extendicare Inc.

We have audited the consolidated balance sheets of Extendicare Inc. as at December 31, 1996 and 1995 and the consolidated statements of earnings, retained earnings (deficit) and changes in financial position for each of the years in the three year period ended December 31, 1996. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosure in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1996 and 1995 and the results of its operations and the changes in its financial position for each of the years in the three year period ended December 31, 1996 in accordance with generally accepted accounting principles.

Toronto, Canada  
February 14, 1997



KPMG  
Chartered Accountants

# FINANCIAL AND STATISTICAL INFORMATION

	<u>1996</u>	<u>1995</u>	<u>1994</u>	<u>1993</u>	<u>1992</u>
	(thousands of dollars unless otherwise noted)				
<b>Balance Sheet</b>					
Property and equipment	718,857	643,993	574,104	491,452	447,239
Health care assets	1,189,185	1,061,771	927,262	795,906	690,590
Investment in Crown Life, equity basis	112,973	101,726	94,339	82,650	157,947
Non-current liabilities	485,544	463,011	436,630	403,573	354,097
Shareholders' equity					
Preferred equity	23,526	49,501	121,167	125,762	196,200
Common equity	435,086	282,557	151,854	89,409	80,974
<b>Earnings</b>					
Revenue					
Nursing and assisted living centres					
United States	721,143	684,795	643,143	568,897	507,934
Canada	227,938	226,054	222,406	214,798	208,278
United Kingdom	26,570	22,045	16,647	8,276	
Medical specialty - United States	396,370	332,257	257,361	195,077	132,753
Home care services - Canada	102,939	94,080	92,137	80,722	74,324
Other	13,726	16,759	13,129	13,830	10,539
	<u>1,488,686</u>	<u>1,375,990</u>	<u>1,244,823</u>	<u>1,081,600</u>	<u>933,828</u>
Earnings (loss)					
Health care					
Earnings before lease costs, depreciation, interest and income taxes	199,184	173,561	149,641	121,944	101,625
Earnings from operations	95,286	79,321	62,241	42,732	32,762
Net earnings from health care	71,474	60,436	45,766	34,182	28,572
Life insurance	9,767	9,480	8,704	(66,195)	(29,349)
Earnings (loss) from continuing operations	81,241	69,916	54,470	(32,013)	(777)
Earnings (loss) per share from continuing operations					
Health care operations before disposal gains and after preferred share dividends	0.86	0.75	0.59	0.41	0.03
Gain on disposal of other assets	0.07	0.05			
Life insurance	0.13	0.14	0.14	(1.20)	(0.55)
	<u>1.06</u>	<u>0.94</u>	<u>0.73</u>	<u>(0.79)</u>	<u>(0.52)</u>
<b>Other Information</b>					
Number of facilities (end of period)					
United States	186	174	166	157	154
Canada	61	64	63	62	62
United Kingdom	16	14	11	9	7
	<u>263</u>	<u>252</u>	<u>240</u>	<u>228</u>	<u>223</u>
Operational resident capacity (end of period)					
United States	17,784	17,425	17,133	16,395	16,668
Canada	8,196	8,387	8,284	8,071	8,182
United Kingdom	1,049	870	646	565	403
	<u>27,029</u>	<u>26,682</u>	<u>26,063</u>	<u>25,031</u>	<u>25,253</u>
Average occupancy (percentage)					
U.S. payor source as a percentage of total U.S. revenue	90.8	91.4	93.1	94.5	94.9
Private	32	33	35	36	37
Medicare	30	26	22	19	16
Medicaid	38	41	43	45	47
U.S. institutional pharmacy - beds serviced (end of period)					
Canadian home care hours of service	5,131,000	5,017,000	4,868,000	4,520,000	4,234,000
Number of employees (end of period)	34,400	34,700	32,700	31,700	31,200
Number of shares outstanding (end of period)					
Subordinate Voting Shares	60,971,394	54,947,806	46,590,886	40,337,336	28,691,134
Multiple Voting Shares	14,024,734	15,579,972	17,348,204	23,390,454	24,329,100

# CORPORATE GOVERNANCE

Extendicare's corporate governance policy is outlined below.

## **Mandate of the Board**

The mandate of the Board includes:

- adopting a strategic planning process for the Corporation;
- approving objectives for the Corporation and the overall operating and financial plans to achieve them;
- evaluating the performance of the Corporation and its senior management;
- identifying and managing the principal risks of the Corporation's business;
- verifying the integrity of the Corporation's internal control and management information systems;
- selecting the Chief Executive Officer and approving the selection of other senior executives; and
- monitoring the Corporation's communications with shareholders, other stakeholders and the general public.

The Board believes that management is responsible for the development of long-term corporate strategy, while the role of the Board is to review, question and validate, and ultimately to approve the strategies proposed by management. In addition to those matters which must by law be approved by the Board, management is required to seek Board approval for significant acquisitions, divestitures and capital expenditures. Other matters of strategic importance to the Corporation or which impact significantly on the operations of the Corporation are brought to the Board's attention for its input, consideration and approval.

The Board's expectation is that management will seek to maximize shareholder value in a manner which is consistent with good corporate citizenship, including fair treatment of the Corporation's employees and the provision of quality service to the public.

## **Composition of the Board**

The Toronto Stock Exchange Guidelines for Corporate Governance (TSE Guidelines) recommend that the board of directors be constituted with a majority of individuals who qualify as "unrelated directors." The TSE Guidelines define an unrelated director as a director who is independent of management and is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act with a view to the best interests of the corporation, other than interests and relationships arising from shareholdings.

The Board has considered the relevant definitions in the TSE Guidelines and other factors, and has determined that, of the Corporation's 14 directors, 11 are unrelated directors. Messrs. Burns, Hennigar and Ladly are "inside" directors (i.e. directors who are officers and/or employees of the corporation) and are therefore, by definition, "related" directors. The Chair of the Board, Mr. Hennigar, although considered to be a related director, is not a member of management.

The TSE Guidelines also recommend that, in circumstances where a corporation has a “significant shareholder” (i.e. a shareholder with the ability to exercise the majority of the votes for the election of the directors), the board of directors should include a number of directors who do not have interests in or relationships with either the corporation or the significant shareholder and which fairly reflects the investment in the corporation by shareholders other than the significant shareholder.

Each of Mr. Burns and Mr. Hennigar, representing the Kingfield and Scotia interests, could be considered significant shareholders, given their agreement to act in concert with respect to an aggregate of 43.26 percent of voting equity. However, 11 of the directors of the Corporation who are unrelated directors are also independent of Messrs. Burns and Hennigar, with the result that the investment in the Corporation by its other shareholders is fairly reflected in the composition of the Board.

The Board has determined that 14 directors is an appropriate number at the current time, given the Corporation’s structure and needs, as this permits the Board to be large enough for a diversity of experience and opinion, yet small enough to allow for efficient operation and decision making.

## **Board Committees**

The Corporation currently has an Audit Committee, a Human Resources Committee and a Corporate Governance and Nominating Committee. Set out below is a description of each committee, its mandate and its activities.

### **Audit Committee**

The Audit Committee reviews the annual financial statements of the Corporation, and makes recommendations to the Board with respect to such statements. The Committee also makes recommendations to the Board regarding the appointment of independent auditors and their remuneration, and reviews any proposed changes in accounting practice or policies. The Committee reviews the nature, scope and results of the external audit and also reviews with the auditors and management the adequacy of the Corporation’s internal accounting control procedures and systems.

The Corporation’s Audit Committee is composed entirely of outside directors, all of whom are also unrelated directors. The Committee met six times during the financial year ended December 31, 1996.

### **Human Resources Committee**

The Human Resources Committee reviews and approves the compensation of senior management with a view to ensuring that the level of compensation reflects performance. The Committee also reviews the performance of the Chief Executive Officer on an annual basis. The Committee is responsible for monitoring the development of senior management.

The Human Resources Committee is also responsible for reviewing and recommending directors' compensation. It reviews external surveys to compare the compensation paid by the Corporation against compensation paid to directors in other organizations.

The Human Resources Committee is composed entirely of outside directors, all of whom are also unrelated directors. The Committee met two times during the financial year ended December 31, 1996, and also met two times jointly with the Corporate Governance and Nominating Committee.

### Corporate Governance and Nominating Committee

The Corporate Governance and Nominating Committee makes recommendations as to the size and composition of the Board; reviews qualifications of potential candidates for election to the Board; recommends the slate of nominees for presentation to the annual shareholders' meeting; makes recommendations with respect to the membership of committees; and assesses the performance of the Board and its members. It is this Committee which is responsible for planning succession to the position of Chief Executive Officer. This Committee also oversees issues of corporate governance as they apply to the Corporation and recommends amendments to the Corporation's corporate governance procedures where appropriate. Any director who wishes to engage outside advisors with respect to the affairs of the Corporation, at the expense of the Corporation, is required to review such matter with this Committee.

The Corporate Governance and Nominating Committee is composed entirely of directors who are not members of management, four of whom are also unrelated directors. The Committee met two times during the financial year ended December 31, 1996, and also met two times jointly with the Human Resources Committee.

### Other

The orientation of new directors takes place immediately following the annual meeting. A presentation is made regarding their general responsibilities as directors, and they are provided, by an executive of each of the main operating divisions, with an overview of current issues and business strategies. Board meetings held at regional locations in Canada and the United States are combined with tours of the Corporation's facilities so that the directors can gain a greater insight into the Corporation's business operations.

The Corporation holds regular meetings with the investment community. Shareholder questions and concerns are handled by the Corporate Secretary's department.

## DIRECTORS

### **David J. Hennigar<sup>(N)</sup>** **Chairman**

Mr. Hennigar is Chairman of Annapolis Basin Group and of National Sea Products Limited, as well as Chairman and founder of Acadian Securities Inc. He is a director of Crown Life Insurance Company and Scotia Investments Limited and of several other private and public companies. Mr. Hennigar has been on the Extencicare Board since 1980; he resides in Bedford, Nova Scotia. Age 57.

### **Frederick B. Ladly** **CEO and Deputy Chairman**

Mr. Ladly served as President and Chief Executive Officer of Extencicare Inc. from 1984 through 1995 and has been on the Board since 1986. He is Vice-Chairman of Crown Life Insurance Company and a director of Swiss Bank Corporation Trust. Mr. Ladly resides in the Township of Bathurst, Ontario. Age 66.

### **H. Michael Burns<sup>(N)</sup>** **Deputy Chairman**

Mr. Burns is President of Kingfield Investments Limited and a director of several private and public companies, including Crown Life Insurance Company, Algoma Central Railway, Denison Mines Limited, Landmark Global Corp., Lateral Vector Resources. He has been on the Extencicare Board since 1978. Mr. Burns resides in Maple, Ontario. Age 59.

### **Derek H.L. Buntain<sup>(HR)</sup>**

Mr. Buntain is President and Chief Executive Officer of Goodman & Company (Bermuda) Limited, an investment management company. He is a director of a number of public companies, including BGR Precious Metals Inc. and Eurogas Corporation. Mr. Buntain joined the Extencicare Board in 1995; he resides in Paget, Bermuda. Age 56.

### **Dr. Joy D. Calkin<sup>(N)</sup>**

Dr. Calkin is Vice-President (Academic) and Provost of The University of Calgary. She is also a professor in the Faculty of Nursing, specializing in health systems management and design as well as pediatric nursing. Dr. Calkin received her Ph.D in Health Services Administration and is widely published in the health care field. She joined the Extencicare Board in 1995, and resides in Calgary, Alberta. Age 58.

### **Sir Graham Day<sup>(HR,N)</sup>**

Sir Graham is Counsel to the Atlantic Canada law firm Stewart McKelvey Stirling Scales, and is a director of the Bank of Nova Scotia, Nova Corporation, The EMI Group plc., and other public companies. He is Chancellor of Dalhousie University and holds the Herbert S. Lamb Chair in Business Education in Dalhousie's School of Business Administration. Sir Graham has been on the Board since 1989, and resides in Hantsport, Nova Scotia. Age 63.

### **George S. Dembroski<sup>(A)</sup>**

Mr. Dembroski is a director and Vice-Chairman of RBC Dominion Securities Limited. He is also a director of several public Canadian corporations, including Comeco Corporation, Devtek Corporation, Electrohome Limited, Morrison Middlefield Resources Limited, Murphy Oil Corporation, and Prudential Steel Ltd. Mr. Dembroski joined the Extencicare Board in 1995, and resides in Toronto, Ontario. Age 62.

### **David M. Dunlap**<sup>(A, HR)</sup>

Mr. Dunlap is Chairman of G.F. Thompson Co. Ltd., a manufacturing company, as well as of Burnley Manufacturing Inc. He is Vice-President of Canadian Mining and Finance Co. Ltd. Mr. Dunlap has been on the Board since 1980 and resides in the Township of King, Ontario. Age 58.

### **George A Fierheller**<sup>(A)</sup>

Mr. Fierheller is President of Four Halls Inc., a private investment and consulting firm. He is a director of Rogers Cantel Mobile Communications Inc., GBC North America Fund Inc., Falconbridge Limited, Teleglobe Inc., Tandem Computers Canada Limited and Alex Informatique Inc. Mr. Fierheller is also President of the Board of Trade of Metropolitan Toronto. He has been on the Extencicare Board since 1981, and resides in North York, Ontario. Age 63.

### **Dr. Seth B. Goldsmith**<sup>(N)</sup>

Dr. Goldsmith is Chief Executive Officer of the Miami Jewish Home & Hospital for the Aged, as well as a Professor in the Graduate Program in Health Policy and Management at the University of Massachusetts School of Public Health. He has served as a consultant for and a director of many organizations, including the World Health Organization in Geneva, Switzerland. Dr. Goldsmith has been on the Board since 1995, and resides in Bal Harbour, Florida. Age 55.

### **Michael J.L. Kirby**<sup>(HR, N)</sup>

Mr. Kirby is a member of The Senate of Canada. He is a director of RJR Macdonald Inc. and Goldfarb Corporation. Mr. Kirby has been on the Extencicare Board since 1987, and resides in Nepean, Ontario. Age 55.

### **Alvin G. Libin**<sup>(A)</sup>

Mr. Libin is President of Balmon Holdings Ltd., an investment company. He is Chairman of Crownx Properties Inc. and of the Alberta Heritage Foundation for Medical Research, as well as a director of Crown Life Insurance Company. He has been on the Board since 1984, and resides in Calgary, Alberta. Age 65.

### **J. Thomas MacQuarrie, Q.C.**<sup>(A, HR)</sup>

Mr. MacQuarrie is a senior partner in the Atlantic Canada law firm of Stewart McKelvey Stirling Scales. He is a director of National Sea Products Limited and Minas Basin Pulp & Power Co. Ltd. as well as of a number of other public and private corporations. Mr. MacQuarrie has been on the Extencicare Board since 1980. He resides in Halifax, Nova Scotia. Age 59.

### **Derril G. McLeod, Q.C.**<sup>(A)</sup>

Mr. McLeod is Senior Counsel in the law firm of Pedersen, Norman, McLeod & Todd. He is Chairman of Ralph McKay Industries Inc. (Regina) and Empire Plow Co., Inc. (Cleveland). Mr. McLeod has been on the Board since 1973; he resides in Regina, Saskatchewan. Age 72.

A Audit Committee

HR Human Resources Committee

N Corporate Governance and Nominating Committee



## OFFICERS

### Extendicare Inc.

3000 Steeles Avenue East  
Markham, Ontario L3R 9W2  
Tel: (905) 470-4000  
Fax: (905) 470-5588

David J. Hennigar  
Chairman

Frederick B. Ladly  
Chief Executive Officer and  
Deputy Chairman

H. Michael Burns  
Deputy Chairman

J. Wesley Carter  
President and Chief Operating  
Officer

Richard L. Bertrand  
Vice-President

Elaine E. Everson  
Controller

Len G. Koroneos  
Vice-President and Treasurer

Melvin A. Rhinelanders  
Vice-President

M. Lynne Smith  
Assistant Secretary

Barry L. Stephens  
Vice-President, Finance, Chief  
Financial Officer and Secretary

### Extendicare (Canada) Inc.

3000 Steeles Avenue East  
Markham, Ontario L3R 9W2  
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Frederick B. Ladly  
Chairman

J. Wesley Carter  
President and Chief Executive  
Officer

John G. McLaughlin  
President, Canadian Health  
Care Operations

Richard L. Bertrand  
Senior Vice-President, Finance  
and Chief Financial Officer

Elaine E. Everson  
Vice-President and Controller

Stephen R. Haas  
Vice-President, Para-Med  
Health Services

M. Jan Laughlin  
Vice-President, Eastern  
Operations and  
Managed Facilities

D. Wayne McKendrick  
Vice-President, Western  
Operations

John J. Penaligon  
Vice-President, Health  
Care Development

Melvin A. Rhinelanders  
Vice-President, Human  
Resources and Secretary

R. Gordon Spear  
Vice-President, Administration

### United Health, Inc.

105 West Michigan Street  
Milwaukee, Wisconsin U.S.A. 53203  
Tel: (414) 271-9696  
Fax: (414) 347-4414

Frederick B. Ladly  
Chairman

J. Wesley Carter  
Chief Executive Officer

Guy W. Smith  
President and Chief Operating Officer

Robert J. Abramowski  
Vice-President, Finance and  
Chief Financial Officer

Leland M. Austin  
Executive Vice-President, Operations

Richard L. Bertrand  
Senior Vice-President

Roch Carter  
Assistant Secretary

Thomas A. Dinauer  
Vice-President and Treasurer

Ronald P. Knox  
Senior Vice-President, Operations

Hugh S. McManus  
Vice-President, Administration  
and Legal Services

Melvin A. Rhinelanders  
Secretary

L. William Wagner  
Vice-President

### Extendicare (U.K.) Limited

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Frederick B. Ladly  
Chairman

J. Wesley Carter  
Deputy Chairman

Douglas J. Harris  
Managing Director

David W. Ridgwell  
Secretary

# SHAREHOLDER INFORMATION

## Stock Exchange Listings

The Toronto Stock Exchange  
 Montreal Exchange  
 New York Stock Exchange (EXE.A only)

## Transfer Agent

Montreal Trust Company of Canada  
 The Bank of Nova Scotia Trust Company of New York

## Shareholder Inquiries

M. Lynne Smith, Assistant Secretary  
 Telephone: (905) 470-5515

## Share Information

Shares	Stock Symbols	Shares Outstanding <sup>(1)</sup>	Year End Closing Market Price		
			1996	1995	1994
Multiple Voting <sup>(2)</sup>	EXE	14,024,734	\$16.10	\$14.125	\$9.813
Subordinate Voting	EXE.A	60,971,394	16.15	14.500	9.875
Class I Preferred					
Series 2	EXE.PR.B	353,705	22.00	22.125	18.625
Series 3	EXE.PR.C	165,243	21.00	22.000	21.000
Series 4	EXE.PR.D	169,307	21.00	21.000	19.000
Class II Preferred					
Series 1	EXE.PR.E	382,979	22.00	22.750	19.000

(1) Outstanding as at December 31, 1996.

(2) After giving effect to the 1996 share split.

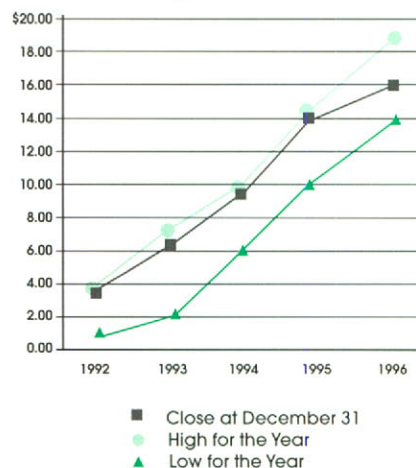
## Annual Meeting

Shareholders are invited to attend the Annual Meeting of Extencicare Inc. at 11:00 a.m. on Tuesday, April 22, 1997 at The Design Exchange, Trading Floor, 234 Bay Street, Toronto-Dominion Centre, Toronto, Ontario, Canada.

## Annual Information Form and Form 40F

A copy of the Corporation's Annual Information Form and Form 40F filed with the securities commissions will be sent to any shareholder upon request to the Corporation's Assistant Secretary.

Trading Price of Subordinate Voting Shares on the TSE



**“As I laid out fabric and talked about colour and texture, a sparkle appeared in the eye of a resident who used to enjoy sewing. At first there was silent contemplation and then a hand gnarled by arthritis slowly moved across the table and picked up a piece of green fabric with golden threads running through it. Softly she said, “I like this one.” Another woman picked up a red Christmas fabric and put it next to the quilt block we were making. I began sewing and cutting and soon every member of the group had made a comment about our project. Looking out at the group, I saw twinkling eyes, smiling faces and hands responding. I validated feelings, affirmed responses and shared excitement. Leaving the group that day, I knew I had made a difference...but it really wasn’t “I” make a difference but “we” make a difference. Without the support from the licensed nurses, nursing assistants, activity aides and housekeeping staff, that group would have never taken place. Each discipline took part in making sure the residents were ready to attend and assisted them to the meeting room. I am proud to be a member of a gentle caring team making a difference.”**

*Sharon Brilla*  
Director of Social Services  
The Gardens  
Spokane, Washington



