



2015 Annual Information Form

For the year ended December 31, 2015

Dated: March 30, 2016

THE RIGHT
CARE

THE RIGHT
PLACE

THE RIGHT
TIME

TABLE OF CONTENTS

Glossary of Terms	1	Risk Factors	
Explanatory Notes	5	Risks Related to the Business	28
Cautionary Notice Regarding Forward-looking Statements	5	Risks Related to the Common Shares and Debentures	33
Additional Information	6	Dividends	
Corporate Structure		Dividend Policy	35
Name, Address and Incorporation.....	6	Dividends Made.....	36
Subsidiaries	6	Dividend Reinvestment Plan.....	36
Organizational Structure of Extendicare	7	Description of Capital Structure	
General Development of the Business		Common Shares	36
2015 U.S. Sale Transaction.....	8	Preferred Shares.....	36
2015 Home Health Acquisition.....	9	Shareholder Rights Plan.....	37
Expansion into Private-pay Retirement Sector	9	Oxford Park Agreement	39
Canadian Financing Activity.....	10	Description of the Debentures	40
LTC Development Projects.....	10	Market for Securities	
Divestitures	11	Trading Price and Volume	45
Other Activities of Discontinued Operations	11	Normal Course Issuer Bid	45
Description of the Business		Directors and Officers	46
Company Profile	11	Legal Proceedings and Regulatory Actions.....	48
Operations	12	Interest of Management and Others in	
Senior Care Industry	15	Material Transactions.....	48
Business Strategy	17	Transfer Agent and Registrar	48
Competitive Strengths.....	19	Material Contracts	48
Properties	20	Interests of Experts	49
Quality of Care.....	22	Audit Committee Information	49
Government Regulations and Funding.....	22	Appendix A – Audit Committee Charter.....	A-1
Marketing.....	27		
Employees.....	28		

GLOSSARY OF TERMS

The following is a glossary of certain terms used in this Annual Information Form:

“**2010 U.S. Government Investigations**” has the meaning given to such term in this AIF under “General Development of the Business – Other Activities of Discontinued Operations – 2014 Settlement of U.S. Government Investigations”;

“**2012 Conversion**” means the conversion of Extendicare REIT from an income trust structure to a corporate structure pursuant to a plan of arrangement under Section 192 of the CBCA, effective as of 12:01 a.m. (Toronto time) on July 1, 2012, and pursuant to which Unitholders ultimately received one Common Share for each REIT Unit held;

“**2014 Debentures**” means the convertible unsecured subordinated debentures issued by Extendicare REIT on June 21, 2007 and due June 30, 2014, bearing interest at an annual rate of 5.70%, payable semi-annually in arrears on June 30th and December 31st in each year, for which, as a result of the 2012 Conversion, the Company was liable for and which were repaid by the Company on June 30, 2014 (principal amount outstanding - \$113,930,000);

“**2019 Debentures**” means the convertible unsecured subordinated debentures issued by the Company on September 25, 2012 and October 1, 2012, and due September 30, 2019, bearing interest at an annual rate of 6.00%, payable semi-annually in arrears on March 31st and September 30th in each year;

“**Adjusted EBITDA**” means earnings (loss) from continuing operations before net finance costs, income taxes, depreciation and amortization, adjusted to exclude the line item “loss (gain) from asset impairment, disposals and other items”;

“**AHS**” means Alberta Health Services, the provincial health authority responsible for overseeing the planning and delivery of health care services across Alberta;

“**Annual Information Form**” or “**AIF**” means this annual information form for the year ended December 31, 2015 of Extendicare dated March 30, 2016;

“**Board**”, “**Board of Directors**”, or “**Directors**” means at any time the individuals who are the directors of Extendicare;

“**Captive**” means Laurier Indemnity Company, Ltd., a corporation incorporated under the laws of Bermuda and a subsidiary of ECI;

“**CBCA**” means the *Canada Business Corporations Act*, R.S.C. 1985 c.C-44, including the regulations promulgated thereunder, in either case as amended;

“**CCAC**” means Community Care Access Centres, which are local agencies established by the MOHLTC to coordinate government-funded health care services for the public;

“**CIA**” has the meaning given to such term in this AIF under “General Development of the Business – Other Activities of Discontinued Operations – 2014 Settlement of U.S. Government Investigations”;

“**CMHC**” means Canada Mortgage and Housing Corporation;

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

“**Common Shares**” means the common shares in the capital of Extendicare;

“**Conversion Price**” means the conversion price of the Debentures specified under “Description of the Debentures – Conversion Rights”;

“**CRA**” means the Canada Revenue Agency;

“**Current Market Price**” means the volume-weighted average trading price of the Common Shares on the TSX for the 20 consecutive trading days ending on the fifth trading day preceding the date of the applicable event;

“**Debentureholder**” means a holder of Debentures;

“Debentures” means the debentures, notes or other evidence of indebtedness of the Company issued, certified and outstanding under the Indenture, or deemed to be issued, certified and outstanding under the Indenture, including, without limitation, the 2019 Debentures;

“Debenture Trustee” means Computershare Trust Company of Canada as trustee under the Indenture;

“Dividend Reinvestment Plan” means the dividend reinvestment plan established by the Company as described under “Dividends – Dividend Reinvestment Plan”;

“DOJ” means the United States Department of Justice;

“ECI” means Extendicare (Canada) Inc., a corporation amalgamated under the laws of Canada and a subsidiary of Extendicare; and references to ECI in this AIF mean ECI alone or together with its subsidiaries, as the context requires;

“EHI” means Extendicare Holdings, Inc., a corporation incorporated under the laws of Wisconsin that was a subsidiary of Extendicare, prior to the closing of the U.S. Sale Transaction;

“EHSI” means Extendicare Health Services, Inc., a corporation incorporated under the laws of Delaware that was a subsidiary of Extendicare, prior to the closing of the U.S. Sale Transaction; and references to EHSI in this AIF mean EHSI alone or together with its subsidiaries, as the context requires;

“EII” means Extendicare International Inc., a corporation incorporated under the laws of Canada and a subsidiary of Extendicare;

“EII SPA” has the meaning given to such term in this AIF under “General Development of the Business – 2015 U.S. Sale Transaction”;

“Event of Default” has the meaning given to such term in this AIF under “Description of the Debentures – Events of Default”;

“Extendicare” or the **“Company”** means the corporation known as “Extendicare Inc.”, which continued as one corporation as a result of the amalgamation of 8067929 Canada Inc., Extendicare Holding General Partner Inc., 8120404 Canada Inc. and Extendicare Inc. pursuant to the 2012 Conversion and which is the successor to Extendicare REIT; references to Extendicare or the Company in this AIF mean Extendicare Inc., either alone or together with its subsidiaries, as the context requires;

“First Supplemental Indenture” means the supplemental indenture dated as of June 19, 2008 between Extendicare REIT and the Debenture Trustee;

“Home Health Acquisition” has the meaning given to such term in this AIF under “General Development of the Business – 2015 Home Health Acquisition”;

“Home Health Acquisition Agreement” has the meaning given to such term in this AIF under “General Development of the Business – 2015 Home Health Acquisition”;

“Indenture” means the Original Trust Indenture, as supplemented by the First Supplemental Indenture, the Second Supplemental Indenture and the Third Supplemental Indenture;

“Independent” has the meaning given to that term in National Instrument 52-110 – *Audit Committees* of the Canadian Securities Administrators;

“LEED” means Leadership in Energy and Environmental Design; a green building certification system, ranking buildings as either Basic, Silver, Gold or Platinum, intended to provide owners and operators with a framework for identifying and implementing measurable green building design, construction, operations and maintenance solutions;

“LTC” means long-term care, as it relates to the type of care and services provided in a residential centre that is designed for individuals, usually seniors, that cannot live independently and require professional nursing care on a daily basis and 24-hour supervision;

“**LTC Act 2007**” means the *Long-Term Care Homes Act, 2007* (Ontario), which came into force on July 1, 2010 and which regulates all long-term care centres in Ontario;

“**MOHLTC**” means the Ministry of Health and Long-Term Care (Ontario, Canada);

“**NI 51-102**” means National Instrument 51-102 – *Continuous Disclosure Obligations* of the Canadian Securities Administrators;

“**OIG-HHS**” means the Office of the Inspector General-United States Department of Health and Human Services, the investigative arm that oversees investigations of alleged violations of Medicare and Medicaid laws and rules;

“**Original Indenture**” means the trust indenture dated June 21, 2007, between Extendicare REIT and the Debenture Trustee pursuant to which Extendicare REIT issued the 2014 Debentures;

“**Oxford Park**” means Oxford Park Capital I LP;

“**Oxford Park Agreement**” means the Settlement Agreement dated January 21, 2016, between Oxford Park and the Company;

“**ParaMed**” means ParaMed Home Health Care, a division of ECI, which provides home health care services in Canada;

“**PC Act**” means *The Personal Care Homes Act* (Saskatchewan), which came into force on October 1, 1991, and which regulates all personal care homes, including Extendicare’s retirement communities, operating in Saskatchewan;

“**Person**” means any individual, partnership, association, body corporate, trust, trustee, executor, administrator, legal representative, government, regulatory authority or any other entity;

“**Preferred Shares**” means the preferred shares in the capital of Extendicare;

“**RAI-MDS**” means resident assessment instrument – minimum data set; a tool used to assess a resident’s level of care needs;

“**RBC Credit Facility**” means the credit agreement dated as of June 30, 2005, as amended, among Extendicare (as borrower) and Royal Bank of Canada, the lender, relating to a \$46.8 million credit facility, as the same may be further amended, supplemented or modified from time to time in accordance with the terms thereof;

“**REIT**” or “**Extendicare REIT**” means Extendicare Real Estate Investment Trust, an unincorporated open-ended limited purpose trust established under the laws of the Province of Ontario, which was dissolved as a step in the 2012 Conversion and was the predecessor to Extendicare;

“**REIT Unit**” means a trust unit of Extendicare REIT;

“**RFP**” means a request for proposal;

“**RH Act**” means the *Retirement Homes Act* (Ontario), which came into force on June 8, 2010, and which regulates all retirement centres, including assisted living centres, operating in Ontario;

“**RHRA**” means the Retirement Homes Regulatory Authority established under the RH Act (Ontario);

“**Second Supplemental Indenture**” means the supplemental indenture dated July 1, 2012, between Extendicare and the Debenture Trustee entered into in connection with the 2012 Conversion pursuant to which the Company succeeded to, and was substituted for, and is now entitled to exercise every right and power of the REIT under the Original Indenture, as supplemented by the First Supplemental Indenture, as though the Company had been named as the REIT therein and pursuant to which the Company confirmed that it is liable for all of the covenants, liabilities and obligations of the REIT under the Original Indenture and under the 2014 Debentures;

“**Senior Indebtedness**” means the principal of, and the interest and premium (or any other amounts payable thereunder), if any, on:

- (a) all indebtedness, liabilities and obligations of the Company (other than Debentures issued pursuant to the Indenture), whether outstanding on the date of the Indenture or thereafter created, incurred, assumed or guaranteed in connection with the acquisition by the Company of any businesses, properties or other assets or for monies borrowed or raised by whatever means (including, without limitation, by means of commercial paper, bankers’ acceptances, letters of credit, debt instruments, bank debt and financial leases, and any liability evidenced by bonds, debentures, notes or similar instruments) or in connection with the acquisition of any businesses, properties or other assets or for monies borrowed or raised by whatever means (including, without limitation, by means of commercial paper, bankers’ acceptances, letters of credit, debt instruments, bank debt and financial leases, and any liability evidenced by bonds, debentures, notes or similar instruments) by others including, without limitation, any subsidiary of the Company for payment of which the Company is responsible or liable, whether absolutely or contingently; and
- (b) renewals, extensions, restructurings, refinancings and refundings of any such indebtedness, liabilities or obligations;

unless in each case it is provided by the terms of the instrument creating or evidencing such indebtedness, liabilities or obligations that such indebtedness, liabilities or obligations are not superior in right of payment to the Debentures issued pursuant to the Indenture which by their terms are subordinated;

“**Shareholder Rights Plan**” means the shareholder rights plan agreement dated as of July 1, 2012, between the Company and Computershare Trust Company of Canada, as rights agent;

“**Shareholders**” means the holders of Common Shares from time to time;

“**SLAA**” means the *Supportive Living Accommodation Licensing Act* (Alberta), which came into force on April 1, 2010, and which regulates all supportive living and long-term care accommodations operating in Alberta;

“**Third Supplemental Indenture**” means the supplemental indenture dated September 25, 2012 between Extencicare and the Debenture Trustee pursuant to which Extencicare issued the 2019 Debentures;

“**TSX**” means the Toronto Stock Exchange;

“**Unitholders**” means the former holders of REIT Units;

“**U.S. Sale Transaction**” has the meaning given to such term in this AIF under “General Development of the Business – 2015 U.S. Sale Transaction”; and

“**VCPI**” means Virtual Care Provider, Inc., a corporation incorporated under the laws of Wisconsin and a subsidiary of Extencicare.

EXPLANATORY NOTES

The information in this AIF is as at December 31, 2015, unless otherwise indicated.

For an explanation of the capitalized terms used in this AIF and not defined in the text, please refer to the Glossary of Terms that starts on page 1.

References to “we”, “us” and “our” in this AIF mean Extendicare alone or together with its subsidiaries, as the context requires.

All dollar amounts in this AIF are stated in Canadian currency unless otherwise indicated.

CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

ADDITIONAL INFORMATION

Additional information relating to the Company is available on the SEDAR website at www.sedar.com and on the Company's website at www.extendicare.com.

Additional information, including the remuneration of the directors and executive officers of the Company is contained in the Company's management information and proxy circulars. The Company's most recent circular is dated May 7, 2015, which was prepared in connection with the Company's annual and special meeting of Shareholders held on June 18, 2015. The Company's next proxy circular will be prepared in connection with the Company's annual and special meeting of Shareholders to be held on May 26, 2016.

Additional financial information is provided in the Company's consolidated financial statements and management's discussion and analysis for the financial year ended December 31, 2015, contained in the Company's 2015 Annual Report. Copies of such documents may be obtained from the sources set forth above.

CORPORATE STRUCTURE

NAME, ADDRESS AND INCORPORATION

Extendicare Inc. was originally incorporated in August 1968 and was continued under the CBCA by Articles of Continuance. Pursuant to the 2012 Conversion, Extendicare amalgamated with 8067929 Canada Inc., Extendicare Holding General Partner Inc., and 8120404 Canada Inc. to continue as one corporation with the name "Extendicare Inc.", and is the successor to Extendicare REIT.

The registered and principal office of Extendicare Inc. is located at 3000 Steeles Avenue East, Suite 103, Markham, Ontario, Canada L3R 9W2.

Extendicare's operations are carried on through a number of wholly owned subsidiaries. Extendicare's Canadian long-term care operations, home health care operations (ParaMed), management and consulting services (Extendicare Assist), and group purchasing services (SGP Purchasing Partner Network) are conducted through ECI. Extendicare's retirement living operations (Esprit Lifestyle Communities) are conducted through 9488618 Canada Inc. and its subsidiaries.

Extendicare's U.S. health care technology services are conducted through VCPI. Since 2001, VCPI has provided a full range of information technology solutions to long-term and post-acute health care providers across the U.S., including hosting and application support from its data centre located in Milwaukee, Wisconsin, facility technology installation and management, network management services and professional consulting services.

Prior to the U.S. Sale Transaction, Extendicare self-insured certain risks related to general and professional liability of its disposed U.S. operations through the Captive. The obligation to settle any claims incurred prior to the closing of the U.S. Sale Transaction, including claims incurred but yet to be reported, remains with Extendicare through the Captive. The majority of the risks that Extendicare self-insured relating to the U.S. operations, are long-term in nature, and accordingly, claim payments for any particular policy year can occur over a long period of time.

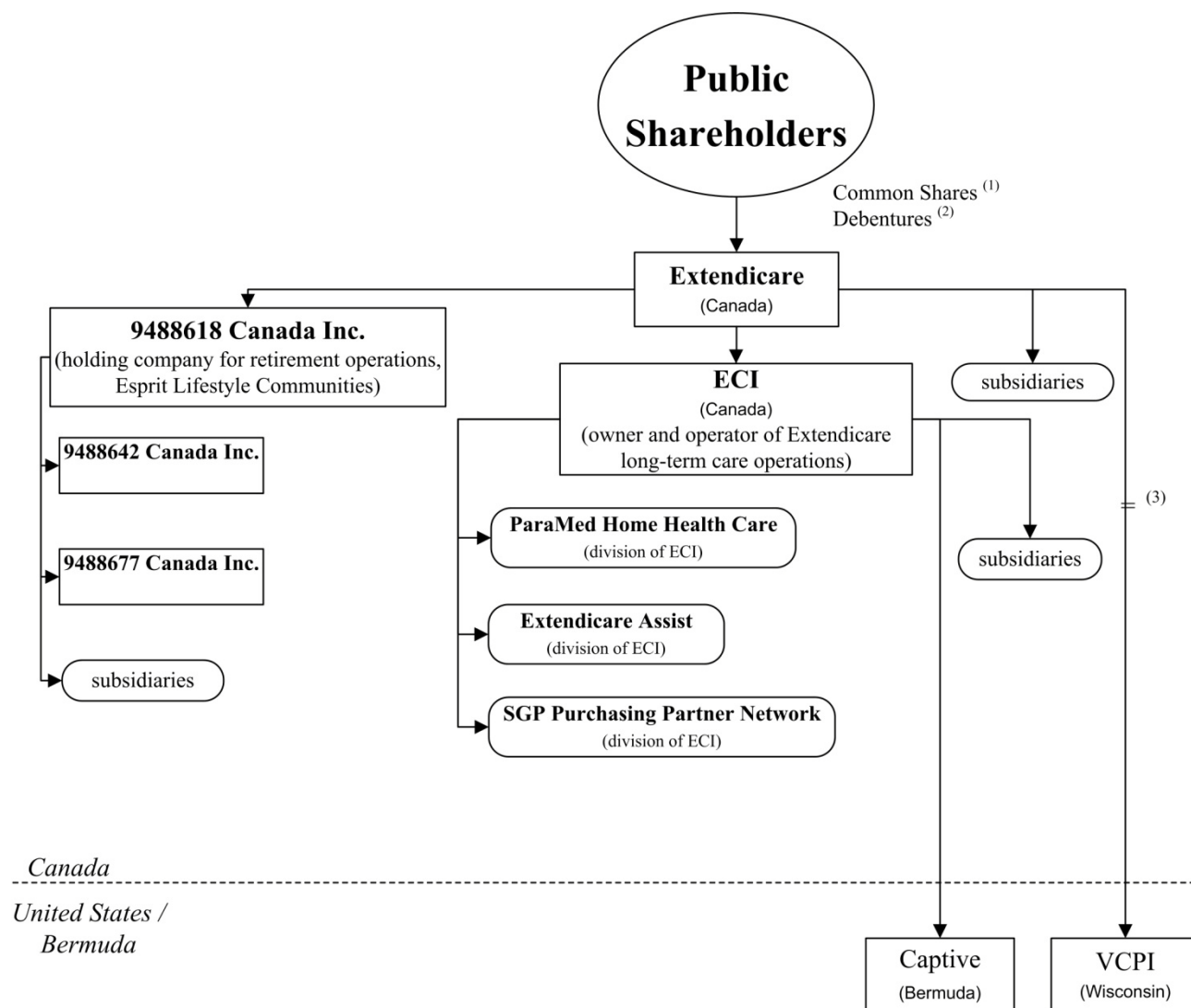
SUBSIDIARIES

The following is a list of the material subsidiaries as of December 31, 2015, all of which are 100% owned directly or indirectly by Extendicare.

Name	Jurisdiction of Incorporation
9488618 Canada Inc.	Canada
9488642 Canada Inc.	Canada
9488677 Canada Inc.	Canada
Extendicare (Canada) Inc.	Canada
Laurier Indemnity Company, Ltd.	Bermuda
Virtual Care Provider, Inc.	Wisconsin

ORGANIZATIONAL STRUCTURE OF EXTENDICARE

The following diagram illustrates, in simplified form, the organizational structure of the Company.



Notes:

- (1) As at March 30, 2016, there were 88,157,858 Common Shares issued and outstanding.
- (2) As at March 30, 2016, there were \$126,500,000 aggregate principal amount of the 2019 Debentures issued and outstanding.
- (3) All of the subsidiaries of Extendicare are wholly owned and “=” indicates omission of intermediary wholly owned subsidiaries.

GENERAL DEVELOPMENT OF THE BUSINESS

Extendicare and its predecessors have been in operation since 1968. This section of the AIF provides a summary of the significant events that have influenced Extendicare's business over the past three years.

2015 U.S. SALE TRANSACTION

As previously disclosed in May 2013, the Board of Directors of the Company, through its strategic committee (the "Strategic Committee"), had been undertaking a review of strategic alternatives relating to a separation of the Company's Canadian and U.S. businesses that would be in the best interests of the Company and would reasonably be expected to enhance Shareholder value. The Board, with the assistance of the Strategic Committee, concluded that the sale of the U.S. business was the preferred technique for effecting the separation. The Company's primary intended use of the proceeds from the sale of the U.S. business is to expand and grow its Canadian operations across the sectors of the Canadian senior care continuum.

On July 1, 2015, pursuant to a definitive share purchase agreement dated November 7, 2014, as amended (the "EII SPA"), the Company, through its subsidiary EII (the "Vendor"), completed the sale of its U.S. business (the "U.S. Sale Transaction"), by the transfer by the Vendor of all of the issued and outstanding shares of EHI to a group of investors led by Formation Capital, LLC (Formation Capital), a healthcare-focused private investment firm, and an affiliate of Safanad Inc., a global principal investment firm, acting through FC Domino Acquisition LLC (the "Purchaser"), an acquisition company formed by Formation Capital. At the time of the sale, EHSI's senior care portfolio comprised 156 owned/leased centres (15,183 beds) located in 12 states. The U.S. Sale Transaction was completed for a value of US\$870 million (\$1.1 billion using the noon U.S./Canadian dollar exchange rate of 1.2474 on June 30, 2015), partially settled through the assumption by the Purchaser of mortgage loans and other third-party indebtedness relating to the U.S. business of approximately US\$655 million, and working capital and other specified adjustments, resulting in gross proceeds of US\$280.8 million representing US\$193.4 million received on July 1, 2015, and an intercompany dividend of US\$87.4 million received as part of a pre-closing reorganization on June 30, 2015 (the "Pre-closing Distribution"). The Company has agreed to indemnify the Purchaser for certain obligations of the U.S. operations related to tax and other items, and has recorded provisions totalling US\$25.2 million and a potential receivable of approximately US\$9.3 million, for a potential net liability of US\$15.9 million. Total estimated taxes of the U.S. Sale Transaction are US\$33.1 million, resulting in net after-tax proceeds of approximately US\$231.8 million, including the Pre-closing Distribution.

The U.S. Sale Transaction included non-cash proceeds of US\$6.2 million representing the net present value ascribed to an ongoing cash stream of US\$28.0 million, relating to certain U.S. skilled nursing centres that were leased prior to the closing, offset in part by obligations of US\$21.8 million that were assumed related to these leases. On July 1, 2015, US\$6.8 million of the obligation was settled, and in January 2016 a further US\$8.0 million was settled, leaving a balance of US\$7.0 million as at March 30, 2016. Cash of US\$14.0 million had been placed in escrow at July 1, 2015, to secure the obligations, of which a balance of US\$6.0 million remains as at March 30, 2016. The estimated benefit of this cash stream, net of the obligations, is anticipated to average US\$5 million per annum (pre-tax) over 15 years, which we expect to cash flow positive following settlement of the remaining obligations in a couple of years. There are significant credit risks associated with the realization of this cash stream attributable to factors outside of Extendicare's control that could materially negatively impact the amounts that are expected to be received by the Company.

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

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

2015 HOME HEALTH ACQUISITION

On April 30, 2015, pursuant to a definitive agreement entered into in January 2015 (the “Home Health Acquisition Agreement”) the Company completed the Home Health Acquisition for \$84.3 million in cash, which included final working capital adjustments and settlement of amounts that had been held in escrow at closing. The Home Health Acquisition was financed with a bridge loan of \$80 million (the “Bridge Loan”) and cash on hand. The Bridge Loan was outstanding from April 30, 2015 to July 2, 2015, when it was repaid in full using a portion of the proceeds from the U.S. Sale Transaction. This acquisition brought together two leading Canadian private-sector home health care providers focused on quality, person-centred care and employee satisfaction. Further information relating to the Home Health Acquisition is available in the Company’s related material change report dated January 23, 2015, filed on SEDAR at www.sedar.com under Extendicare’s issuer profile.

EXPANSION INTO PRIVATE-PAY RETIREMENT SECTOR

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

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

Name/Location	Acquisition / Opening Date	# of Communities	Suites	Purchase Price / Development Cost (millions) ⁽¹⁾	Price per Suite	Expected Stabilized NOI Yield ⁽²⁾
Completed at Dec. 31, 2015						
Empire Crossing, Port Hope, ON	Oct. 1, 2015	1	64	\$20.2	\$315,600	6.9% to 7.1%
Harvest, Tillsonburg, ON	Dec. 1, 2015	1	100	\$28.4	\$284,500	6.7% to 6.9%
Stonebridge Crossing, Saskatoon, SK, and Riverbend Crossing, Regina, SK	Dec. 1, 2015	2	184	\$50.3	\$273,271	7.2%
Completed subsequent to Dec. 31, 2015						
West Park Crossing, Moose Jaw, SK, and Yorkton Crossing, Yorkton, SK	Feb. 22, 2016	2	158	\$40.5	\$256,300	7.3% to 7.7%
In Progress						
Simcoe/Bolton/ Uxbridge, ON	Fall 2016 / Spring 2017	3	304	\$81.0	\$266,500	7.4%
<p>(1) Non-GAAP: purchase price includes negotiated income support arrangements to bridge the cash flow from the time of acquisition to stabilized NOI; and in connection with the development projects, estimated development costs include lease-up amounts to achieve stabilized NOI, and an imputed cost of capital.</p> <p>(2) Non-GAAP: defined as stabilized NOI divided by the purchase price/development cost, and where an agreement includes income support, a range is computed based on assuming nil to 50% of the income support is released to the Company.</p>						

Retirement Acquisitions

During the 2015 fourth quarter, we completed the acquisition of four retirement communities, as summarized in the above table, for an aggregate purchase price of approximately \$98.6 million, after a \$0.3 million reduction for net working capital adjustments on closing, and inclusive of \$2.3 million for income support during the lease-up period. Subsequent to the end of 2015, we closed on an additional two retirement communities for an aggregate purchase price of \$40.5 million, inclusive of \$4.5 million for income support during the lease-up period. The aggregate purchase price of \$139.1 million for these acquisitions (the “Retirement Acquisitions”) was initially paid in cash with an intention to finance up to 65% as stabilized occupancy is achieved.

Retirement Development Projects

Extendicare is under way with the development of three private-pay retirement communities in Simcoe, Bolton, and Uxbridge, Ontario, with 304 suites in total. We broke ground on the Simcoe project in mid-October, and anticipate breaking ground on the other two in the second quarter of 2016. Completion of the Simcoe community is anticipated in the fall of 2016, while the Uxbridge and Bolton communities are expected to open in the first half of 2017.

The anticipated cost of these three development projects is approximately \$81 million, or approximately \$266,500 per suite, which amount includes an imputed cost of capital and an estimated lease-up amount to achieve stabilized NOI. The estimated average stabilized NOI yield for the three projects is 7.4%. We expect to be able to leverage up to 65% of the development costs during construction, with the balance to be paid from cash on hand.

CANADIAN FINANCING ACTIVITY

2014 – Settlement of 2014 Convertible Debentures

On June 30, 2014, Extendicare repaid the principal and interest owing under its outstanding 2014 Debentures (aggregate principal amount outstanding – \$113.9 million). The settlement of the 2014 Debentures was largely funded from the proceeds of a US\$100.0 million bank loan incurred by EHSI. The proceeds from the bank loan, together with available cash on hand from the U.S. business, were used to fund a US\$110.5 million cross-border dividend from EHI to EII in June 2014.

Mortgages

In August 2013, ECI renewed its existing \$15.4 million CMHC mortgage on three Ontario LTC centres for a term of five years at a fixed rate of 3.08%.

In September 2013, ECI refinanced three Manitoba LTC centres with conventional mortgages totalling \$26.0 million at a fixed rate of 4.14% for a term of seven years. The existing mortgages had a balance of \$15.3 million at June 30, 2013, maturing in November 2013.

In March 2014, ECI renewed its existing \$6.4 million CMHC mortgage on an Ontario LTC centre for a term of 10 years at a fixed rate of 3.62%.

LTC DEVELOPMENT PROJECTS

The following table summarizes the LTC development projects completed in the past three years. Further details are provided below.

	New Centres				Owned/Leased Centres Closed	
	Completion Date	Opening Date	No. of Centres	No. of Beds	No. of Centres	No. of Beds
LTC Development Projects						
Sault Ste. Marie, Ontario	March/13	April/13	1	256	(2)	(263)
Timmins, Ontario	October/13	October/13	1	180	(1)	(119)
			2	436	(3)	(382)

As part of the MOHLTC's initiative announced in 2007 to redevelop 35,000 LTC beds over 10 to 15 years (refer to the discussion under the heading "Description of the Business – Government Regulations and Funding – Ontario Redevelopment Program"), ECI received approval in 2009 to redevelop 382 beds in Timmins and Sault Ste. Marie and to add an additional 54 beds to its portfolio. Prior to completion of the new projects, ECI operated four LTC centres in these communities, represented by three owned LTC centres with 387 class "C" beds and one leased LTC centre with 95 interim beds. With the completion of these projects during 2013, ECI owns and operates three centres in these communities, consisting of 436 "New" beds in two centres and 100 class "C" beds in an existing owned centre to be considered for redevelopment at a later date. The aggregate cost of the two northern Ontario projects was approximately \$80 million, of which approximately 88% was financed through conventional financing secured in October 2011. In addition, we are receiving an annual capital funding subsidy from the MOHLTC of approximately \$2.0 million over a 25-year period.

DIVESTITURES

During 2013, the Company sold three Canadian properties (one in Alberta and two in Ontario) for \$3.7 million that had been closed following the completion of three new centres that the Company built in the same communities.

OTHER ACTIVITIES OF DISCONTINUED OPERATIONS

The following provides a summary of the significant events relating to Extendicare's former U.S. operations over the past three years.

2014 Settlement of U.S. Government Investigations

In October 2014, EHSI completed and executed a settlement agreement with the DOJ, OIG-HHS and multiple states, which fully and finally resolved the previously disclosed DOJ and OIG-HHS investigations and ancillary claims that were pending since 2010 (the "2010 U.S. Government Investigations").

Pursuant to the terms of the settlement, EHSI made a lump-sum payment of US\$38.0 million to the U.S. government, along with US\$1.0 million in other settlement costs. The payments in the amount of \$42.2 million (US\$39.0 million) were fully accrued for by EHSI in the 2014 second quarter, and the expense incurred by EHSI was reclassified to discontinued operations. EHSI denied engaging in any illegal conduct and agreed to the terms of the settlement without any admission of wrongdoing in order to resolve the investigations and ancillary claims and to allow the Company to avoid the expense, distraction, and uncertainty resulting from the broad investigations and to avoid the uncertainty of any protracted litigation.

As is standard practice in settlements of OIG-HHS and DOJ investigations, EHSI entered into a corporate integrity agreement with the OIG-HHS (the "CIA") for a five-year period effective October 3, 2014. Under the terms of the EII SPA, Extendicare has agreed to share in the costs incurred in order to implement and comply with the requirements of the CIA. Extendicare's annual cost sharing arrangement with the Purchaser is capped at US\$4.5 million, on the basis that the first US\$2.0 million aggregate annual amount of such costs will be borne by the Purchaser; the next US\$2.0 million aggregate annual amount will be borne by Extendicare; with the next US\$5.0 million aggregate annual amount to be shared equally between the Purchaser and Extendicare; and the balance of any excess costs incurred to be borne by the Purchaser. Extendicare estimates that its obligations to the Purchaser relating to the CIA will average approximately US\$2.0 million per year to October 2019. Though the actual costs for the Purchaser to comply with the CIA are difficult to estimate, the Company has included a provision for such costs in its provision for indemnification obligations. See "General Development of the Business – 2015 U.S. Sale Transaction".

Divestitures

The 2015 divestitures of the Company's discontinued operations are described under the heading "General Development of the Business – 2015 U.S. Sale Transaction".

DESCRIPTION OF THE BUSINESS

COMPANY PROFILE

Extendicare has been in operation since 1968, and prior to the U.S. Sale Transaction completed in July 2015, provided care and services to seniors in North America. The Company's primary intended use of the proceeds from the sale of the U.S. business is to expand and grow its Canadian operations across the sectors of the Canadian senior care continuum with the objective of becoming a leading provider of care and services for Canada's growing seniors' population. For further details on the U.S. Sale Transaction, refer to the discussion under the heading "General Development of the Business – 2015 U.S. Sale Transaction").

Extendicare's core business is the ownership and operation of long-term care centres and the provision of publicly funded home health care services. However, the Company will continue to seek growth opportunities to augment its core business and reduce the proportion of government-source revenue. Such opportunities include private-pay home health care and retirement communities, as well as providing full management, consulting, group purchasing, accounting and information technology services to third parties.

Extendicare's mission is to help people live better by providing quality, cost-effective health care primarily to seniors in a resident-centred environment. Our vision is to help people live better, one person at a time, through our people, properties and technology. We value our customers and our team who cares for them and are committed to treating our customers with dignity and respect in an atmosphere of compassion. As health care professionals, we take pride in being responsive to the needs of those who rely on us. By providing such needed services in an effective and efficient manner, we are able to generate what we believe to be an appropriate return for our shareholders who support our mission, vision and values.

OPERATIONS

As at February 29, 2016, Extendicare operated 118 senior care and living centres across four provinces in Canada, with capacity for 15,048 residents, with a significant presence in Ontario and Alberta, where approximately 71% and 16% of its residents were served, respectively. Through its ParaMed Home Health Care division, Extendicare operates from 47 locations across six provinces in Canada, providing approximately 10.7 million hours of service annually.

At its corporate office in Markham, Ontario, Extendicare's senior management provide the overall strategic direction, seek development and acquisition opportunities, and manage the overall long-term care, retirement living, home health care, management and consulting, and group purchasing businesses. Extendicare's corporate office includes senior management along with the corporate departments of human resources, internal audit, purchasing, engineering services, clinical and quality of life services, accounting and information technology. These corporate departments establish company-wide policies and procedures, standards, benchmarks and control procedures, and provide a resource for the area and field operations.

In addition, Extendicare has regional offices located in: Edmonton and Calgary, Alberta; Hamilton, London, Markham, Ottawa, and Sudbury, Ontario; and in Regina, Saskatchewan. The area office staff are responsible for and support the respective local operations by overseeing policies and programs pertaining to resident care, employee hiring, training and retention, marketing initiatives, risk management and facility maintenance. A quality department also provides oversight and support to enhance quality and manage risk.

The following table summarizes the senior care and living centres operated by Extendicare as at February 29, 2016, which consist of long-term care centres, retirement communities, and a chronic care unit. For financial reporting purposes, a centre is categorized based on the predominant level of care provided, the type of licensing and the type of funding provided. Some of our long-term care centres include wings housing retirement suites. In this case, the centre and its resident capacity is categorized as LTC centres, and its operations are included as part of our LTC operating segment. In addition, government-funded supportive living suites have been categorized as LTC centres due to the nature of the regulatory oversight and fixed-fee structure determined by the government.

	Long-term Care		Retirement Living		Chronic Care Unit		Total	
	No. of Centres	Resident Capacity	No. of Centres	Resident Capacity	No. of Centres	Resident Capacity	No. of Centres	Resident Capacity
By Province								
Owned/Leased								
Ontario	34	5,210	2	164	—	—	36	5,374
Alberta	14	1,495	—	—	—	—	14	1,495
Manitoba	5	762	—	—	—	—	5	762
Saskatchewan	5	649	4	342	—	—	9	991
	58	8,116	6	506	—	—	64	8,622
Managed								
Ontario	37	4,752	4	440	1	120	42	5,312
Alberta	4	526	6	420	—	—	10	946
Manitoba	2	168	—	—	—	—	2	168
	43	5,446	10	860	1	120	54	6,426
Total	101	13,562	16	1,366	1	120	118	15,048

All of Extendicare's centres, excluding those managed for third parties, are either owned or leased under finance lease arrangements. Nine of our LTC centres (1,155 LTC beds and 76 retirement suites) in Ontario are operated under 25-year finance lease arrangements, with full ownership obtained at the end of the lease term. We believe that ownership of our centres provides financial and strategic advantages.

Prior to the announcement of the U.S. Sale Transaction, the Company had two reportable operating segments that consisted of its U.S. operations and its Canadian operations. Following the completion of the U.S. Sale Transaction, the Company reports the following segments within its Canadian operations: i) long-term care; ii) retirement living; iii) home health care; iv) management and group purchasing as “other Canadian operations”; and v) the Canadian corporate functions and any intersegment eliminations as “corporate Canada”. The Company continues to segment its remaining U.S. operations as one segment, with the continuing operations consisting of VCPI and the Captive.

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

Long-term care (including government-funded supportive living)

Long-term care (LTC) centres are designed for individuals, usually seniors, that cannot live independently and require professional nursing care on a daily basis and 24-hour supervision. Provincial legislation and regulations closely control all aspects of operation and funding of long-term care centres, and government-funded supportive living centres. A substantial portion of the long-term care fees paid to providers of these services are funded by provincial programs, with a portion to be paid by the resident. In Alberta, designated supportive living offers services similar to that of a retirement community, and was introduced by AHS as an alternative setting for residents not yet requiring the needs of a more expensive LTC centre. The designated supportive living operations have been grouped with the LTC operations because they are licensed, regulated and funded by AHS, in a similar manner to LTC centres, including a fixed-fee structure determined by the government.

Extendicare’s LTC centres are designed for individuals who cannot be cared for at home or in another setting, due to factors such as physical limitations and cognitive impairment. In addition to providing accommodation and meals, residents receive assistance with activities of daily living and continuing care. Programs and services are offered to all residents and specialty programs are offered for those with behavioural needs.

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

Extendicare’s long-term care operations represented 56.9% and 60.7 % of consolidated revenue from continuing operations for the quarter and year ended December 31, 2015, respectively, compared to 71.4% and 71.5% in the same 2014 periods, respectively. The change in the revenue mix primarily resulted from the impact of growth in revenue outside of the long-term care segment due primarily to the Home Health Acquisition completed in April 2015.

Retirement Living

Private-pay retirement communities are typically subject to regulation by provincial and local health agencies, although such regulations are not as burdensome and complex as those governing long-term care centres. Extendicare’s retirement communities in Ontario are licensed by the Retirement Homes Regulatory Authority (Ontario), or RHRA, under the *Retirement Homes Act*, or RH Act; and its Saskatchewan retirement communities are licensed by the Community Care Branch of the Saskatchewan Ministry of Health, under *The Personal Care Homes Act*, or PC Act.

Through its subsidiaries, Extendicare owns and operates six retirement communities with capacity for 506 residents, all of which were newly acquired since October 2015, and are operated under our Esprit Lifestyle Communities brand (refer to the discussion under the heading “General Development of the Business – Expansion into Private-pay Retirement Sector”). Four of these retirement communities (342 suites) are located in Saskatchewan and two (164 suites) are located in Ontario. In addition, we have three (304 suites) under development in Ontario that are scheduled for completion in the fall of 2016 and the first half of 2017.

Extendicare’s retirement communities provide services to private-pay residents at rates set by the Company based on the services provided and market conditions. The monthly fees vary depending on the type of accommodation, level of care and services chosen by the resident, and sometimes on the location of the retirement community. Residents are free to choose the living arrangements best suited to their personal preference and needs and, more importantly, change the level of care and support they receive as their needs evolve over time.

Our Esprit Lifestyle Communities are for retired residents who, with the aid of basic care and services, are able to and want to live independently. Our retirement communities offer independent and enhanced living, including short-term stay, rest and respite care, and our Saskatchewan retirement communities offer dedicated memory care suites, as described below:

- independent living – our residents have the option to live completely independent within our retirement communities;
- enhanced living – we can provide varying levels of nursing and personal care services to our residents, with different tiers of care, from limited personal assistance to end of life care; and
- memory care – specific for seniors with alzheimer’s disease or other dementias. The design of our memory care suites promotes socialization among residents, family, and friends. Located throughout the community are interactive life-skills stations that encourage resident involvement in familiar activities of daily living.

Home Health Care

Extendicare provides home health care services through its ParaMed Home Health Care division, which operates from 47 branch offices in six provinces across Canada (40 in Ontario, 1 in British Columbia, 2 in Alberta, 1 in Manitoba, 2 in Quebec, and 1 in Nova Scotia), providing approximately 10.7 million hours of service annually. Throughout 2014 and the first quarter of 2015, ParaMed’s operations were solely in Ontario, where it provided approximately 1.2 million hours of service in the 2015 first quarter and 5.1 million hours for the year in 2014, making it the largest provider of publicly funded home health care in Ontario. Following the Home Health Acquisition, ParaMed’s operations more than doubled, with Ontario representing approximately 85% of the service volumes in the 2015 fourth quarter, followed by British Columbia at 9%, Alberta at 4%, and the balance provided in Manitoba, Quebec and Nova Scotia. Revenue from these operations represented 36.9% and 33.4% of consolidated revenue from continuing operations for the three and twelve months ended December 31, 2015, respectively (2014 – 22.7%).

ParaMed’s 11,300 professionals and staff members are skilled in providing complex nursing care, occupational, physical and speech therapy, and assistance with daily activities to accommodate clients of all ages living at home. Home health care alleviates the demand for in-hospital stays and senior care centres, and allows seniors the independence and dignity of remaining at home for as long as possible. Home care services are provided to individuals of all ages; however, seniors represent the largest group accessing these services. Provincial governments fund a wide range of home health care services, and contract these services to providers such as ParaMed. In 2015, ParaMed received approximately 97% of its revenue from contracts tendered by locally administered provincial agencies, with the remainder from private-pay clients.

In shaping the delivery of health care to Canadians, both the federal and provincial governments have stated that home health care is an area that merits further investment to ensure that more health care services are available in the home. Based on the approximate 10.7 million of hours of service provided annually, management believes that ParaMed is the largest private-sector provider of publicly funded home health care in Canada. As additional funds are allocated to this segment of the Canadian health care system, Extendicare anticipates ParaMed’s business to grow.

Other Canadian Operations

Extendicare’s other Canadian operations are composed of its management, consulting and group purchasing services. These operations represented approximately 2% of consolidated revenue from continuing operations in 2015.

Management and Consulting Services

Through its Extendicare Assist division, Extendicare has leveraged its expertise in operating senior care centres by providing a wide range of management and consulting services to third-party owners. Launched in 2011, Extendicare Assist partners with public, not-for-profit and private senior care centres that seek to improve their management practices, levels of care and operating efficiencies. Most of these contracts include management, accounting and purchasing services, staff training, reimbursement assistance, and where applicable, the implementation of Extendicare’s policies and procedures.

As a skilled manager and operator of senior care centres for third parties, Extendicare Assist's managed portfolio consisted of 54 centres with capacity for 6,426 residents as at February 29, 2016. This managed portfolio comprised 43 LTC centres (5,446 beds); 10 retirement communities (860 beds) and one chronic care unit (120 beds). The managed portfolio has grown by 17% from 5,470 resident capacity served at the end of 2014. Extendicare believes there will be more opportunities in the future to provide senior care centre management and consulting services to the public, not-for-profit, and private sectors.

Group Purchasing Services

Through its SGP Purchasing Partner Network division, Extendicare offers cost-effective purchasing contracts to other senior care providers for food, capital equipment, furnishings, cleaning and nursing supplies, and office products. Silver Group Purchasing negotiates long-term contracts that insulate members from rising costs, thereby providing a cost-effective way to secure quality national brand-name products, along with a range of innovative services. As at February 29, 2016, in addition to providing in-house services to Extendicare's owned/leased centres, SGP Purchasing Partner Network provided services to over 380 third-party clients representing over 36,800 seniors across Canada.

U.S. Continuing operations

Following the closing of the U.S. Sale Transaction, Extendicare retained its wholly owned subsidiaries, VCPI and the Captive. These operations represented approximately 4% of consolidated revenue from continuing operations in 2015.

Virtual Care Provider, Inc.

Since 2001, Extendicare has offered information technology hosting and professional services to long-term and post-acute health care providers across the U.S. through VCPI. VCPI provides a full continuum of information technology services, including hosting and application support from its data centre in Milwaukee, Wisconsin, facility technology installation and management, network management services and professional consulting services. As at December 31, 2015, VCPI was providing services to 2,032 external health care providers in 48 states.

Captive Insurance Company

Prior to the U.S. Sale Transaction, Extendicare self-insured certain risks related to general and professional liability of its disposed U.S. operations through the Captive. The obligation to settle any claims incurred prior to the closing of the U.S. Sale Transaction, including claims incurred but yet to be reported, remains with Extendicare through the Captive.

As at December 31, 2015, the accrual for such U.S. self-insured general and professional liabilities was US\$107.2 million and the investments held for U.S. self-insured liabilities totalled US\$127.7 million. The provisions for loss for our professional liability risks are based upon management's best available information, including actuarial estimates. The Captive is currently appropriately capitalized, but there can be no assurance that it will remain appropriately capitalized in the future should claims incurred prior to the closing of the U.S. Sale Transaction, including claims incurred but yet to be reported, increase significantly.

SENIOR CARE INDUSTRY

Aging Population

The demographic wave of the aging population is approaching and is a leading driver of demand for senior care services. The significant impact of the wave will occur between the years 2020 and 2040. All baby boomers will have reached the age of 65 by 2031, and the first baby boomer will reach the age of 80 in 2026.

According to reports published by Statistics Canada, the proportion of seniors (aged 65 years or older) within the population has steadily grown from approximately 8% in 1960 to approximately 15% in 2011 (source: Statistics Canada, published May 2012 (based on 2011 census), *Generations in Canada, Age and Sex, 2011 Census*, catalogue no. 98-311-X). By 2036, the number of seniors aged 65 years or older would be more than double the 4.9 million in 2011, and would vary between 9.9 million and 10.9 million persons, representing between 23% and 25% of the population by 2036. By 2061, the number of seniors would vary between 11.9 million and 15.0 million, representing between 24% and 28% of the population (source: Statistics Canada, published June 2010 (based on 2006 census), *Population Projections for Canada, Provinces and Territories, 2009 to 2036*, catalogue no. 91-520-X). The average age of long-term care centre residents is in the low to mid-eighties.

Supply/Demand Imbalance

The restrictions that have been placed on the construction of new LTC centres in Canada could result in an imbalance between the future demand for LTC services and the demographic wave. This imbalance will be dictated by a number of factors, including the number of LTC beds in the marketplace, the ability of alternative care centres, such as retirement living communities, to accommodate the needs of the public, advances in technology and public funding of home health care. We believe that there are limitations on the ability of alternative care centres and government funding to meet health care needs. Therefore, the limitations placed on the issuance of new licensed LTC beds along with the natural attrition of the current stock of LTC beds will lead to a supply/demand imbalance in the 2020 to 2040 period.

The provinces restrict the number of licensed LTC beds and new licenses are awarded through an RFP process. In addition, there are approvals required on the acquisition and transfer of licenses on acquisitions. Such restrictions on supply, coupled with an aging population, have resulted in a decline in the availability of LTC beds for people aged 85 or older.

According to reports published by Statistics Canada (*Residential Care Facilities 2003/2004* and *Residential Care Facilities 2009/2010*), the number of “homes for the aged” has risen from 1,941 centres (188,755 approved beds), at the end of the 2003/2004 financial year, to 2,136 centres (215,313 approved beds), at the end of the 2009/2010 financial year. This represents a growth rate of approximately 2.2% per annum over the six-year period, which was less than the growth rate of the over-65 age bracket. In Ontario, Extendicare’s largest market, as at August 31, 2015, there were 627 LTC centres (78,583 beds) with approximately 99% of the beds occupied, and approximately 25,464 individuals on the wait list (up 11.5% from a year ago) (source: MOHLTC Health Data Branch August 2015 report). It is estimated that by 2035, there will be nearly 238,000 Ontarians in need of long-term care (source: OLTCA January 2011 report). A large number of hospitals have difficulty dealing with shorter term admissions due to the number of long-term care residents that occupy beds within their centres and the associated capacity problems. There has been minimal focus on offering and providing funding for rehabilitative services to residents in Canadian long-term care.

Advances in medical technology are enabling the treatment of certain medical conditions outside of a hospital setting. As a result, the number of patients requiring a higher degree of monitoring, more intensive and specialized medical care, 24-hour nursing, and a comprehensive array of rehabilitative therapies is increasing. Extendicare believes that such specialty care can be provided in long-term care centres at a significantly lower cost than in traditional acute care and rehabilitation hospitals. In addition, for an aging population seeking a higher quality living alternative, retirement living communities offer an array of accommodations and selective long-term care and other services on a more cost-effective basis for the individual.

Cost Containment Pressures

Government costs to provide health care are a growing proportion of total government spending. Though long-term care funding represents a relatively small proportion of total health care funding, it will continue to escalate, causing governments to continue to seek means to restrain funding to long-term care providers. Therefore, within the competitive marketplace, the more successful operators will be those who can provide higher quality services at lower costs. Extendicare believes that senior care companies that have the effective and integrated clinical and financial information systems that interface their information with other health care providers, as is Extendicare’s goal, will be in a better position to compete in the ever changing marketplace.

As the number of people aged 65 and older continues to grow and as advances in medicine and technology continue to increase life expectancies, health care costs are expected to rise faster than the availability of resources from government-sponsored health care programs. In response to such rising costs, governmental and private-pay sources have adopted cost containment measures that encourage reduced lengths of stay in acute care hospitals. As a result, many patients are discharged despite a continuing need for nursing or specialty health care services, including therapy. This trend has increased the demand for alternative care settings.

Changing Family Dynamics

Families are the primary source of care-giving for family members. In Canada, about 8.1 million people, or 28% of the population, aged 15 years and older, provided care to a family member or friend with a long-term health condition, disability or aging needs (source: Statistics Canada Study: *Caregivers in Canada, 2012*, released September 2013). But as a result of the growing number of two-income families, Extendicare believes that the immediate family has become less of a primary source of care for seniors. At the same time, two-income families are better able to provide financial support for elderly parents so they can receive the care they need in a nursing or assisted living centre.

Competition

Extendicare's competitors in the Canadian senior care industry include private and public-sector operators who operate a mix of long-term care, assisted living, independent and retirement centres. Historically, there have been few transactions involving the transfer of ownership of long-term care centres. However, the Ontario redevelopment plans and limitation on the current licenses of class "B" and "C" centres, has prompted some changes in ownership within the Province of Ontario.

The home health care sector has both profit-oriented and not-for-profit providers, with ParaMed being the largest provider of publicly funded home health care in Ontario, and we believe the largest in Canada, based on service hours provided. With the elimination of the competitive bidding process in the province, opportunities for growth in the government-funded space are more likely to occur through acquisition.

Extendicare's group purchasing, along with its management and consulting services, compete with other similar operations in the long-term care industry.

BUSINESS STRATEGY

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

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

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

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

There are a number of initiatives that impact our pursuit of this strategy, some of which are expanded upon below.

Provide Quality Services to Help People Live Better

Extendicare's internal quality assurance processes and policies are aligned with current legislative requirements. Internal consulting and quality performance improvement resources are directed towards assisting our centres in achieving compliance and continuously improving quality of care, quality of life and safety. Our quality department monitors, assesses and reports to senior management and the Board on the overall quality of care and services in relation to established national standards and internal goals. To mitigate regulatory compliance risk, tracking systems monitor results of inspections and internal audits. Where performance varies from standards, plans of correction are established along with education including direct hands-on training.

Adapt to Industry Changes and Position for Success in Evolving Health Care Environment

The health care environment is continually evolving as the amount of health care spending within governments continues to escalate as a percentage of total government spending. Extendicare recognizes that senior care will continue to be an important element as governments attempt to manage and reduce the overall cost of health care. Therefore, members of our senior management team serve on the boards of provincial associations and advisory organizations to assist in the challenges of meeting the needs of the aging population.

Ontario Redevelopment Program

Extendicare owns 21 LTC centres with 3,287 class “C” beds in Ontario, which are eligible for redevelopment under the MOHLTC’s enhanced redevelopment program. Extendicare’s management team has the necessary skills and ability to take full advantage of the government’s proposals, having designed and developed 13 of its own LTC centres in Ontario and three senior care centres in Alberta since 1998. Should Extendicare decide to rebuild or renovate all of its remaining class “C” beds, management estimates that the capital outlay would be in excess of \$375 million, with the actual amount dependent on a number of factors, including the cost of construction and prescribed design standards. Management estimates that approximately 20% to 25% of the total cost would be required to be funded by equity. For more information, refer to the discussion under the heading “Description of the Business – Government Regulations and Funding – Ontario Redevelopment Program”.

Expansion into Private-pay Retirement Sector

As part of the execution of our strategy to grow along the senior care continuum and diversify our revenue through additional non-government revenue streams, we are expanding into the private-pay retirement sector through the acquisition and development of retirement communities under our Esprit Lifestyle Communities brand. Since the fall of 2015, we have acquired six retirement communities (506 suites) in Ontario and Saskatchewan, and are in the process of developing three retirement communities (304 suites) in Ontario. We will continue to seek acquisition and development opportunities of retirement communities with a view to augmenting our core operations and reducing our proportion of government-source revenue.

Since the early 1980s, Extendicare’s operations in Canada have included private-pay retirement suites, either as part of its own portfolio or within its management services operations, which currently manages for others 10 private-pay retirement communities (860 suites). Our Vice President of Extendicare Assist Managed Homes and Consulting, who currently oversees our managed centres portfolio, also has over 10 years of experience as a regional director in the operation and management of retirement communities, both with Extendicare and a competitor. As well, in 2010, Extendicare completed the construction of two centres in Alberta, one of which is a stand-alone 140-suite government-funded designated supportive living centre and the other includes a 60-suite designated supportive living wing. These designated supportive living suites offer services similar to that of a retirement community. The Alberta operations are overseen by our Vice President of Western LTC Operations who also has prior experience with private-pay retirement suites. The Company acquired experienced employees at the local level with each of the recent acquisitions, and the Company has recently hired an experienced vice president to head up the division.

Growth through Management, Consulting and Group Purchasing Services

Through our Extendicare Assist division, we continue to leverage our expertise in owning and operating senior care centres to assist a diverse range of partners, which include not-for-profit and for-profit organizations, hospitals, and municipalities. Since the end of 2011, Extendicare Assist has the resident capacity of its senior care centres under management has increased from 2,658 to 6,426.

Through our SGP Purchasing Partner Network division, we continue to leverage our purchasing power to provide cost-effective services to senior care providers. Through a renewed focus on the important relationships with our members and suppliers, we have expanded the number of third-party clients served from 27,100 seniors across Canada at the end of 2014 to 29,600 at the end of 2015, and to 36,800 in the first quarter of 2016.

Growth in Home Health Care Operations

Through our ParaMed Home Health Care division, our strategy is to expand our market share in the Canadian home health care business both through geographic locations and the nature of programs and services provided. The Home Health Acquisition was a significant step in executing on this strategy, providing Extendicare with a high quality revenue stream and relatively low capital requirements. Approximately 97% of ParaMed’s revenue in 2015 was from government programs. This acquisition expanded our platform into five additional provinces, more than doubled our service volumes, and provided us with the opportunity to expand the private-pay segment of the business. For further information on the Home Health Acquisition refer to the discussion under the heading “General Development of the Business – 2015 Home Health Acquisition”.

Increasing Funds from Operations and Adjusted Funds from Operations

Extendicare believes that the execution of each of the strategies outlined above will contribute to growth in its earnings and cash flow, which in turn will increase its funds from operations and adjusted funds from operations, all with a view to enhancing value for its Shareholders.

COMPETITIVE STRENGTHS

Leading Provider of Long-term Care and Home Health Care Services

Based on information available to us, Extendicare is the largest private-sector operator of LTC centres in Canada, and we believe, the largest provider of publicly funded home health care in Canada. Ontario is Extendicare's largest market where it currently operates, approximately 13% of the province's LTC beds, including those centres it manages for third parties, and provides an estimated 30% of the province's publicly funded home health care volumes. Alberta is Extendicare's second largest market, where it currently operates, including those centres it manages for third parties, approximately 8% of the LTC and government-funded designated supportive living beds in the province.

The scope of Extendicare's operations enables it to achieve economies of scale and to keep its costs down, through the provision of purchasing and information technology support services.

Commitment to Core Business

Extendicare remains committed to its core senior care operations, while continuing to grow its complementary services. Approximately 72% of our revenue from continuing operations for 2014 was from our LTC operations, and in the fourth quarter of 2015, this reduced to approximately 57%, primarily as a result of the impact of growth in revenue from our home health care and ancillary operations. Management will continue its strategy of augmenting its core business and reducing the proportion of government-source revenue, through seeking growth opportunities in the private-pay home health care and retirement living sectors, and continued expansion of our full management, consulting, group purchasing, accounting and information technology services.

Experienced Operator with Strong Management Team

Extendicare has been in the senior care business in Canada since 1968. The members of our senior management team has on average over 24 years of experience in the health care industry and over 16 years of service with Extendicare.

Due to the level of industry experience of our senior management team, we believe our leadership team will continue to add considerable value and play an important role in shaping the future direction of senior care within federal and provincial associations and in developing strategic partnerships within the health care business. As well, due to its history and reputation, Extendicare has been successful in recruiting talented management even during challenging times, further strengthening its already experienced executive and operating management team.

Management Focus on Key Performance Metrics

Extendicare has developed and established systems to report on and monitor key business metrics involving the quality of services, effectiveness of its operations and financial performance of its portfolio. Senior management is proficient at focusing on the key metrics and regularly conducting meetings to address variances from standards or targets as they may occur.

PROPERTIES

The following tables list the senior care and living centres operated by Extendicare that it either owns or leases, as at February 29, 2016. Nine of our LTC centres in Ontario are operated under 25-year finance lease arrangements maturing beginning in 2026 through to 2028, with full ownership obtained at the end of the respective lease terms.

Name of Owned/Leased Centre	Location	Year Built	Composition of Beds/Suites					
			Preferred		Basic	Short Stay or Convalescent	Total	
			Private	Semi-Private				
Ontario LTC "New" Centres								
1	Extendicare Brampton	Brampton	2001	83	-	55	12	150
2	Extendicare Cobourg	Cobourg	2002	41	-	28	-	69
3	Extendicare Halton Hills	Georgetown	2003	78	-	52	-	130
4	Extendicare Hamilton	Hamilton	2002	96	-	64	-	160
5	Extendicare Kawartha Lakes	Lindsay	2001	38	-	26	-	64
6	Extendicare Lakefield	Lakefield	2001	60	-	38	2	100
7	Extendicare Maple View	Sault Ste. Marie	2013	154	-	102	-	256
8	Extendicare Mississauga	Mississauga	2002	84	-	56	-	140
9	Extendicare Port Hope	Port Hope	2003	76	-	52	-	128
10	Extendicare Rouge Valley	Toronto	2003	114	-	77	1	192
11	Extendicare Southwood Lakes	Windsor	2001	90	-	60	-	150
12	Extendicare Tecumseh	Tecumseh	2003	77	-	51	-	128
13	Extendicare Timmins	Timmins	2013	108	-	72	-	180
13 Ontario LTC "New" Centres			1,099	-	733	15	1,847	
			59.5%	-	39.7%	0.8%	100.0%	
Ontario LTC "C" Centres								
1	Extendicare Bayview Villa	Willowdale	1970	46	74	82	1	203
2	Extendicare Falconbridge	Sudbury	1973	20	118	94	2	234
3	Extendicare Guildwood Villa	Westhill	1967	15	86	66	2	169
4	Extendicare Haliburton	Haliburton	1976	10	18	32	-	60
5	Extendicare Kapuskasing	Kapuskasing	1974	4	30	25	2	61
6	Extendicare Kingston	Kingston	1974	13	70	67	-	150
7	Extendicare Kirkland Lake	Kirkland Lake	1977	16	44	38	2	100
8	Extendicare Laurier Manor	Gloucester	1970	50	94	96	2	242
9	Extendicare London	London	1970	36	66	67	1	170
10	Extendicare Medex	Ottawa	1973	5	111	77	-	193
11	Extendicare New Orchard Lodge	Ottawa	1965	15	52	42	2	111
12	Extendicare Oshawa	Oshawa	1973	7	87	63	18	175
13	Extendicare Peterborough	Peterborough	1972	34	60	65	15	174
14	Extendicare Port Stanley	Port Stanley	1977	8	20	31	1	60
15	Extendicare Scarborough	Scarborough	1970	3	64	60	23	150
16	Extendicare St. Catharines	St. Catharines	1971	12	78	62	1	153
17	Extendicare Starwood	Nepean	1971	20	96	76	-	192
18	Extendicare Tri-Town	Haileybury	1974	6	30	23	1	60
19	Extendicare Van Daele	Sault Ste. Marie	1979	20	32	34	14	100
20	Extendicare West End Villa	Ottawa	1982	86	48	106	2	242
21	Extendicare York	Sudbury	1973	50	122	90	26	288
21 Ontario LTC "C" Centres			476	1,400	1,296	115	3,287	
			14.5%	42.6%	39.4%	3.5%	100.0%	
34 Ontario LTC Centres			1,575	1,400	2,029	130	5,134	
			30.7%	27.3%	39.5%	2.5%	100.0%	
- Ontario Assisted Living (wings at Cobourg & Lindsay)			76	-	-	-	76	
Ontario Retirement Communities								
1	Empire Crossing	Port Hope	2015	64				64
2	Harvest	Tillsonburg	2011	100				100
2 Ontario Retirement Communities			164	-	-	-	164	
36 Total Ontario Centres			1,815	1,400	2,029	130	5,374	

Name of Owned Centre		Location	Year Built	Composition of Beds/Suites			
				Private	Semi-Private	Basic	Total
Alberta Long-term Care Centres							
1	Extendicare Athabasca	Athabasca	1967	22	28	-	50
2	Extendicare Bonnyville	Bonnyville	1966	28	22	-	50
3	Extendicare Cedars Villa	Calgary	1964	41	207	-	248
4	Extendicare Eaux Claires	Edmonton	2011	180	-	-	180
5	Extendicare Fort MacLeod	Fort MacLeod	1966	20	30	-	50
6	Extendicare Hillcrest	Calgary	1965	20	92	-	112
7	Extendicare Holyrood	Edmonton	1965	20	54	-	74
8	Extendicare Leduc	Leduc	1965	21	58	-	79
9	Extendicare Michener Hills	Red Deer	2010	208	12	-	220
10	Extendicare Mayerthorpe	Mayerthorpe	1966	22	28	-	50
11	Extendicare St. Paul	St. Paul	1966	30	46	-	76
12	Extendicare Viking	Viking	1965	36	24	-	60
13	Extendicare Vulcan	Vulcan	1965	28	18	-	46
13 Alberta LTC Centres				676	619	-	1,295
Alberta Designated Supportive Living							
-	Extendicare Michener Hills (wing)	Red Deer	2010	60	-	-	60
1	Extendicare Fairmont Park	Lethbridge	2010	140	-	-	140
1 Alberta DSL Centres				200	-	-	200
14 Alberta Centres				876	619	-	1,495
Manitoba Long-term Care Centres							
1	Hillcrest Place	Brandon	1972	20	80	-	100
2	Oakview Place	Winnipeg	1970	37	208	-	245
3	Red River Place	Selkirk	1982	94	10	-	104
4	Tuxedo Villa	Winnipeg	1971	41	172	-	213
5	Vista Park Lodge	Winnipeg	1982	90	10	-	100
5 Manitoba Centres				282	480	-	762
Saskatchewan Long-term Care Centres							
1	Extendicare Elmview	Regina	1963	18	28	16	62
2	Extendicare Moose Jaw	Moose Jaw	1963	21	100	4	125
3	Extendicare Parkside	Regina	1965	12	80	136	228
4	Extendicare Preston	Saskatoon	1964	20	46	16	82
5	Extendicare Sunset	Regina	1971	10	120	22	152
5 Saskatchewan Centres				81	374	194	649
Saskatchewan Retirement Communities							
1	Stonebridge Crossing	Saskatoon	2012	116	-	-	116
2	Riverbend Crossing Memory Care	Regina	2013	68	-	-	68
3	West Park Crossing	Moose Jaw	2016	79	-	-	79
4	Yorkton Crossing	Yorkton	2016	79	-	-	79
4 Saskatchewan Retirement Communities				342	-	-	342
9 Saskatchewan Centres				423	374	194	991
Total Extendicare Owned/Leased Centres							
57	Long-term care						7,840
-	Private-pay assisted living wings						76
1	Government-funded supportive living						200
58 Total of long-term care operating segment							8,116
6 Total of private-pay retirement communities							506
64 Total Extendicare Owned/Leased Centres							8,622

QUALITY OF CARE

Commitment to Care

Extendicare's commitment to excellence emphasizes the corporate philosophy of treating residents and clients with dignity and respect. Extendicare conducts consumer satisfaction surveys for residents, clients and their families and maintains an employee hotline. We work with resident and family councils to improve the quality of care and ensure programs and services, including meal service, meet resident needs and preferences. Our 2014/2015 Quality and Social Responsibility Report highlights many of our key accomplishments, a copy of which is available on our website at www.extendicare.com.

There has been a move by provincial governments towards increasing accountability and transparency. In most provinces, care and accommodation audits and other inspection reports are posted online. Extendicare ensures that any compliance issues are resolved promptly and it shares this information with residents, families and other stakeholders. Extendicare also works with regional health authorities, quality councils and researchers on initiatives to improve safety, quality of care and quality of life. Extendicare has been actively involved with Health Quality Ontario (HQO) since they began driving formal quality improvement initiatives in the long-term care sector, with all of our LTC centres having submitted quality improvement plans to HQO. Extendicare also participates in research projects to improve palliative care, dementia care and appropriate prescribing of medications.

Extendicare aims to remain a destination of choice for those requiring senior care services. All of Extendicare's owned long-term care centres and its ParaMed operations are accredited by Accreditation Canada. In fact, ParaMed's operations and all of Extendicare's owned long-term care centres in Ontario achieved "Accredited with Exemplary Standing" status, the highest level of accreditation awarded to organizations that go beyond the requirements and demonstrate excellence in quality improvement. As well, a number of Extendicare's employees are approved surveyors with Accreditation Canada and with the Commission on Accreditation of Rehabilitation Facilities Canada.

In addition, Extendicare strives to be a leader in resident safety. For example, well before it was mandatory to do so, Extendicare installed fire suppression sprinkler systems in all of its owned centres, and has fitted all of its owned centres with carbon monoxide detectors. Extendicare continues to monitor fire safety in all centres. Extendicare's fire and life safety consultant conducts annual inspections and fire drills in all of its centres and trains staff on safe evacuation procedures.

Extendicare's commitment to quality care begins with its Board of Directors, through its Quality and Compliance Committee (the "QC Committee"). The primary objective of the QC Committee is assuring that Extendicare has in place the programs, policies and procedures to support and enhance the quality of care provided and compliance with applicable health care laws and regulations. The QC Committee's responsibilities include: providing oversight of Extendicare's clinical, compliance and quality programs; monitoring Extendicare's clinical performance and outcomes against internal and external benchmarks; and reviewing policies, procedures and standards of conduct designed to provide the appropriate quality of care, resident/client safety and compliance with applicable laws and regulations. In addition, the Board participates in tours of Extendicare's senior care centres to enable a hands-on observation of Extendicare's quality practices, and to provide the Board with an opportunity to converse with the employees across all levels of the operation.

Employee Training

Training of employees at all levels is an integral part of Extendicare's ongoing efforts to improve and maintain quality services. Each newly employed administrator participates in an extensive orientation program covering senior care centre management. Employees are also afforded additional training on a regional or local basis, and training and educational needs are regularly assessed to support solid foundational understanding of all aspects of operations including clinical, management and business operations.

GOVERNMENT REGULATIONS AND FUNDING

In Canada, provincial legislation and regulations closely control all aspects of operation and funding of long-term care centres and publicly funded home health care services, including the fee structure, subsidies, the adequacy of physical centres, standards of care and accommodation, equipment and personnel. A substantial portion of the fees paid to providers of these services are funded by provincial programs, with a portion to be paid by the residents or clients. Nobody is refused access to long-term care because of financial difficulty. A government subsidy, generally based on an income test, is available for long-term care residents who are unable to afford the resident co-payment.

Government authorities often set the rates following consultation with the providers and their industry associations. This type of system reduces the potential for a single change or event to significantly affect the reimbursement or regulatory environment for Extendicare. Each province has a different system for managing the services provided. In some provinces, the government has delegated responsibility for the funding and administration of long-term care programs to regional health authorities. As a result, there can be significant variability in the regulations governing the provision of and reimbursement for care from location to location. In Ontario, funding for long-term care is established by the MOHLTC, and is administered through Local Health Integration Networks, which are responsible for the regional administration of public health care services. In Alberta, authority for provincial funding is under AHS, which is a single provincial governance board. In Saskatchewan and Manitoba, the government has delegated authority with respect to funding to regional health authorities.

In most provinces, a license must be obtained from the applicable provincial ministry of health in order to operate an LTC centre, and the issuances of new licenses are controlled based on government-perceived local demand and budget constraints. In general, there has not been any issuance of new licenses for LTC beds across the country because of the funding implications for governments. In addition to the license procedure, or in some provinces in place of, LTC operators in Alberta, Manitoba, Ontario and Saskatchewan are required to sign service contracts that incorporate service expectations with the provincial government or a regional health authority. In most provinces, the operation of retirement communities also requires a license from the applicable provincial government; however the issuances of such licenses is less restrictive as the funding for these services is generally private-pay.

Ontario Long-term Care

Ontario is Extendicare's largest market for its senior care services. Funding for Ontario long-term care centres is based on reimbursement for the level of care assessed to be required by the residents, in accordance with scheduled rates. The provincial MOHLTC allocates funds through "funding envelopes", specifically: nursing and personal care (NPC); programs and support services (PSS); and accommodation (which includes a sub-envelope for raw food). The funding for the NPC and PSS envelopes is generally adjusted annually based on the acuity of residents as determined by a classification assessment of resident care needs. The NPC, PSS and food envelopes are "flow-through" envelopes, whereby any deviation in actual costs from scheduled rates is either absorbed by the provider (if actual costs exceed funding allocations) or is returned to the MOHLTC (if actual costs are below funding allocations).

With respect to the accommodation envelope, providers retain any excess funding received over costs incurred. The province sets the rates for standard accommodation, as well as the maximum amounts that a provider can charge for semi-private and private accommodation (preferred accommodation). The provider is allowed to bill and retain the premiums charged for preferred accommodation. The accommodation rates are substantially paid for by the resident; however, the province guarantees funding for standard accommodation through resident subsidies.

Operators are permitted to designate up to 60% of the resident capacity of a centre as preferred accommodation at higher fixed rates that vary according to the structural classification of the LTC centre. For beds that are not classified as "New" or "A" beds, the maximum preferred accommodation premiums are \$8.00 per day for a semi-private room and \$18.00 per day for a private room (for bed classifications, refer to the discussion below under the next heading "Ontario Redevelopment Capital Funding"). Since July 2012, the MOHLTC has introduced modest annual increases to the preferred accommodation premiums for "New" and "A" beds of \$1.00 per day for semi-private accommodation and \$1.75 per day for private accommodation, bringing the maximum preferred accommodation premiums to \$12.00 per day and \$25.00 per day, respectively. These increases are only applicable to newly admitted residents to beds that are classified as "New" or "A".

The following summarizes the current composition of Extendicare's owned/leased LTC centres in Ontario.

Ontario Owned/Leased	No. of Centres	Composition of Beds				Total
		Private – up to \$25.00 premium	Private \$18.00 premium	Semi-private \$8.00 premium	Basic/Other	
"New"	13	1,099	–	–	748	1,847
"C"	21	–	476	1,400	1,411	3,287
	34	1,099	476	1,400	2,159	5,134

Overall government funding is occupancy-based, but once the average occupancy level of 97% or higher is achieved, operators receive government funding based on 100% occupancy. In 2011, the MOHLTC implemented an occupancy protection program for occupancy levels between 90% and less than 97%, provided certain policy conditions are met. Under the occupancy protection program, providers with occupancy levels equal to 90% and less than 94% receive funding based on their actual occupancy plus 1%, and those with occupancy levels equal to 94% and less than 97% receive funding based on their actual occupancy plus 2%. For 2015, all of Extendicare's LTC centres in Ontario achieved the 97% occupancy threshold, with an overall average of 98.2%.

In addition, the MOHLTC provides supplemental funding to nursing centres that are accredited by either Accreditation Canada or by the Commission on Accreditation of Rehabilitation Facilities (CARF). All of Extendicare's owned long-term care centres in Ontario are accredited by Accreditation Canada.

Ontario Redevelopment Capital Funding

The MOHLTC categorizes and provides structural compliance and capital funding for centres according to categories "A" through to "D" or "New", based upon the centre's design standards, irrespective of the type of care provided.

- (1) "New" centres are those built to meet the criteria published by the MOHLTC dated May 1999, or former "D" centres refurbished to meet criteria published by the MOHLTC in 2002;
- (2) "A" centres are those that significantly exceed the previous 1972 design standards, but fall short of the current design standards;
- (3) "B" centres are those that have been upgraded from the 1972 design standards but do not meet the current design standards;
- (4) "C" centres are those that meet the 1972 design standards; and
- (5) "D" centres are those that do not meet the 1972 design standards.

The MOHLTC provides three types of per diem capital funding to operators on a per bed basis according to the bed categories:

- (1) Structural compliance funding is currently provided to operators who have fully or partially financed their own construction costs at \$5.00 for "A" beds, \$2.50 for "B" beds and \$1.00 for "C" beds.
- (2) Capital cost funding of \$10.35 over 20 years was provided for centres constructed after April 1, 1998, and for "D" beds that were upgraded to the current design standards.
- (3) Capital cost funding of \$13.30 (base rate) over 25 years was provided for conversion of "B" and "C" centres either through new construction or renovation under design standards established in May 1999. In February 2015, the government released revisions to the redevelopment program, as discussed below under the heading "Ontario Redevelopment Program".

Extendicare owns 11 "New" nursing centres (1,411 beds) in Ontario that were built between 2001 and 2004, of which 1,337 of the beds receive per diem capital funding of \$10.35 per bed over 20 years, 34 beds receive structural compliance funding of \$2.50 per bed, and 40 beds receive structural compliance funding of \$5.00 per bed. Extendicare also owns two nursing centres (436 beds) in Ontario that were built in 2013, which receive per diem capital funding of \$14.30 per bed over 25 years, which reflects a further \$1.00 per bed over the base rate for achieving LEED Silver status. The MOHLTC has confirmed that these two centres are eligible to receive an additional subsidy under the enhanced redevelopment program of up to \$17.65 per bed once the existing agreements are amended. Extendicare's remaining 21 owned centres (3,287 beds) in Ontario are "C" rated.

Ontario Long-term Care License Terms

In Ontario, the LTC Act 2007 provides for, among other things: new licensing procedures that include more rigorous standards for license review (including public hearings); fixed license terms of up to 30 years, after which a new license may or may not be issued; the revocation of a license for continued non-compliance; more onerous duties imposed on long-term care operators; unannounced annual inspections; and a more comprehensive enforcement regime. Long-term care operators will be given notification of whether or not a new license will be issued at least three years before the end of the license term.

Under the LTC Act 2007, the maximum fixed license terms in Ontario are as follows:

- four years for a centre with class “D” beds that have not been upgraded;
- 10 years for a centre with upgraded class “D” beds;
- 15 years for a centre with class “C” and “B” beds;
- 25 years for a centre with class “A” beds; and
- 30 years for “New” centres (denoted as being built post 1998).

As at December 31, 2015, Extendicare owned 13 “New” centres (1,847 beds) in Ontario, 11 of which have license terms expiring in June 2035 and two have license terms expiring in 2043. Extendicare’s remaining 21 owned centres in Ontario have 3,287 “C” beds with license terms expiring in June 2025. These “C” bed centres are eligible for redevelopment under the MOHLTC’s enhanced redevelopment program, as discussed further below.

Ontario Redevelopment Program

On February 27, 2015, the MOHLTC released updates to its plan to redevelop approximately 31,000 older long-term care beds by the end of 2025, including a new construction funding subsidy policy and a new LTC centre design manual. The new per diem construction funding subsidy includes: an increase to the base rate from \$13.30 to \$16.65 per bed for large centres of 161 beds or more; an incremental per diem of \$1.50 per bed for small centres with up to 96 beds; an incremental per diem of \$0.75 per bed for medium centres with 97 – 160 beds; and a per diem of \$0.38 per bed for those centres eligible for enhanced transition support. In addition, LTC centres are no longer required to meet LEED construction standards; however, those that achieve LEED Silver status will continue to receive a per diem premium of \$1.00 per bed. As a first step towards scheduling redevelopment projects, all operators completed a survey to assist the MOHLTC with gauging interest and readiness. Operators who are ready and interested in proceeding are being asked to complete an application form to facilitate the MOHLTC in capturing information required for both the capital redevelopment and the licensing process. We are working towards the redevelopment of our first project in this phase. Following their redevelopment, LTC centres meeting the enhanced design standards will be eligible to receive a 30-year license. In addition, the government amended the LTC Act 2007 to extend the maximum term of LTC centre licenses for “New” and “A” beds by five years (to a maximum of 30 years), effective January 1, 2015.

Should Extendicare decide to rebuild or renovate all of its 21 centres with 3,287 class “C” beds, management estimates that the total cost would be in excess of \$375 million, with the actual amount dependent on a number of factors, including the cost of construction and prescribed design standards. Management estimates that approximately 20% to 25% of the total cost would be required to be funded by equity.

Alberta Long-term Care and Designated Supportive Living

Alberta is Extendicare’s second largest market for its senior care services in Canada. Based on information available as at March 31, 2015, the Alberta market had approximately 23,700 LTC and government-funded designated supportive living beds, of which approximately 8% are operated by Extendicare (including those under management contracts).

In Alberta, AHS is responsible for the delivery of health services for the entire province, reporting directly to the Minister of Health and Wellness. Since April 2010, AHS has been using an activity-based funding system for continuing care centres, that includes the measurement of a resident’s acuity through the use of RAI-MDS to determine the resident’s level of care and resources required. However, AHS continues to adjust the formulas and the accountabilities. The funding model includes a separate pool for quality incentives funding (QIF) that represents a “quality bonus” awarded to centres meeting or exceeding a set of pre-determined quality criteria. The QIF program was implemented in April 2011, and was used to determine an operator’s eligibility for 0.2% of its government funding, based on four pre-determined quality indicators. However, the QIF program has been placed on hold since fiscal 2013, pending further development. The Alberta Continuing Care Association is actively engaged in discussions with the Alberta Government and AHS to further increase care funding to accommodate expenses within continuing care, and to revise the existing funding model used within continuing care. It was anticipated that a revised care funding model would be implemented for fiscal 2016/2017; however, the new provincial government has not communicated any changes to date.

In Alberta, the *Supportive Living Accommodation Licensing Act*, or SLAA governs Extendicare’s designated supportive living operations. Licenses are issued for a term of up to three years, following which a renewal application is required. Operating standards under the SLAA are similar to those in Ontario, covering such things as building code and maintenance requirements, environmental standards, accommodation standards, medication policies, nutrition

requirements, prevention of abuse, safety and security. Centres are subject to periodic inspection to ensure compliance with the SLAA and licenses may be revoked for non-compliance.

Manitoba and Saskatchewan Long-term Care

Extendicare owns and operates five LTC centres (649 beds) in Saskatchewan and five LTC centres (762 beds) in Manitoba, and manages for third parties, two LTC centres (168 beds) in Manitoba. In Manitoba and Saskatchewan, funding for LTC centres varies by regional health authority, with subsidies provided to residents who are unable to afford the resident co-payment based on an income test. In Manitoba, the province determines funding for each LTC centre based on the level of resident care required. There are accountability requirements regarding a minimum proportion of professional staff hours and occupancy levels. Saskatchewan has a system whereby residents are assessed to determine eligibility and rates. There is no minimum required number of nursing hours and thus no accountability requirements.

Retirement Living Regulations

Extendicare's retirement communities in Ontario and Saskatchewan are subject to regulation by provincial and local health and social service agencies, and other regulatory bodies, although such regulations are less burdensome and punitive than those governing long-term care centres.

In Ontario, the RH Act received Royal Assent in June 2010, extending regulation to all forms of retirement communities, including assisted living centres, and introducing certain measures designed to protect seniors living in retirement communities across Ontario. Under the RH Act, individuals operating such centres are required to be licensed by the RHRA. Licenses granted under the RH Act are not transferable and may be revoked for non-compliance with the RH Act. Other measures outlined in the RH Act include: (a) granting the RHRA the power to conduct inspections, investigations and enforcement, including issuing financial penalties if necessary; (b) standards for maintenance of physical plant and equipment and resident accommodations; (c) the establishment of mandatory care and safety standards, as well as requirements for emergency plans, infection control and prevention programs, assessment of care needs and care planning, police background checks, and training for staff; (d) the establishment of a residents' bill of rights, including the right to know the true cost of care and accommodation and the residents' right to participate fully in making decisions regarding care; (e) the requirement to establish a policy that promotes zero tolerance of abuse or neglect; and (f) the inclusion of whistle-blowing protection provisions shielding individuals disclosing information to the RHRA regarding the operation of a retirement or assisted living centre from any retaliation.

In Saskatchewan, Extendicare's retirement communities fall under the province's definition of privately owned personal care homes that provide accommodation, meals, and personal care to senior residents. As such our retirement communities are licensed and monitored by the Community Care Branch of the Saskatchewan Ministry of Health, under the PC Act. The PC Act governs the care, management and administration of the home, including approving the services to be provided.

Ontario Home Health Care

Ontario is ParaMed's largest market, representing approximately 85% of its service volumes, of which approximately 97% is received from government-funded contracts at specified rates, and the remainder from private-pay clients. ParaMed is the largest provider of publicly funded home health care in the province.

In October 2012, the MOHLTC implemented a new model for home health care that does not involve a competitive bidding process. All CCAC home health care contracts within the province concluded on September 30, 2012, and new open-ended, flexible CCAC home health care contracts commenced on October 1, 2012. ParaMed signed new open-ended contracts for all of its existing CCAC contracts. The agreements provide for six months' notice to providers for termination of a contract, and providers are to provide the CCAC with twelve months' notice of intention to give up a contract. The new service delivery model places greater emphasis on quality of care and value than past arrangements, with service providers' performance evaluated based on these elements. Performance against an established set of indicators will guide decisions during future contract discussions.

At present, the government rates are pre-determined between the CCAC and the service provider, with different rates for different services provided. The current service rates have remained static since they were last contracted under the competitive bidding model. Based upon a recommendation from the Auditor General's special report on the CCACs in September 2015, the MOHLTC is initiating work with the CCACs and home-care service providers to move toward

harmonized billing rates. The MOHLTC has stated that they will work on this initiative over the next two years. Management is unable to predict whether the MOHLTC will adopt changes to the home health care billing rates, and if adopted and implemented, what effect such changes will have on the Company's home health care operations.

In December 2015, the Ontario government released a discussion paper called *Patient's First: A Proposal to Strengthen Patient-Centered Health Care in Ontario*. In the discussion paper, the MOHLTC envisions that the provinces 14 Local Health Integration Networks (LHINs) will have a greatly expanded role, making them responsible and accountable for all health service planning and performance across the Ontario health care continuum. This includes assigning responsibility for primary care and public health to the LHINs, dissolving the CCAC boards and moving CCAC employees to the employment of the LHINs. Direct home care services will continue to be provided by current service providers, such as ParaMed. The new structure will provide an opportunity to enable further integration of home and community care into other services with the goal of improving transitions, setting clear standards, offering greater consistency and better patient and caregiver experience. Starting in late January 2016, the MOHLTC convened a number of roundtable sessions in varying locations to provide a public forum for consultations regarding the proposed changes with a variety of stakeholders. Management is unable to predict what impact if any the proposed new structure for the LHINs will have on the Company's home health care operations.

Compliance with Regulations

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

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

In Canada, the *Personal Information Protection and Electronic Documents Act* (PIPEDA) came into effect on January 1, 2004. The PIPEDA establishes rules that require all private-sector organizations operating in Canada that collect, use or disclose personal information in the course of commercial activity to obtain an individual's prior informed consent to such collection, use and disclosure, subject to certain enumerated exceptions. It applies throughout Canada unless a province enacts similar legislation, which may supersede the PIPEDA in certain circumstances. All of the personal information protection legislation in Canada imposes obligations on organizations to establish policies and implement practices concerning the handling of personal information, as well as various logistical and administrative obligations. ECI has a designated privacy officer as part of the process to ensure its compliance with the legislation.

MARKETING

Extendicare's average occupancy at its Canadian LTC centres was 97.9% in 2015. The large wait lists and government control of supply means that marketing for our LTC centres is of less concern. However, through effective marketing in the local regions in which we serve, we can improve our ability to attract residents willing to pay more for preferred accommodation.

Extendicare has created a multi-faceted program focused on developing strategies to market its LTC centres in each community. Extendicare upgrades selected centres on an ongoing basis and conducts a regular maintenance program at all its owned centres in order to remain competitive in the market place. In addition, Extendicare has implemented a customer service training program to train all front line workers on how they can improve their contribution to managing and delivering upon customer service expectations in a competitive market.

With the expansion into the retirement living sector, the Company is focusing on sales and marketing at each local community, including a launch of our Esprit Lifestyle Communities brand. The Company recognizes that marketing of retirement communities is important to achieve and maintain occupancy. Through the acquisitions, the Company has acquired experienced employees at the local level, and has recently hired an experienced vice president to head up the division.

EMPLOYEES

At December 31, 2015, Extendicare employed approximately 23,000 people in Canada, including approximately: 2,500 registered and licensed practical nurses; 6,200 nursing assistants; 100 therapists; and 2,100 dietary, domestic, maintenance and other centre staff, employed in the long-term care and retirement living operations; 10,500 home health care professionals and other field staff, employed in the home health care operations; and 1,200 administrative employees who work at corporate and regional offices supporting Extendicare's senior care and home health care operations.

In Canada, there are 101 collective agreements covering approximately 13,300 employees (including approximately 2,500 home health care employees) represented by 16 different unions, operating under five different collective bargaining legislative jurisdictions. The centres that Extendicare operates are generally subject to legislation that prohibits both strikes and lock-outs, and requires compulsory arbitration to settle labour disputes. In jurisdictions where strikes and lockouts may be permitted, certain essential services regulations apply, which ensure the continuation of resident care and most services. Extendicare believes that it has a good relationship with all of its employees.

RISK FACTORS

RISKS RELATED TO THE BUSINESS

General Business Risks

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

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

Risks Related to Growth Activities

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

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

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

Risks Related to Government Funding and Regulatory Changes

Extendicare's earnings are highly reliant on government funding and reimbursement programs, and the effective management of staffing and other costs of operations, which are strictly monitored by government regulatory authorities. Given that the Company operates in a labour-intensive industry, where labour costs account for a significant portion of the Company's operating costs from continuing operations (approximately 85% in 2015), government funding constraints could have a significant adverse effect on the results from operations and cash flows of the Company. Management is unable to predict whether governments will adopt changes in their funding and reimbursement programs, and if adopted and implemented, what effect such changes will have on the Company.

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

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

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

Risks Related to Litigation

Liability and Insurance

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

Prior to the U.S. Sale Transaction, Extendicare self-insured certain risks related to general and professional liability of its disposed U.S. operations through the Captive, its Bermuda-based captive insurance structure. However, the obligation to settle any claims incurred prior to the closing of the U.S. Sale Transaction, including claims incurred but

yet to be reported, remains with Extendicare through the Captive. The majority of the risks that Extendicare self-insured are long-term in nature, and accordingly, claim payments for any particular policy year can occur over a long period of time.

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

Compliance with Regulatory Requirements

There are a number of federal and provincial laws protecting the confidentiality of certain patient health information, including patient records, and restricting the use and disclosure of that protected information. In particular, the privacy rules under PIPEDA, protect medical records and other personal health information by limiting their use and disclosure of health information to the minimum level reasonably necessary to accomplish the intended purpose. If the Company was found to be in violation of the privacy or security rules under PIPEDA or other laws protecting the confidentiality of patient health information, it could be subject to sanctions and civil or criminal penalties, which could increase its liabilities, harm its reputation and have a material adverse effect on the business, results of operations and financial condition of the Company.

Tax Rules and Regulations

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

Risks Related to Occupancy and Business Volumes

Senior care providers compete primarily on a local and regional basis with many other health care providers, including profit-oriented and not-for-profit organizations, hospital-based LTC units, rehabilitation hospitals, home health care agencies, and rehabilitative therapy providers. Our ability to compete successfully varies from location to location and depends on a number of factors, including the number of competitors in the local market, the types of services available, our local reputation for quality care, the commitment and expertise of our staff, our local service offerings, the cost of care in each locality, and the physical appearance, location, age and condition of our centres. Increased competition could limit our ability to attract and retain residents and clients, maintain or increase occupancy levels and business volumes, or to expand our business. If we are unable to attract residents and clients, then it could materially adversely affect the business, results of operations and financial condition of the Company.

Risks of Property Ownership

Real Property Ownership

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

Extendicare owns, or operates under finance lease arrangements whereby ownership transfers at the end of the lease term, 100% of its senior care and living centres, excluding those centres operated under management contracts. Senior care and living centres are limited in terms of alternative uses; therefore, their values are directly driven by the cash flow from operations. All but six of the sixty-four properties owned by Extendicare at March 30, 2016, are government-funded senior care centres. Therefore, the value of real property depends, in part, on government funding and reimbursement programs. The Company's income and funds available for distribution would be adversely affected if

governments reduced their funding or reimbursement programs. In addition, overbuilding in any of the market areas in which the Company operates could cause its properties and centres to experience decreased occupancy or depressed margins, which could have a material adverse effect on the business, results of operations and financial condition of the Company. Moreover, certain significant expenditures involved in real property investments, such as real estate taxes, maintenance costs and mortgage payments, represent liabilities that must be met regardless of whether the property is producing any income.

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

Capital Intensive Industry

The Company must commit a substantial portion of its funds to maintain and enhance its senior care and living centres and equipment to meet regulatory standards, operate efficiently and remain competitive in its markets. The Company intends to spend approximately 1.5% of revenue in annual maintenance capital expenditure requirements to sustain and upgrade its existing centres. In addition, the Company invests in enhancements at existing centres aimed at earnings growth. In Ontario, Extendicare owns 21 LTC centres with 3,287 class “C” beds, which are eligible for redevelopment under the government’s program to redevelop older LTC beds in the province (refer to the discussion under the heading “Description of the Business – Government Regulations and Funding – Ontario Redevelopment Program”). To the extent such redevelopment plans are not implemented or proceed on significantly different timing or terms, including the levels of expected government subsidy funding, this could have a material adverse effect on the business, results of operations and financial condition of the Company.

These, as well as other future capital requirements, could adversely impact the amount of cash available to the Company and have a material adverse effect on the business, results of operations and financial condition of the Company.

Environmental Liabilities

As an owner of interests in real property, the Company is subject to various government laws and regulations relating to environmental matters. Environmental legislation continues to become increasingly important. The Company could potentially become liable for the costs of removal or remediation of certain hazardous, toxic, or regulated substances present at or released or disposed of from its properties, regardless of whether or not the Company knew of, or was responsible for, their presence, disposal or release. The failure to remove, remediate, or otherwise address such substances, if any, may adversely affect the ability to sell such properties or to borrow using such properties as collateral and could potentially result in claims by public or private parties, including by way of civil action.

Management has determined that future costs could be incurred for possible asbestos remediation of the Company’s pre-1980 constructed centres. Although asbestos is currently not a health hazard in any of these centres, appropriate remediation procedures may be required to remove potential asbestos-containing materials, consisting primarily of floor and ceiling tiles, in connection with any major renovation or demolition. Based upon current assumptions, the estimated fair value of the decommissioning provision related to the asbestos remediation was approximately \$10 million undiscounted, and \$7.8 million discounted, as at December 31, 2015. The fair value of the decommissioning provision is estimated by computing the present value of the estimated future costs of remediation based on estimated expected dates of remediation. The computation is based on a number of assumptions, which may vary in the future depending upon the availability of new information, changes in technology and in costs of remediation, and other factors. A significant change of these factors in the future could result in a change in assumptions used to calculate the estimated fair value of the current decommissioning provision and could result in a significant change to this obligation.

In addition, environmental laws may change and the Company may become subject to more stringent environmental laws in the future. Compliance with more stringent environmental laws, which may be more rigorously enforced, could have a material adverse effect on the business, results of operations and financial condition of the Company.

Risks of Rising Personnel Costs

Dependence on Key Personnel

The success of the Company depends, to a significant extent, on the efforts and abilities of its executive officers and other members of management, as well as its ability to attract and retain qualified personnel to manage existing operations and future growth. Although the Company has entered into employment agreements with certain of its key employees, it cannot be certain that any of these persons will not voluntarily terminate his or her employment with the Company. The loss of an executive officer or other key employee could negatively affect the Company's ability to develop and pursue its business strategy, which could have a material adverse effect on the business, results of operations and financial condition of the Company.

Personnel Costs

The long-term care industry is labour intensive. The Company's labour costs accounted for approximately 85% of its operating costs and approximately 83% of its combined operating and administrative costs from continuing operations in 2015. The Company competes with other health care providers in attracting and retaining qualified and skilled personnel to manage and operate the day-to-day operations of each of its centres and home health care services. The health care industry continues to face shortages of qualified personnel, such as nurses, certified nurse's assistants, nurse's aides, and therapists. The shortage of qualified personnel and general inflationary pressures may require the Company to enhance its pay and benefits package to compete effectively for such personnel. The Company may not be able to recover such added costs through increased government funding and reimbursement programs, or through increased rates charged to residents and clients. The inability to retain and/or attract qualified personnel and meet minimum staffing levels may result in: a reduction in occupancy levels and volume of services provided; the use of staffing agencies at added costs; an increased risk in the inability to provide continuity of care between our staff and our residents and clients; and an increased risk of an LTC or retirement living centre being subject to fines and penalties. An increase in personnel costs or a failure to attract, train and retain qualified and skilled personnel could adversely affect the business, results of operations and financial condition of the Company.

The Company has contracted out selected dietary and housekeeping services in some of its centres. Should the Company not be satisfied with the quality or cost of the services provided by companies it has contracted out to, it may have to terminate the related contracts and recruit replacement staff at an incremental cost.

Risks Related to Financing

Debt Financing

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

The RBC Credit Facility is a demand facility that is secured by 13 class "C" graded long-term care centres in Ontario and is guaranteed by certain Canadian subsidiaries of the Company. The RBC Credit Facility has no financial covenants but contains normal and customary terms including annual re-appraisals of the centres that could limit the maximum level of the line of credit and other restrictions on the Canadian entities making certain payments, investments, loans and guarantees. A demand for repayment of amounts drawn on the line of credit could inhibit the flow of cash dividends by Extendicare on a temporary or more permanent basis until alternative financing is obtained.

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

Debt Covenants

The Company is in compliance with all of its financial covenants as at December 31, 2015. However, there can be no assurance that future covenant requirements will be met. The Company's bank lines and other debt may be affected by its ability to remain in compliance. If the Company does not remain in compliance with its financial covenants, its ability to amend the covenants or refinance its debt may be affected.

Credit and Interest Rates

The Company has limited the amount of debt that may be subject to changes in interest rates. As at December 31, 2015, all of the Company's long-term debt is at fixed rates. The Company primarily finances its senior care and living centres through fixed-rate mortgages and considers securing interest rate swap agreements for any variable-rate debt. The Company maintains risk management control systems to monitor interest rate risk attributable to its outstanding or forecasted debt obligations as well as any offsetting hedge positions. The Company does not enter into financial instruments for trading or speculative purposes.

Risks Related to Foreign Currency Rate Fluctuations

The revenue and expenses of our remaining self-sustaining U.S. operations are translated at average rates of exchange in effect during the period. Assets and liabilities are translated at the exchange rates in effect at the balance sheet date. As a result of the sale of substantially all of our U.S. operations in 2015, the impact of a one-cent change in the Canadian dollar against the U.S. dollar would have a minimal impact on our financial results from continuing operations (less than \$0.1 million on net earnings), and would impact our total assets and total liabilities as at December 31, 2015, by approximately \$1.8 million and \$1.3 million, respectively.

As part of the proceeds from the U.S. Sale Transaction, the Company receives an ongoing cash stream, reflected as deferred consideration. The foreign exchange impact on this asset is recognized in net earnings. During 2015, an unrealized foreign exchange gain of \$3.9 million was recorded. As a result, the Company's consolidated financial position is subject to foreign currency fluctuation risk, which could adversely impact its operating results and its cash flows. Management may enter into hedging arrangements to mitigate a portion of this risk; however, there can be no assurance that such hedging arrangements, if any, would be sufficient to protect the Company against currency exchange rate losses.

RISKS RELATED TO THE COMMON SHARES AND DEBENTURES

Unpredictability and Volatility of the Common Share Price

A publicly traded company does not necessarily trade at values determined by reference to the underlying value of its business. The prices at which the Common Shares will trade cannot be predicted. The market price of the Common Shares could be subject to significant fluctuations in response to variations in quarterly operating results, dividends and other factors beyond the control of the Company. The annual yield on the Common Shares, represented as the ratio of annual dividend to the market price per Common Share, as compared to the annual yield on other financial instruments, may also influence the price of the Common Shares in the public trading markets. In addition, the securities markets have experienced significant price and volume fluctuations from time to time in recent years that often have been unrelated or disproportionate to the operating performance of particular issuers. These broad fluctuations may adversely affect the market price of the Common Shares.

Cash Dividends Are Not Guaranteed and Will Fluctuate with the Performance of the Company

The declaration and payment of dividends by Extendicare is at the discretion of the Board as to the amount and timing of dividends to be declared and paid, after consideration of a number of factors, including results of operations, requirements for capital expenditures and working capital, future financial prospects of Extendicare, debt covenants and obligations, and any other factors deemed relevant by the Board. All of these factors are susceptible to a number of risks and other factors beyond the control of the Company. The amount of funds available for distribution will fluctuate with the performance of the Company. If the Board determines that it would be in Extendicare's best interests, it may reduce the amount and frequency of dividends to be distributed to Shareholders. The market value of the Common Shares will deteriorate if the Company is unable to meet its distribution targets in the future, and that deterioration may be significant.

A high dividend yield results in a higher cost of capital incurred by the Company in raising capital through the issue of Common Shares to fund future growth and equally can inhibit the ability of the Company to grow through acquisition or new developments. Therefore, the Board also has to balance the dividend yield relative to its growth plans and need to raise capital.

Funds available for dividends are driven by cash generated from operations and may be dependent upon the Company's plan for growth-based capital expenditures. The timing and amount of capital expenditures will directly affect the amount of cash available for dividends to Shareholders. Dividend payments to Shareholders may be reduced, or even eliminated, at times when the Company cannot access the capital markets for raising cash and/or when Directors deem it necessary to make significant capital or other expenditures. The Company may be required to reduce dividends or access the capital markets in order to accommodate these items. There can be no assurance that sufficient capital will be available on acceptable terms to the Company for necessary or desirable capital expenditures or that the amount required will be the same as currently estimated.

Company Structure

The Company does not carry on business directly, but does so indirectly through its subsidiaries. The Company has no major assets of its own, other than the senior care centres that it leases to ECI and the direct and indirect interests it has in its subsidiaries (including ECI), all of which are separate legal entities. The Company is therefore financially dependent on lease payments that it receives from ECI and dividends and other distributions it receives from its subsidiaries (including ECI).

Future Issues of Common Shares and Preferred Shares and Dilution

The Company's articles permit the issuance of an unlimited number of Common Shares and that number of Preferred Shares, issuable in series, equal to 50% of the number of Common Shares that are issued and outstanding for the consideration and on the terms and conditions that the Board may determine without approval of any Shareholders. Shareholders have no pre-emptive rights in connection with such future issues. Future issues of Common Shares and/or Preferred Shares could be dilutive to the interests of the Shareholders and could adversely affect the prevailing market price of the Common Shares.

Leverage and Restrictive Covenants in Current and Future Indebtedness

The ability of the Company to pay dividends is subject to applicable laws and contractual restrictions contained in the instruments governing any indebtedness of the Company (including its subsidiaries). The degree to which the Company is leveraged could have important consequences to the Shareholders, including: (i) that the Company's ability to obtain additional financing in the future for working capital, capital expenditures or acquisitions may be limited; (ii) that a significant portion of the Company's cash flow from operations may be dedicated to the payment of the principal of, and interest on, its indebtedness; (iii) that certain of the Company's borrowings could be at variable rates of interest, which exposes the Company to the risk of increased interest rates; and (iv) that the Company may be more vulnerable to economic downturns and be limited in its ability to withstand competitive pressures. These factors may reduce funds available for the Company to pay dividends.

Changes in the Company's Creditworthiness May Affect the Value of the Common Shares

The perceived creditworthiness of the Company may affect the market price or value and the liquidity of the Common Shares.

Matters Affecting Trading Prices for the Debentures

The Debentures are listed on the TSX. No assurance can be given that an active or liquid trading market for the Debentures will develop or be sustained. If an active or a liquid market for the Debentures fails to develop or be sustained, the prices at which the Debentures trade may be adversely affected. Whether or not the Debentures will trade at lower prices depends on many factors, including liquidity of the Debentures, prevailing interest rates and the markets for similar securities, the market price of the Common Shares, general economic conditions, and the Company's financial condition, historic financial performance and future prospects.

The Company may determine to redeem outstanding Debentures for Common Shares or to repay outstanding principal amounts thereunder at maturity of the Debentures by issuing additional Common Shares. Accordingly, Shareholders may suffer dilution. See "Description of the Debentures – Method of Payment".

Debentures – Credit Risk and Prior Ranking Indebtedness; Absence of Covenant Protection

The likelihood that purchasers of the Debentures will receive payments owing to them under the terms of the Debentures will depend on the Company's financial condition and creditworthiness. In addition, the Debentures are unsecured obligations of the Company and are subordinate in right of payment to all of the Company's existing and future Senior Indebtedness. Therefore, if the Company becomes bankrupt, liquidates its assets, reorganizes or enters into certain other transactions, the Company's assets will be available to pay its obligations with respect to the Debentures only after it has paid all of its Senior Indebtedness in full. There may be insufficient assets remaining following such payments to pay amounts due on any or all of the Debentures then outstanding. The Debentures are also effectively subordinate to claims of creditors of the Company's subsidiaries except to the extent the Company is a creditor of such subsidiaries ranking at least *pari passu* with such other creditors. The Indenture does not prohibit or limit the ability of the Company or its subsidiaries to incur additional debt or liabilities (including Senior Indebtedness) or to make distributions except in respect of distributions where an Event of Default caused by the failure to pay interest when due has occurred and such default has not been cured or waived. The Indenture does not contain any provision specifically intended to protect holders of Debentures in the event of a future leveraged transaction involving the Company or any of its subsidiaries.

Conversion of the Debentures Following Certain Transactions

In the case of certain transactions, the Debentures will become convertible into the securities, cash or property receivable by a holder of Common Shares under the transaction. The change could substantially lessen or eliminate the value of the conversion privilege associated with the Debentures in the future. For example, if the Company were acquired in a cash merger, the Debenture would become convertible solely into cash and would no longer be convertible into securities whose value would vary depending on the Company's future prospects and other factors. See "Description of the Debentures – Conversion Rights".

Redemption of the Debentures Prior to Maturity

The 2019 Debentures may be redeemed, at the option of the Company, at any time and from time to time, subject to certain conditions for redemptions prior to October 1, 2017, at a price equal to the principal amount thereof plus accrued and unpaid interest. Debentureholders should assume that this redemption option will be exercised if the Company is able to refinance at a lower interest rate or it is otherwise in the interest of the Company to redeem the Debentures.

Inability of the Company to Purchase the Debentures in Cash on a Change of Control

If a Change of Control of the Company occurs, Debentureholders will have the right to require the Company to redeem the Debentures in an amount equal to 101% of the principal amount of the Debentures plus accrued and unpaid interest until the date of redemption. If holders of Debentures holding 90% or more of all the Debentures exercise their right to require the Company to redeem such Debentures, the Company may acquire the remaining Debentures on the same terms. In such event, the conversion privilege associated with the Debentures would be eliminated. Although the Company may be required to purchase all outstanding Debentures upon the occurrence of a Change of Control, it is possible that following a Change of Control, the Company will not have sufficient funds at that time to make any required purchase of outstanding Debentures or that restrictions contained in other indebtedness will restrict those purchases. See "Description of the Debentures – Put Right upon a Change of Control".

DIVIDENDS

DIVIDEND POLICY

The declaration and payment of dividends by Extencicare is at the discretion of the Board as to the amount and timing of dividends to be declared and paid, after consideration of a number of factors, including results of operations, requirements for capital expenditures and working capital, future financial prospects of Extencicare, debt covenants and obligations, and any other factors deemed relevant by the Board. If the Board determines that it would be in Extencicare's best interests, it may reduce the amount and frequency of dividends to be distributed to Shareholders. The current dividend policy of the Board is to pay a monthly dividend of \$0.04 per Common Share. There is no guarantee that the Board will maintain this dividend policy.

DIVIDENDS MADE

The following summarizes the cash dividends made by the Company for the three most recently completed financial years and for the 2016 period up to and including the March 2016 dividend, payable on April 15, 2016.

Cash Dividends Made/Declared <i>(\$ per share)</i>	Common Shares	
	Monthly	Year/Period to Date
2016 (January to March)	0.04	0.12
2015	0.04	0.48
2014	0.04	0.48
2013 (May to December)	0.04	0.32
2013 (January to April)	0.07	0.28

Dividends in respect of a given month are paid on or about the 15th day of the following month to Shareholders of record at the close of business on the last day of the given month. Historical cash dividends may not be reflective of future cash dividends. See “Dividends – Dividend Policy” and “Risk Factors – Risks Related to the Common Shares and Debentures – Cash Dividends Are Not Guaranteed and Will Fluctuate with the Performance of the Company”.

DIVIDEND REINVESTMENT PLAN

The Company has implemented a Dividend Reinvestment Plan pursuant to which Shareholders who are residents in Canada may elect to reinvest their cash dividends in additional Common Shares on the dividend payment date, at a price equal to 97% of the volume-weighted average trading price of the Common Shares on the TSX for the five trading days immediately preceding the corresponding dividend payment date.

DESCRIPTION OF CAPITAL STRUCTURE

Extendicare is authorized to issue an unlimited number of Common Shares and that number of Preferred Shares, issuable in series, equal to 50% of the number of Common Shares that are issued and outstanding at the time of the issuance of any series of Preferred Shares. The following is a summary of the rights, privileges, restrictions and conditions attaching to the share capital of the Company.

COMMON SHARES

The holders of the Common Shares are entitled to receive notice of and to attend all meetings of Shareholders and to one vote in respect of each Common Share held at all such meetings (except meetings at which only holders of another specified class or series of shares are entitled to vote, pursuant to the provisions of the CBCA). Subject to the prior rights, privileges, restrictions and conditions attaching to the Preferred Shares and to any other class of shares ranking senior to the Common Shares, the holders of the Common Shares shall be entitled to receive dividends, if, as and when declared by the Board of Directors out of assets of the Company properly applicable to the payment of dividends in such amounts and payable in such manner as the Board of Directors may determine. In the event of the liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary, or any other distribution of assets of the Company among its Shareholders for the purpose of winding-up its affairs, subject to the rights, privileges, restrictions and conditions attaching to the Preferred Shares and to any other class of shares ranking senior to the Common Shares, the holders of the Common Shares shall be entitled to receive the remaining property of the Company.

As at March 30, 2016, there were 88,157,858 Common Shares issued and outstanding.

PREFERRED SHARES

The Preferred Shares may at any time and from time to time be issued in one or more series. The Board of Directors shall, by resolution, duly passed before the issuance of the Preferred Shares of each series, fix the number of the Preferred Shares in such series and determine the designation, rights, privileges, restrictions and conditions attaching to the Preferred Shares of such series, including, but without in any way limiting or restricting the generality of the foregoing, the rate or rates, amount or method or methods of calculation of preferential dividends, whether cumulative or non-cumulative or partially cumulative, and whether such rate(s), amount or method(s) of calculation shall be subject to change or adjustment in the future, the currency or currencies of payment, the date or dates and place or places of

payment thereof and the date or dates from which such preferential dividends shall accrue, the redemption price and terms and conditions of redemption (if any), the rights of retraction (if any), and the prices and other terms and conditions of any rights of retraction, voting rights (if any) and conversion or exchange rights (if any) and any sinking fund, purchase fund or other provisions attaching thereto, the whole subject to filing with the Director under the CBCA (or successor legislation thereto) of articles of amendment setting forth the number, designation, rights, privileges, restrictions and conditions to be attached to the Preferred Shares of such series and the issuance of a certificate of amendment in respect thereof.

The number of Preferred Shares of all series that the Corporation is authorized to issue, at any time and from time to time, is limited to that number equal to 50% of the number of Common Shares that are issued and outstanding at the time of the issuance of any series of Preferred Shares.

The purpose for the creation of the Preferred Shares was not to defeat a hostile take-over bid. There is no current intention to issue Preferred Shares for the purposes of defeating a hostile take-over bid; however, in such a circumstance, the Board of Directors will perform its legal duties in the best interests of the Company.

As at March 30, 2016, there were no Preferred Shares of any series issued and outstanding.

SHAREHOLDER RIGHTS PLAN

General

The Shareholder Rights Plan was adopted on July 1, 2012, and was reconfirmed by Shareholders at the Company's annual meeting held on June 18, 2015, and is similar to the rights plans adopted by other Canadian companies.

Objectives of the Shareholder Rights Plan

The primary objectives of the Shareholder Rights Plan are to ensure, to the extent possible, that in the context of an unsolicited take-over bid for the Company: (i) the Directors are provided with sufficient time to evaluate the bid and, if appropriate, to pursue value-enhancing alternatives to the bid; (ii) Shareholders are given an equal opportunity to participate in the bid; (iii) Shareholders are given adequate time to properly assess the bid; and (iv) the pressure to tender to the bid, that is typically encountered by securityholders of an issuer that is subject to a bid, is alleviated. The Shareholder Rights Plan does not prevent take-over bids or transactions negotiated with the Company and permits the making of a "Permitted Bid" (as described below).

Summary of the Shareholder Rights Plan

The following is a summary of the principal provisions of the Shareholder Rights Plan, which summary is qualified entirely by and is subject to the full terms and conditions of the Shareholder Rights Plan, a copy of which is available on SEDAR at www.sedar.com under Extencare's issuer profile.

Issue of Rights

On July 1, 2012, the effective date of the Shareholder Rights Plan, one right (a "Right") was issued and attached to each outstanding Common Share. One Right has attached to each Common Share that has been subsequently issued by the Company. The initial exercise price of each Right is \$100, subject to appropriate anti-dilution adjustments.

Rights Exercise Privilege

The Rights will separate from the Common Shares to which they are attached (the "Separation Time") and will become exercisable at the close of business on the 10th trading day after the earlier of (i) the first date of public announcement by the Company or an Acquiring Person (as hereinafter defined) of facts indicating that a person has become an Acquiring Person (the "Common Share Acquisition Date"), and (ii) the date of the commencement of, or first public announcement of, the intent of any person (other than the Company or any subsidiary of the Company) to commence, a take-over bid (other than a Permitted Bid or Competing Permitted Bid (as described below)), or two days following the date on which a Permitted Bid ceases to qualify as such, or, in either case, such later date as may be determined by the Directors.

The acquisition by a person (an “Acquiring Person”), including persons acting in concert with the Acquiring Person, of 20% or more of the outstanding Common Shares, other than by way of a Permitted Bid in certain circumstances, constitutes a “Flip-in Event” under the Shareholder Rights Plan. Any Rights held by an Acquiring Person on or after the earlier of the Separation Time or the Common Share Acquisition Date, will become void upon the occurrence of a Flip-in Event. Ten trading days after the occurrence of the Flip-in Event, the Rights (other than those held by the Acquiring Person) will permit the holder to purchase Common Shares at a substantial discount to the market price. For example, Common Shares with a total market value of \$200 may be purchased for \$100 (i.e., at a 50% discount).

The issue of the Rights is not initially dilutive. Upon a Flip-in Event occurring and the Rights separating from the attached Common Shares, reported earnings per Common Share on a diluted or non-diluted basis may be affected. Holders of Rights who do not exercise their Rights upon the occurrence of a Flip-in Event and the Acquiring Person will suffer substantial dilution.

Certificates and Transferability

Prior to the Separation Time, certificates representing the Common Shares will also evidence one Right for each Common Share represented thereby and shall have a legend imprinted thereon and the Rights will not be transferable separately from the attached Common Shares. From and after the Separation Time, the Rights will be evidenced by rights certificates, which will be transferable and will trade separately from the Common Shares.

Permitted Bid Requirements

The Shareholder Rights Plan utilizes the mechanism of a “Permitted Bid” to ensure that a person seeking control of the Company through an unsolicited take-over bid gives Shareholders and the Board sufficient time to evaluate the bid and, if appropriate, to pursue value-enhancing alternatives. The Shareholder Rights Plan is designed to make it impracticable for any person to acquire more than 20% of the outstanding Common Shares without the approval of the Board except pursuant to the Permitted Bid procedures.

The requirements of a Permitted Bid under the Shareholder Rights Plan include the following:

- (a) the take-over bid must be made by way of a take-over bid circular;
- (b) the take-over bid must be made to all Shareholders (other than the bidder);
- (c) the take-over bid must contain an offer made to all Shareholders (other than the bidder) to acquire Common Shares on the same terms;
- (d) the take-over bid must not permit Common Shares tendered pursuant to the take-over bid to be taken up prior to the expiry of a period of not less than 60 days from the date of the take-over bid and then only if at such time more than 50% of the aggregate number of then outstanding Common Shares held by Shareholders other than the bidder, its affiliates and Persons acting jointly or in concert with the bidder (the “Independent Shareholders”) have been tendered pursuant to the take-over bid and not withdrawn; and
- (e) if more than 50% of the aggregate number of then outstanding Common Shares held by Independent Shareholders are tendered to the take-over bid within the 60-day period, the bidder must make a public announcement of that fact and the take-over bid must remain open for deposits of Common Shares for an additional 10 business days from the date of such public announcement.

The Shareholder Rights Plan allows a competing Permitted Bid (a “Competing Permitted Bid”) to be made while a Permitted Bid is in existence. A Competing Permitted Bid must satisfy all the requirements of a Permitted Bid except that, provided it is outstanding for a minimum period of 35 days, it may expire on the same date as the Permitted Bid.

Waiver and Redemption

The Board may, prior to a Flip-in Event, and in certain circumstances without the approval of Shareholders, waive the dilutive effects of the Shareholder Rights Plan in respect of a particular Flip-in Event. At any time prior to the occurrence of a Flip-in Event, and in certain circumstances without the approval of the Rights holders, the Board may redeem all, but not less than all, the outstanding Rights at a price of \$0.000001 each.

Waiver of Inadvertent Flip-in Event

The Board may, prior to the close of business on the 10th trading day after the Board has determined that a person has become an Acquiring Person, waive the application of the Shareholder Rights Plan to an inadvertent Flip-in Event, on the condition that such person reduces its beneficial ownership of Common Shares such that it is not an Acquiring Person within 14 days after such determination has been made by the Board.

Portfolio Managers

The Shareholder Rights Plan includes provisions relating to portfolio managers that are designed to prevent the occurrence of a Flip-in Event solely by virtue of their customary activities, including trust companies and other persons, where a substantial portion of the ordinary business of such person is the management of funds for unaffiliated investors, so long as any such person does not propose to make a take-over bid for the Company either alone or jointly with others.

Supplements and Amendments

The Board may make amendments to the Shareholder Rights Plan to correct any clerical or typographical error or to maintain the validity of the Shareholder Rights Plan as a result of changes in law or regulation.

Shareholder Rights

Until a Right is exercised, the holder thereof, as such, will have no rights as a Shareholder.

Term and Shareholder Approval

The Shareholder Rights Plan must be reconfirmed at the annual meeting of the Company to be held in 2018 and at every third annual meeting of the Company thereafter. The Shareholder Rights Plan will terminate in accordance with its terms on July 1, 2021, being the ninth anniversary of the effective date.

OXFORD PARK AGREEMENT

As previously announced in January 2016, the Company entered into the Oxford Park Agreement. Pursuant to the terms of the Oxford Park Agreement:

- Alan Hibben, Gail Paech and Frederic Waks were appointed to the Board;
- Mr. Waks was appointed as Vice-Chairman of the Board;
- Benjamin Hutzler will continue in his role as Chairman of the Board until the annual general meeting of the Company to be held in 2017, at which point the Board will select a new Chair;
- Governor Howard Dean and John Angus retired from the Board;
- Oxford Park withdrew its requisition for a special meeting of Shareholders for the purposes of reconstituting the Board;
- at the annual general meetings of the Company to be held in 2016 and 2017, the Company has agreed to include Mr. Hibben, Ms. Paech and Mr. Waks (or in certain circumstances alternate persons nominated by Oxford Park) on its slate of persons to be nominated for election as Directors and has agreed to solicit proxies in their support;
- Oxford Park has agreed to vote in favour of the Company's nominees to the Board (including Oxford Park's nominees) in connection with such annual and general meetings of the Company;
- the obligations of the Company described above are subject to Oxford Park providing evidence that Oxford Park, together with its affiliates, owns not less than 3% of the Common Shares as at the date of the Company's management information and proxy circular for each of the annual general meetings of the Company to be held in 2016 and 2017; and
- subject to certain exceptions, Oxford Park has agreed that it will not, and will cause its affiliates not to, at any time prior to the date of the annual general meeting of the Company to be held in 2018: (i) requisition a meeting of Shareholders, solicit proxies or make or publically propose any take-over bid, plan of arrangement, amalgamation, asset sale or other business combination involving the Company; or (ii) initiate discussions with respect to any of the foregoing, or advise, assist or encourage or negotiate with any person to take any action inconsistent with the foregoing.

DESCRIPTION OF THE DEBENTURES

The following is a summary of the material attributes and characteristics of the Debentures. This summary does not purport to be complete and is subject to, and is qualified in its entirety by, the terms of the Indenture.

GENERAL

The 2019 Debentures were issued pursuant to the Third Supplemental Indenture. The Company may, from time to time, without the consent of the holders of the Debentures, issue additional debentures of a different series under the Indenture.

The principal amount of the Debentures is payable in lawful money of Canada or, at the option of the Company and subject to applicable regulatory approval, by payment of Common Shares to satisfy, in whole or in part, the Company's obligation to repay the principal amount of the Debentures as further described in the sections "Method of Payment – Payment of Principal on Redemption or at Maturity" and "Put Right upon a Change of Control" under the heading "Description of the Debentures". The interest on the Debentures is payable in lawful money of Canada including, at the option of the Company and subject to applicable regulatory approval, in accordance with the Common Share Interest Payment Election as described under "Description of the Debentures – Method of Payment – Interest Payment Election".

The Debentures are direct obligations of the Company and are not secured by any mortgage, pledge, hypothec or other charge and are subordinated to all other liabilities of the Company as described under "Description of the Debentures – Subordination". Neither the Indenture nor the Debentures limit the ability of the Company or any of its subsidiaries to incur, directly or indirectly, additional indebtedness, including indebtedness that ranks senior to the Debentures, or from mortgaging, pledging or charging their respective real or personal property or properties to secure any indebtedness.

The Debentures are transferable, and may be presented for conversion at the principal office of the Debenture Trustee in Toronto, Ontario.

SUBORDINATION

The Indenture provides that the Debentures are subordinated in right of payment to all present and future Senior Indebtedness of the Company as more particularly set forth in the Indenture. No payment of principal or interest on the Debentures may be made (a) if any Senior Indebtedness is not paid when due and any applicable grace period with respect to such payment default on Senior Indebtedness has ended and such default has not been cured or waived or ceased to exist, or (b) if the maturity of any Senior Indebtedness has been accelerated because of a default and either such acceleration has not been rescinded or such Senior Indebtedness has not been repaid. Upon any distribution of assets of the Company on any dissolution, winding-up, total liquidation or reorganization of the Company, whether in bankruptcy, insolvency or receivership proceedings, upon an "assignment for the benefit of creditors", or any other marshalling of the assets and liabilities of the Company, or otherwise, all Senior Indebtedness of the Company is required to be paid in full, or provision made for such payment, before the Debentureholders are entitled to receive any payment made on account of the principal of or interest on the Debentures.

Neither the Indenture nor the Debentures limit the ability of the Company or any of its subsidiaries to incur, directly or indirectly, additional indebtedness, including indebtedness that ranks senior to the Debentures, or from mortgaging, pledging or charging their respective real or personal property or properties to secure any indebtedness.

The Debentures are direct unsecured obligations of the Company. Each Debenture of the same series ranks *pari passu* with each other Debenture of the same series and with other Debentures of a different series (regardless of their actual date or terms of issue) and, subject to statutory preferred exceptions, with all other present and future subordinated and unsecured indebtedness of the Company except for sinking fund provisions (if any) applicable to different series of Debentures or other similar types of obligations of the Company.

CONVERSION RIGHTS

Each 2019 Debenture is convertible into fully paid, non-assessable and freely tradeable Common Shares, at the option of the holder, at any time prior to 4:00 p.m. (Toronto time) on the earlier of September 30, 2019, and the last business day immediately preceding the date specified by the Company for redemption of the 2019 Debentures, at a conversion price of \$11.25 per Common Share, being a conversion rate of approximately 88.8889 Common Shares per \$1,000 principal amount of 2019 Debentures, subject to adjustment in certain events in accordance with the Third Supplemental Indenture. If all conversion rights attaching to the \$126,500,000 aggregate principal amount of the 2019 Debentures outstanding as at March 30, 2016, are exercised, the Company will be required to issue approximately 11,244,444 additional Common Shares, subject to anti-dilution adjustments.

No adjustment to the Conversion Price will be made for dividends on the Common Shares issuable upon conversion or for accrued and unpaid interest on Debentures surrendered for conversion; however, holders converting their Debentures will be entitled to receive, in addition to the applicable number of Common Shares, accrued and unpaid interest, if any, in respect thereof for the period from and including the last interest payment date up to and including the last record date in respect of the Common Shares set by the Company prior to the date of conversion for determining the Shareholders entitled to receive a dividend on the Common Shares. If the Company has suspended regular dividends on the Common Shares, then a Debentureholder, in addition to the applicable number of Common Shares to be received on conversion, will be entitled to receive accrued and unpaid interest for the period from and including the last interest payment date prior to the date of conversion to but excluding the date of conversion. Notwithstanding the foregoing, none of the Debentures may be converted during the period from the close of business on the record date preceding the interest payment date to and including such interest payment date, as the registers of the Debenture Trustee will be closed during such periods. The Common Shares issued upon conversion shall participate only in respect of distributions declared in favour of Shareholders of record on and after the date of conversion.

Subject to the provisions thereof, the Indenture provides for the adjustment of the Conversion Price in certain events including: (a) the subdivision or consolidation of the outstanding Common Shares; (b) the issue of Common Shares or securities convertible into or exchangeable for Common Shares to holders of all or substantially all of the outstanding Common Shares by way of a dividend or distribution, other than the issue of Common Shares to Shareholders who have elected to receive dividends in the form of Common Shares pursuant to any dividend reinvestment plan or any share purchase plan or similar arrangements of the Company; (c) the issuance of options, rights or warrants to all or substantially all Shareholders entitling them for a period of not more than 45 days after the record date to acquire Common Shares or securities convertible into or exchangeable for Common Shares at a price per Common Share (or having a conversion or exchange price per Common Share) less than 95% of the then Current Market Price of the Common Shares on such record date; and (d) the distribution to all or substantially all Shareholders of any shares of any class other than Common Shares (other than shares of any class distributed to Shareholders who participate in the Company's dividend reinvestment plan), rights, options or warrants (other than those referred to in (c) above), evidences of indebtedness of the Company, or other assets (other than cash distributions and equivalent distributions in securities paid in lieu of cash distributions in the ordinary course). There will be no adjustment of the Conversion Price in respect of any event described in (a), (b), (c) or (d) above if, subject to prior regulatory approval, the Debentureholders are allowed to participate as though they had converted their Debentures prior to the applicable record date or effective date of such event. The Company is not required to make adjustments in the Conversion Price unless the cumulative effect of such adjustments would change the Conversion Price by at least 1%.

In the case of any reclassification of the Common Shares or capital reorganization of the Company (other than a change resulting only from consolidation or subdivision of the Common Shares), or in the case of any consolidation, amalgamation, arrangement or merger of the Company with or into any other entity, or in the case of any sale or conveyance of the properties and assets of the Company as, or substantially as, an entirety to any other entity, or in the case of a liquidation, dissolution or winding-up of the Company, the terms of the conversion privilege shall be adjusted so that each Debenture shall, after such reclassification, capital reorganization, consolidation, amalgamation, arrangement, merger, sale, conveyance, liquidation, dissolution or winding-up, be exercisable for the kind and amount of securities or property of the Company, or such continuing, successor or purchaser entity, as the case may be, which the holder thereof would have been entitled to receive as a result of such reclassification, capital reorganization, consolidation, amalgamation, arrangement, merger, sale, conveyance, liquidation, dissolution or winding-up, if on the effective date or record date thereof it had been the holder of the number of Common Shares into which the Debenture was convertible prior to the effective date of such event.

No fractional Common Shares will be issued on any conversion of the Debentures, but in lieu thereof the Company shall satisfy such fractional interests by a cash payment equal to the fractional interest which would have been issued multiplied by the Conversion Price (less any taxes required to be withheld).

REDEMPTION AND PURCHASE

The 2019 Debentures may be redeemed by the Company prior to October 1, 2017, in whole at any time or in part from time to time, on not more than 60 days' and on not less than 30 days' prior notice, at a redemption price equal to the principal amount thereof plus accrued and unpaid interest to but excluding the date of redemption, provided that the Current Market Price immediately preceding the date on which the notice of redemption is given is not less than 125% of the Conversion Price. On and after October 1, 2017, and prior to maturity, the 2019 Debentures may be redeemed by the Company, in whole at any time or in part from time to time, at a redemption price equal to the principal amount thereof plus accrued and unpaid interest in respect thereof for the period up to but excluding the date of redemption from and including the last Interest Payment Date on not more than 60 days' and not less than 30 days' prior notice.

In the case of redemption of less than all of the Debentures, the Debentures to be redeemed will be selected by the Debenture Trustee on a *pro rata* basis to the nearest multiple of \$1,000 or by lot in such manner as the Debenture Trustee deems equitable, subject to the consent of the TSX.

The Company has the right at any time and from time to time to purchase the Debentures in the market, by tender or by private contract, at any price, subject to regulatory requirements; provided, however, that if an Event of Default has occurred and is continuing, the Company does not have the right to purchase the Debentures by private contract.

The Debentures may also be redeemed by the Company in the event of the satisfaction of certain conditions after a Change of Control has occurred as described below under "Put Right upon a Change of Control".

All of the Debentures converted, redeemed or purchased as aforesaid will be cancelled and will not be reissued or resold.

PUT RIGHT UPON A CHANGE OF CONTROL

Upon the occurrence of a change of control of the Company involving the acquisition by any Person, or group of Persons acting jointly or in concert, of voting control or direction over 66⅔% or more of the votes attaching, collectively, to (a) outstanding Common Shares and (b) Common Shares issuable upon the conversion or exercise of securities convertible into or carrying the right to acquire Common Shares, in accordance with their terms (a "Change of Control"), each Debentureholder may require the Company to purchase, on the date which is 30 days following the giving of notice of the Change of Control as set out below (the "Put Date"), the whole or any part of such holder's Debentures at a price equal to 101% of the principal amount thereof (the "Put Price") plus accrued and unpaid interest up to but excluding the Put Date (the "Total Put Price"). For greater certainty, the definition of "Change of Control" specifically excludes any transaction or series of transactions in which a new parent entity is established, created, or adopted for, or in replacement of, the Company and subsequent thereto voting control of or direction over the equity interests in the new parent entity are held by the Shareholders immediately prior to such transaction or series of transactions, provided that immediately upon consummation or completion of any such transaction or series of transactions, the acquisition by any Person or group of Persons acting jointly or in concert of voting control or direction over 66⅔% or more of votes attaching, collectively, to the outstanding equity interests in the new parent entity shall constitute a Change of Control.

If 90% or more in aggregate principal amount of the Debentures outstanding on the date the Company provides notice of the Change of Control to the Debenture Trustee have been tendered for purchase on the Put Date, the Company has the right but not the obligation to redeem all the remaining outstanding Debentures on such date at the Total Put Price. Notice of such redemption must be given to the Debenture Trustee prior to the Put Date or as soon as reasonably possible thereafter by the Debenture Trustee to the holders of the Debentures not tendered for purchase.

The Total Put Price is payable in lawful money of Canada or, at the Company's option and subject to prior regulatory approval, and provided no Event of Default has occurred and is continuing, by payment of Common Shares to satisfy, in whole or in part, the Company's obligation to pay the Total Put Price. If the Company so elects to satisfy all or a portion of the Total Put Price by the issuance of Common Shares, the number of Common Shares to be issued will be determined by dividing the Total Put Price to be so paid by the issuance of Common Shares by 95% of the Current Market Price of the Common Shares on the Put Date.

The Indenture contains notification provisions to the following effect:

- (a) the Company will, as soon as practicable after the occurrence of a Change of Control and in any event no later than five business days thereafter, give written notice to the Debenture Trustee of the occurrence of a Change of Control and the Debenture Trustee will, as soon as practicable thereafter, and in any event no later than two business days after receiving notice from the Company of the occurrence of a Change of Control, provide written notice to the Debentureholders of the Change of Control, the repayment right of the Debentureholders, and the Company's right to redeem untendered Debentures under certain circumstances; and
- (b) a Debentureholder, in order to exercise the right to require the Company to purchase its Debentures, must deliver to the Debenture Trustee, not less than five business days prior to the Put Date, written notice of the Debentureholders' exercise of such right together with a duly endorsed form of transfer.

The Company will comply with the requirements of Canadian securities laws and regulations to the extent such laws and regulations are applicable in connection with the repurchase of the Debentures in the event of a Change of Control.

AMALGAMATION, MERGER AND SALE OF ASSETS

The Company may not enter into any transaction or series of transactions whereby all or substantially all of its undertaking, property or assets would become the property of any other person (a "Successor") whether by way of reorganization, consolidation, amalgamation, arrangement, merger, transfer, sale or otherwise, unless the Company complies with the requirements of the Indenture, including that:

- (a) the Successor has assumed all the covenants and obligations of the Company under the Indenture in respect of the Debentures;
- (b) the Debentures will be valid and binding obligations of the Successor entitling the Debentureholders to all of the rights of Debentureholders under the Indenture, including the rights of conversion;
- (c) such transaction, in the opinion of counsel to the Company, is on such terms as to substantially preserve and not materially and adversely impair any of the rights and powers of the Debenture Trustee or of the Debentureholders under the Indenture; and
- (d) no condition or event exists as to the Company (at the time of such transaction) or the Successor (immediately after such transaction) and after giving full effect thereto which constitutes or would constitute an Event of Default.

METHOD OF PAYMENT

Payment of Principal on Redemption or at Maturity

On redemption or at maturity, the Company will repay the indebtedness represented by the Debentures by paying to the Debenture Trustee in lawful money of Canada an amount required to repay the principal amount of the outstanding Debentures together with accrued and unpaid interest thereon. The Company may, at its option, on not more than 60 days' and not less than 30 days' prior notice and subject to applicable regulatory approval, unless an Event of Default has occurred and is continuing, elect to satisfy its obligation to repay, in whole or in part, all or any portion of the principal amount of the Debentures that are to be redeemed or that are to mature by issuing and delivering fully paid, non-assessable and freely tradeable Common Shares to the Debentureholders. The number of Common Shares to be issued will be determined by dividing the principal amount of the Debentures that are to be redeemed or that are to mature, as the case may be, by 95% of the Current Market Price of the Common Shares on the date fixed for redemption or maturity, as the case may be. No fractional Common Shares will be issued on redemption but, in lieu thereof, the Company shall satisfy fractional interests by a cash payment equal to the Current Market Price of the fractional interest.

Interest Payment Election

Unless an Event of Default has occurred and is continuing, the Company may elect, at any time and from time to time, subject to applicable regulatory approval, to issue and solicit bids from investment banks, brokers or dealers to sell Common Shares in order to raise funds to satisfy all or part of its obligation to pay interest on the Debentures in accordance with the Indenture (the "Common Share Interest Payment Election"), in which event Debentureholders will be entitled to receive a cash payment equal to the interest payable from the proceeds of the sale of such Common Shares by the Debenture Trustee. The Indenture provides that, upon such election, the Debenture Trustee shall (a) accept the proceeds with respect to the sales of Common Shares by the Company; (b) invest the proceeds of such sales in specified short-term Canadian federal or provincial government or Canadian chartered bank obligations which mature prior to the applicable Interest Payment Date; (c) deliver proceeds to Debentureholders sufficient to satisfy the Company's interest payment obligations; and (d) perform any other action necessarily incidental thereto as directed by the Company in its

absolute discretion. The amount received by a holder in respect of interest and the timing of payment thereof will not be affected by whether the Company elects to utilize the Common Share Interest Payment Election.

The Indenture sets forth the procedures to be followed by the Company and the Debenture Trustee in order to effect the Common Share Interest Payment Election. If a Common Share Interest Payment Election is made, the sole right of a holder of Debentures in respect of interest will be to receive cash from the Debenture Trustee in full satisfaction of the obligation of the Company to pay interest on the Debentures.

Neither the Company's making of the Common Share Interest Payment Election nor the consummation of sales of Common Shares will (a) result in the Debentureholders not being entitled to receive, on the applicable Interest Payment Date, cash in an aggregate amount equal to the interest payable on such date or (b) entitle such holders to receive any Common Shares in satisfaction of the interest payable on the applicable Interest Payment Date.

EVENTS OF DEFAULT

The Indenture provides that an event of default (Event of Default) in respect of the Debentures occurs if certain events described in the Indenture occur, including if any one or more of the following described events has occurred and is continuing: (a) failure for 15 days to pay interest on the Debentures when due; (b) failure to pay principal or premium, if any, on the Debentures, whether at maturity, upon redemption, by declaration of acceleration, or otherwise; (c) an unremedied breach of any material covenant or condition of the Indenture by the Company after a 30 day cure period following notice of such breach being given by the Debenture Trustee; or (d) certain events of bankruptcy, insolvency or reorganization of the Company under bankruptcy or insolvency laws. If an Event of Default has occurred and is continuing, the Debenture Trustee may, in its discretion, and shall, upon the request of holders of not less than 25% in principal amount of the then outstanding Debentures, declare the principal of (and premium, if any) and interest on all outstanding Debentures to be immediately due and payable. Certain Events of Default may be waived by written direction of the holders of 66⅔% of the principal amount of the outstanding Debentures, by Extraordinary Resolution or by the Debenture Trustee in certain circumstances in accordance with the terms of the Indenture.

The Indenture contains a provision that precludes the Company from declaring or paying any cash dividends on any Common Shares (or securities convertible into or exchangeable for Common Shares) at any time after the occurrence of an Event of Default caused by the failure to pay interest on any Debentures when due until such Event of Default has been cured or waived.

MODIFICATION

The rights of the Debentureholders may be modified in accordance with the terms of the Indenture. For that purpose, among others, the Indenture contains certain provisions that make binding on all Debentureholders resolutions (Extraordinary Resolutions) passed at meetings of the Debentureholders by votes cast thereat by holders of not less than 66⅔% of the principal amount of the then outstanding Debentures present at the meeting or represented by proxy, or rendered by instruments in writing signed by the holders of not less than 66⅔% of the principal amount of the then-outstanding Debentures. If any such modification especially affects the rights of the holders of a particular series of Debentures in a manner or to an extent differing in any material way from that in or to which the rights of the holders of any other series of Debentures are affected (as determined by an opinion of counsel), then the Extraordinary Resolution will not be binding on the holders of the especially affected series of Debentures unless it is also approved by holders of not less than 66⅔% of the principal amount of the then-outstanding Debentures of such especially affected series present at the meeting or represented by proxy. Under the Indenture, the Debenture Trustee has the right to make certain amendments to the Indenture in its discretion without the consent of the Debentureholders.

SATISFACTION AND DISCHARGE OF DEBENTURES

The Company may satisfy and discharge its obligations under one or more series of Debentures by depositing with the Debenture Trustee, in trust for the benefit of holders of the applicable series of Debentures, such amount of direct obligations of, or obligations the principal and interest of which are guaranteed by, the Government of Canada, Common Shares or money, as is sufficient to pay, satisfy and discharge the aggregate amount of principal and interest owing in respect of the applicable series of Debentures for the period commencing on the date of such deposit and ending on the date of maturity or any repayment or redemption date. Upon such deposit, the Company will be deemed to have fully paid, satisfied and discharged the applicable series of Debentures and, except as expressly contemplated in the Indenture, the provisions of the Indenture will no longer be binding on the Company in respect of the applicable series of Debentures. Holders of such Debentures will continue to have the right to convert their Debentures in

accordance with the terms of the Indenture. In addition, following such deposit, holders of the applicable series of Debentures will continue to receive regular interest payments and will be entitled to receive payments of principal when due.

OFFERS FOR DEBENTURES

The Indenture contains provisions to the effect that if an offer is made to acquire all outstanding Debentures issued under the Indenture where, as of the date of the offer to acquire, the Debentures that are subject to the offer to acquire, together with the offeror's Debentures, constitute in the aggregate 20% or more of the outstanding principal amount of the Debentures, and not less than 90% of the outstanding principal amount of such Debentures (other than Debentures held at the date of the take-over bid by or on behalf of the offeror or associates or affiliates of the offeror or any Person acting jointly or in concert with the offeror) are taken up and paid for by the offeror, then the offeror will be entitled to acquire the outstanding Debentures held by holders thereof who did not accept the offer on the terms offered by the offeror.

MARKET FOR SECURITIES

TRADING PRICE AND VOLUME

The Common Shares and 2019 Debentures trade on the TSX under the symbols "EXE", and "EXE.DB.B", respectively.

The following table sets forth the range of high and low prices and the total trading volumes of the Common Shares and the 2019 Debentures on the TSX on a monthly basis from January 2015 to February 2016.

Month	Common Shares (TSX: EXE)			2019 Debentures (TSX: EXE.DB.B)		
	High (\$)	Low (\$)	Volume Traded	High (\$)	Low (\$)	Volume Traded
January 2015	7.00	6.21	6,251,175	104.50	102.00	5,300
February 2015	7.00	6.68	2,807,833	105.00	102.00	5,640
March 2015	7.64	6.95	3,764,592	104.50	103.50	9,805
April 2015	7.93	7.37	3,494,402	107.00	102.99	9,730
May 2015	8.08	7.17	3,763,975	106.00	103.50	12,330
June 2015	7.74	6.94	4,898,236	105.97	103.00	12,210
July 2015	8.80	7.52	5,773,441	107.53	104.00	16,030
August 2015	8.76	7.30	3,520,909	106.00	103.50	7,140
September 2015	8.39	7.66	3,959,963	107.65	104.30	10,510
October 2015	8.96	7.81	4,467,404	106.00	104.35	5,760
November 2015	9.95	8.50	7,614,330	106.50	104.74	13,460
December 2015	9.93	8.84	5,284,769	106.51	104.00	11,400
January 2016	9.64	7.96	6,297,128	104.75	99.00	12,760
February 2016	9.22	8.49	3,107,927	104.50	102.51	5,925

NORMAL COURSE ISSUER BID

On December 30, 2015, Extendicare received the approval of the TSX to renew its normal course issuer bid (the "Bid") to purchase for cancellation up to 8,610,000 Common Shares (approximately 10% of the public float) through the facilities of the TSX, and on alternative Canadian trading systems. The Bid commenced on January 5, 2016, and provides Extendicare with flexibility to repurchase Common Shares for cancellation until January 4, 2017, or on such earlier date as the Bid is complete. Subject to the TSX's block purchase exception, on any trading day, purchases under the Bid will not exceed 59,253 Common Shares. The price that Extendicare will pay for any Common Shares purchased under the Bid will be the prevailing market price at the time of purchase and any Common Shares purchased will be cancelled. As at March 30, 2016, the Company had not acquired any Common Shares under the Bid.

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

DIRECTORS AND OFFICERS

The following table sets forth information relating to each of the Directors and Officers of Extendicare Inc., and includes the following: name, province or state, and country of residence, current positions held and principal occupations during the past five years; and the date he or she first became a Director of Extendicare Inc. Each Director is elected annually to hold office for a term expiring not later than the close of business at the next annual meeting, or until he or she vacates his or her office or his or her successor is appointed.

Name / Residence / Director Since	Current Positions / Principal Occupation for Past Five Years
BENJAMIN J. HUTZEL ⁽²⁾ Ontario, Canada Director since: May 6, 2010	Mr. Hutzel was appointed Chairman of Extendicare effective November 5, 2013. Mr. Hutzel is a retired partner of Bennett Jones LLP where he had an extensive national and international legal practice specializing in financings, acquisitions and divestitures and joint venture structuring (1994 – 2009). Mr. Hutzel serves on the board of the Woodbine Entertainment Group (a corporation without share capital), where he is also Chair of the Pension, Human Resources and Compensation Committee and a member of the Audit Committee.
MARGERY CUNNINGHAM ⁽¹⁾ New York, United States Director since: August 30, 2010	Ms. Cunningham joined Avalere Health, a leading advisory firm focused on health care business strategy and public policy, as a Vice President in August 2011. Prior thereto, Ms. Cunningham was with Lehman Brothers from 1997 to 2008, during which time she held numerous senior positions, including: Managing Director and Global Head of Product Training, Associate Director of Credit Research, and High Yield Bond Analyst.
SANDRA L. HANINGTON ⁽¹⁾⁽³⁾ Ontario, Canada Director since: August 5, 2014	Ms. Hanington is President and Chief Executive Officer of the Royal Canadian Mint (effective February 11, 2015), and is the co-founder and a director of Jack.org, promoting mental health and wellness for youth in Canada since 2010. Ms. Hanington served as a director on the board of the CMHC from February 2014 to February 2015. From 1999 to 2011, Ms. Hanington was with BMO Financial Group in a number of senior executive roles in North America.
ALAN R. HIBBEN ⁽¹⁾ Ontario, Canada Director since: January 22, 2016	Mr. Hibben is a corporate Board member and advisor. Since December 2014, he has been the principal of Shakerhill Partners Ltd., a consulting firm providing advice strategy, valuation, acquisitions and divestitures, as well as expert witness services. Mr. Hibben recently retired from RBC Capital Markets as Managing Director in the Mergers and Acquisitions Group (March 2011 to December 2014). Previously he had been a partner with Blair Franklin Capital Partners (2009 to 2011). Mr. Hibben is currently a director of Hudbay Minerals Inc (a TSX and NYSE listed company) and is a director of the Mount Sinai Hospital Foundation.
DONNA E. KINGELIN ⁽²⁾⁽³⁾ Ontario, Canada Director since: January 6, 2016	Ms. Kingelin is the Owner and Managing Partner of Kingswood Consulting, a partnership specializing in providing comprehensive services for seniors' housing companies (since 2012). Previously, Ms. Kingelin held the position of Managing Director at Holiday Corporation, a private independent retirement living company (June 2010 – June 2012). She is currently the Chair of the Board of Trustees for Lakeridge Health, as well as past Chair of the resources and quality committees, and past member of the finance and audit committees. In addition, Ms. Kingelin is currently a Trustee and Chair of the Human Resources Committee of the Oshawa Public Utility Board of Trustees.

Name / Residence / Director Since	Current Positions / Principal Occupation for Past Five Years
TIMOTHY L. LUKENDA Ontario, Canada / Wisconsin, United States Director since: May 8, 2008	Mr. Lukenda is the President and Chief Executive Officer of Extendicare (since joining in April 2008). Prior to joining Extendicare, Mr. Lukenda served for 11 years as the President and Chief Operating officer of Tendercare (Michigan) Inc., a private operator of skilled nursing centres that was acquired by Extendicare in October 2007, and as Vice President of Investment Banking at RBC Dominion Securities Inc. (1991 to 1995). Mr. Lukenda holds a Bachelor of Business Administration in Finance from the University of Notre Dame and a combined LL.B/MBA from the University of Western Ontario.
GAIL PAECH ⁽³⁾ Ontario, Canada Director since: January 22, 2016	Ms. Paech is the President and Chief Executive Officer of Associated Medical Services Inc., a Canadian charitable organization that supports the education of health care professionals, compassionate care and bioethics. She previously served as Interim Chief Executive Officer of the Ontario Long-Term Care Association, Ontario's largest association of long-term care providers, from August 2011 to June 2012. From 2009 to 2011, Ms. Paech served as Associate Deputy Minister of Economic Development and Trade in Ontario.
ALAN D. TORRIE ⁽²⁾ Ontario, Canada Director since: January 22, 2016	Mr. Torrie is the President and Chief Executive Officer of Morneau Shepell Ltd., (since 2008), a TSX listed company that is a leading provider of employee and family assistance programs, the largest administrator of pension and benefits plans and the largest provider of integrated absence management solutions in Canada, and has been a member of its board of directors since 2005. Mr. Torrie has served on numerous community boards, and is currently a director and Chairman of the Finance Committee of Appleby College.
FREDERIC A. WAKS ⁽¹⁾ Ontario, Canada Director since: January 22, 2016	Mr. Waks is the President and Chief Executive Officer of Trinity Development Group Inc., an Ottawa-based real estate development firm (since early 2015). He is a former President and Chief Operating Officer of RioCan Real Estate Investment Trust, a TSX listed company (2012 – 2014), which he joined in 1995, as Senior VP of Development. Mr. Waks is currently the Chair of the Campus Redevelopment Committee for Baycrest Health Centre, the Vice-Chair of Sunnybrook Hospital Foundation, a board member of the Royal Ontario Museum and a Trustee of the Jewish Foundation of Greater Toronto.
ELAINE E. EVERSON Ontario, Canada	Ms. Everson was appointed Vice President and Chief Financial Officer of Extendicare in May 2015. Prior thereto, she held the position of Vice President and Controller of Extendicare (since November 2006) and ECI (since May 1994). She joined Extendicare in 1985, and has been a member of the financial reporting department in various capacities during that time. Ms. Everson is a CPA, CA, who received her Bachelor of Mathematics degree from the University of Waterloo.
JILLIAN E. FOUNTAIN Ontario, Canada	Ms. Fountain has held the position of Corporate Secretary of Extendicare since 1999. She joined Extendicare in 1988 as a member of the financial reporting department, and is a CPA, CA, who received her Bachelor of Mathematics degree from the University of Waterloo.
(1) Member of the Audit Committee	
(2) Member of the Human Resources, Governance and Nominating Committee	
(3) Member of the Quality and Compliance Committee	

As at March 30, 2016, there were 88,157,858 Common Shares issued and outstanding, of which the Directors and officers of Extendicare as a group, beneficially owned, or controlled or directed, directly or indirectly, 618,380, or 0.7%, of the Common Shares.

Mr. Torrie was a director of LMI Legacy Holdings II Inc. (formerly known as Landauer-Metropolitan, Inc.) (together with certain affiliated entities, “LMI”) which filed a petition in the U.S. Bankruptcy Court for the District of Delaware for relief under Chapter 11 of the U.S. Bankruptcy Code on August 16, 2013. Following a sale of substantially all of LMI’s assets on February 7, 2014, LMI filed a Joint Plan of Liquidation (the “Plan”) pursuant to Chapter 11 of the U.S. Bankruptcy Code. On April 28, 2014, the U.S. Bankruptcy Court entered an order confirming the Plan, and the effective date for the Plan was May 1, 2014.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

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

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Other than as set out below, there were no material interests, direct or indirect, of the Directors or executive officers of Extendicare or its subsidiaries, any Shareholder who beneficially owns, or controls or directs, directly or indirectly, more than 10% of the Common Shares, or any known associate or affiliate of such persons, in any transaction within the three most recently completed financial years or during the current financial year, or any proposed transaction, which has materially affected or is reasonably expected to materially affect the Company or any of its subsidiaries.

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

TRANSFER AGENT AND REGISTRAR

Computershare Trust Company of Canada, located in Toronto, Ontario, is the transfer agent and registrar of the Common Shares and the 2019 Debentures.

MATERIAL CONTRACTS

The following are the only material contracts entered into by the Company that are still in effect, other than material contracts entered into in the ordinary course of business that are not required to be filed under NI 51-102:

- the EII SPA;
- the Home Health Acquisition Agreement;
- the Indenture;
- the Oxford Park Agreement; and
- the Shareholder Rights Plan.

These material contracts are disclosed elsewhere in this AIF and copies have been filed on SEDAR and are available on the SEDAR website at www.sedar.com.

INTERESTS OF EXPERTS

KPMG LLP (KPMG), the Company's external auditor, has reported on the consolidated financial statements of the Company, which comprise the consolidated statements of financial position as at December 31, 2015, and December 31, 2014, and the consolidated statements of earnings (loss), comprehensive income (loss), changes in equity (deficiency), and cash flows for the years ended December 31, 2015 and 2014. KPMG have advised that they are independent with respect to the Company with the Rules of Professional Conduct/Code of Ethics of various institutes/ordre, including the Rules of Professional Conduct of the Institute of Chartered Professional Accountants of Ontario.

AUDIT COMMITTEE INFORMATION

AUDIT COMMITTEE CHARTER

Extendicare maintains an audit committee (the "Audit Committee") that operates within a written mandate, approved by the Board of Directors of Extendicare. The full text of the Audit Committee Charter, which describes the Audit Committee's objectives and responsibilities, is attached as Appendix A to this AIF.

COMPOSITION OF THE AUDIT COMMITTEE

The Audit Committee is currently composed of the following four Directors: Margery Cunningham (Chair), Sandra L. Hanington, Alan R. Hibben and Frederic A. Waks. The Board of Directors has determined each member of the Audit Committee to be "independent" and "financially literate" under National Instrument 52-110 – Audit Committees of the Canadian Securities Administrators, and has made this determination based on the education and experience of each member.

RELEVANT EDUCATION AND EXPERIENCE

The Board believes that the members of the Audit Committee have significant experience and a level of financial literacy that is relevant to the performance of his or her responsibilities as a member of the Audit Committee. The following is a description of the education and experience of each member of the Audit Committee:

Name	Independent Director/Financially Literate	Education and Experience
Margery Cunningham (Chair) Member of Audit Committee since: August 2010	Yes	Former senior executive of Lehman Brothers; more than 20 years experience as an equity and fixed income research analyst; a CFA; A.B. in Applied Mathematics from Harvard University; and an M.S. in Management with a concentration in Finance and Economics from the MIT Sloan School of Management.
Sandra L. Hanington Member of Audit Committee since: August 2014	Yes	President and Chief Executive Officer of the Royal Canadian Mint; former senior executive of BMO Financial Group; BASc from the University of Waterloo; MBA from the Rotman School of Management; and an ICD.D.
Alan R. Hibben Member of Audit Committee since: January 2016	Yes	Former Managing Director in the Mergers and Acquisitions Group of RBC Capital Markets; former Head, Strategy & Development of RBC Financial Group; former Chief Executive Officer of RBC Capital Partners; a CPA, CA; a CFA; and an ICD.D.

Name	Independent Director/Financially Literate		Education and Experience
Frederic A. Waks Member of Audit Committee since: January 2016	Yes		President and Chief Executive Officer of Trinity Development Group Inc.; former President and Chief Operating Officer of RioCan Real Estate Investment Trust; and a B.A. in Political Science.

EXTERNAL AUDITOR SERVICE FEES

Fees billed by the independent external auditor of the Company, KPMG LLP, during fiscal 2015 and 2014, respectively, and the nature of such fees are detailed in the following table. In addition, a description of the nature of the fees is provided below the table.

Fee Category	Year ended 2015	Year ended 2014
Audit	\$1,116,000	\$1,309,000
Audit related	155,000	170,000
Other	397,000	—
Tax planning	296,000	89,000
Total	\$1,964,000	\$1,568,000

Audit fees were for professional services rendered by KPMG LLP for the audit of the annual consolidated financial statements and review of the quarterly consolidated financial statements of the Company, including separate audits and reviews of EHSI, and its captive insurance company. In addition, services during both years were provided in respect of other regulatory-required auditor attest functions associated with government audit reports for the nursing centres and home health care operations, registration statements, periodic reports and other documents filed with securities regulatory bodies or other documents issued in connection with securities offerings.

Audit-related fees consisted of due diligence related services, an audit opinion on controls at wholly owned subsidiary, VCPI, in order that it may provide third-party assurance for services to its clients, consultations concerning accounting and financial reporting standards.

Other fees were for other advisory services rendered in connection with the Home Health Acquisition.

Tax planning fees were for services outside of the scope of the audit and represented consultations for tax planning and advisory services relating to domestic and international taxation, as well as advice with respect to various tax matters.

PRE-APPROVAL POLICIES AND PROCEDURES

The Audit Committee has adopted policies and procedures for the pre-approval of services performed by its external auditors, with the objective of maintaining the independence of the external auditors. The policy requires that the Audit Committee pre-approve all audit, audit-related, tax and other permissible non-audit services to be performed by the external auditors, including all engagements of the external auditors with respect to the Company's subsidiaries. The Audit Committee pre-approved all such fees and services in 2015 in accordance with the policy. The policy sets out the details of the permissible non-audit services consistent with the independence requirements of the Canadian independence standards for auditors. The procedures require the Chief Financial Officer to present the details of any proposed assignments of the external auditor for consideration by the Audit Committee. The procedures do not allow delegation of the Audit Committee's responsibilities to management.

APPENDIX A

EXTENDICARE INC. ("Extendicare" or the "Company")

AUDIT COMMITTEE CHARTER

(1) Purpose

The Audit Committee is a committee of the board of directors of Extendicare (the "Board"). The primary function of the Audit Committee shall be to assist the Board in fulfilling its responsibilities for oversight of (1) the quality and integrity of the Company's consolidated financial statements, (2) the Company's compliance with legal and regulatory requirements, (3) the external auditors' qualifications and independence, (4) the performance of the Company's external auditors and internal audit function, and (5) the accounting and financial reporting processes of the Company and its internal controls over financial reporting. The Audit Committee is also responsible for preparing any reports required to be prepared by it under the rules and regulations of applicable regulatory authorities.

The Audit Committee is directly responsible for the (1) recommendation for appointment of the external auditors by the Company's shareholders, (2) compensation and oversight of the external auditors, and (3) resolution of disagreements between management and the external auditors regarding financial reporting. The external auditors are ultimately accountable to (and shall directly report to) the Audit Committee, as representatives of the shareholders.

The Audit Committee has final authority and responsibility for the appointment, and assignment of duties of the internal audit department. The Audit Committee shall direct that the internal audit department be authorized to have full, free and unrestricted access to all of the functions, records, property and personnel of the Company in order to carry out the duties prescribed by the Audit Committee.

The activities enumerated in Section 4 of this Charter are designed to promote the Audit Committee's fulfillment of its functions, as well as to facilitate communications between the Board, management, the internal auditors and external auditors on significant accounting judgements, estimates, principles, practices and policies. Notwithstanding the Audit Committee's role in oversight of the Company's consolidated financial reporting process and financial statements, it is acknowledged that the Company's management ultimately has responsibility for that process and the Company's consolidated financial statements.

(2) Composition

- (a) The Audit Committee shall be comprised of not fewer than three (3) nor more than six (6) directors of the Company. The members of the Audit Committee shall be appointed annually. Unless a Chair is elected by the Board, the members of the Audit Committee may designate a Chair by majority vote of the full Audit Committee.
- (b) Each member shall satisfy the independence and experience requirements of applicable regulatory authorities. The Board will exercise their business judgement to determine an individual's eligibility to be a member of the Audit Committee including a determination regarding his or her independence and experience.
- (c) The Audit Committee shall consist of at least one member who shall have "Accounting or Related Financial Expertise". The designation of such a member shall not impose any duties, obligations or liabilities on such member greater than the regular duties, obligations and liabilities as a member of the Audit Committee.
- (d) The Chair of the Audit Committee and the other members of the Audit Committee shall:
 - (i) be "Financially Literate", as this qualification is interpreted by the Board in their business judgement, or must become "Financially Literate" within a reasonable period of time after appointment to the Audit Committee;
 - (ii) be "Independent" and no member shall have a material relationship with Extendicare which could, in the view of the Board, be reasonably expected to interfere with the exercise of a member's independent judgement;
 - (iii) not be an officer or employee of Extendicare, nor a compensated officer or employee of a subsidiary of Extendicare, nor have been such within the three-year period preceding his or her appointment as a member of the Audit Committee; and

- (iv) not receive, either directly or indirectly, compensation from Extencicare or any subsidiary of Extencicare, other than in the member's capacity as a member of the Board.

(3) Meetings and Procedures

- (a) The Audit Committee shall meet as often as it deems appropriate to discharge its responsibilities and in any event at least four (4) times per year. A majority of the members of the Audit Committee shall constitute a quorum for the transaction of business. The meetings will be scheduled so as to permit timely review and consideration of the interim and annual financial statements as well as allowing sufficient time to consider and review the audit plan with management and the external auditors. Additional meetings may be held as deemed necessary by the Chair of the Audit Committee or as requested by any member of the Audit Committee or the external auditors.
- (b) As part of its job to foster communication, the Audit Committee shall meet periodically in separate executive sessions with management, and the independent auditors to discuss any matter that the Audit Committee believes should be discussed privately.
- (c) The minutes of all meetings of the Audit Committee shall be provided to the Board. Oral reports by the Chair of the Audit Committee on matters that have not been recorded in the minutes of the Audit Committee shall be provided to the Board at the next meeting of the Board following the meeting of the Audit Committee and as otherwise requested by the Board.
- (d) The Audit Committee, as it deems necessary in the exercise of its business judgement, may conduct or authorize investigations into any matters within the Audit Committee's scope of responsibilities. The Audit Committee is authorized to retain and determine funding for independent professionals to assist in the conduct of any investigation.

(4) Responsibilities and Duties

The following are activities of the Audit Committee designed to promote the fulfillment of its functions as described in this Charter (these functions are set forth as a guide with the understanding that the Audit Committee may diverge from this guide as appropriate given the circumstances).

(a) Financial Reporting Process and Documents Review

Review and report to the Board before release to the public, where appropriate, all public disclosure documents (including related news releases) containing audited or unaudited financial information, including any prospectus, interim and annual financial statements, management's discussion and analysis, the annual report, the annual information form and any certification, report, opinion, or review rendered by the external auditor. Such review shall include discussions with management and where appropriate the external auditors, and shall specifically include:

- (i) all critical accounting estimates and judgements including how policies were chosen among alternatives, the methodology of applying those estimates and policies, and the assumptions made, and the impact of changes in those estimates and policies, both qualitatively and quantitatively;
- (ii) any material off-balance sheet transactions, arrangements, obligations (including contingent obligations) and other relationships of the Company with unconsolidated entities or other persons, that may have a material current or future effect on the Company's consolidated financial statements, financial condition, changes in financial condition, results of operations, liquidity, capital resources, capital reserves or significant components of revenues or expenses;
- (iii) all material related-party transactions;
- (iv) obtaining an explanation from management of all significant variances between comparative reporting periods and an explanation for items which vary from expected or budgeted amounts;
- (v) internal control procedures, programs and policies, and assessment of the adequacy and effectiveness of internal controls over the accounting and financial reporting systems and other identified business risks;
- (vi) all post-audit or management letters, containing the recommendations of the external auditor, and management's response and subsequent follow-up to any identified weaknesses or significant comments;

- (vii) all issues of operational risk management, including insurance coverages maintained by the Company or any subsidiary of the Company, legal exposure, including legal claims or other contingencies as well as tax assessments that could have a material effect upon the consolidated financial position or operating results of the Company, management compliance with regulatory requirements, conflicts of interest, and other related matters, in the exercise of its business judgement that it considers as having or tending to have a material impact on the financial position of the Company; and
 - (viii) any allegations of fraud, or other impropriety, whether or not material, that involves management or other employees who have a significant role in internal controls.
- (b) **Independent External Auditors and Approval of Audit and Non-audit Services**
 Possess the ultimate authority and responsibility to (1) recommend annually or more frequently as required the appointment or reappointment of the independent external auditors by the Company's shareholders, (2) evaluate, and where appropriate, replace the external auditors, and (3) determine the appropriate compensation to the external auditors. Such responsibility shall include:
- (i) reviewing and approving the terms of the external auditors' engagement, the appropriateness and reasonableness of the proposed audit plan, audit fees and any unpaid fees;
 - (ii) establishing and maintaining procedures for pre-approval by the Audit Committee of all proposed non-audit services to be provided by the external auditors or its affiliates, together with estimated fees, and considering the impact of these on the independence of the external auditors;
 - (iii) the authority to delegate to one or more members the authority to grant the approvals required by the preceding paragraph; with a report of any such approvals to be presented to the full Audit Committee at its next regularly scheduled meeting;
 - (iv) reviewing and evaluating the performance of the external auditors annually or more frequently as required, including any problems experienced by the external auditors in performing their duties, any restrictions imposed by management, or significant accounting issues with which there was a disagreement with management;
 - (v) reviewing the evaluation of internal controls by the external auditors, together with management's response;
 - (vi) obtaining from the external auditors on a periodic basis, a formal written statement delineating all relationships between the external auditor and the Company, actively engaging in a dialogue with the external auditor with respect to any disclosed relationships or services that may impact the objectivity and independence of the external auditors, and for recommending that the Board take appropriate action in response to the external auditors' report to satisfy itself of the external auditors' independence; and
 - (vii) reviewing all issues related to any change of external auditors, including the information to be included in the notice of change of auditor and the planned steps for an orderly transition.
- (c) **Internal Audit Function**
 Possess the ultimate authority and responsibility to review and report to the Board on the appointment, replacement, reassignment or dismissal of the internal auditor; and the functions of the internal audit department. Such responsibility shall include:
- (i) reviewing and approving management's decisions related to the need for internal auditing;
 - (ii) reviewing the mandate, budget, plan, changes in plan, activities, organizational structure, and qualifications of the internal audit department, as needed;
 - (iii) reviewing the appointment, performance, and replacement of the senior internal audit executive; and
 - (iv) reviewing significant reports prepared by the internal audit department together with management's response and follow-up to these reports.
- (d) **Reports of the Audit Committee**
 Prepare an annual Audit Committee report or other proxy statement disclosure about the activities of the Audit Committee in accordance with rules and regulations of applicable regulatory authorities.

(e) Other Duties

- (i) review the appointment of the chief financial officer and of any key financial executive involved in the financial reporting process or any changes in any of these positions, with a policy that the Company or any of its subsidiaries will not hire employees and former employees of the external auditors if their status as employees would cause the external auditors to cease being independent;
- (ii) establish procedures for (a) the receipt, retention and treatment of complaints received by the Company or any of its subsidiaries regarding accounting, internal accounting controls or auditing matters; and (b) the confidential, anonymous submission by employees of the Company or any of its subsidiaries of concerns regarding questionable accounting or auditing matters;
- (iii) annually, review and reassess the adequacy of the Audit Committee Charter and report thereon to the Board; and
- (iv) annually, review and evaluate the performance of the Audit Committee's duties.

(5) General Provisions

While the Audit Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Audit Committee to plan or conduct audits or to determine that the Company's consolidated financial statements are complete and accurate. This is the responsibility of management and the external auditors. Nor is it the duty of the Audit Committee to conduct investigations, or to assure compliance with laws and regulations.

The Audit Committee is by this Charter delegated the powers of the Board necessary to carry out its purposes, responsibilities and duties provided in this Charter or reasonably related to those purposes, responsibilities and duties.

The Audit Committee may form and delegate authority to subcommittees of one or more members when appropriate. Any subcommittee shall be subject to this Charter. The decisions of any subcommittees to which authority is delegated under this paragraph shall be presented to the full Audit Committee at its next regularly scheduled meeting.

This Charter amends in its entirety and replaces the charter of the Audit Committee as heretofore in effect.

(6) Definitions

"Accounting or Related Financial Expertise" means the ability to analyze and interpret a full set of financial statements, including the notes attached thereto, in accordance with applicable generally accepted accounting principles.

"Financially Literate" means the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Company's consolidated financial statements.

"Independent" means a member who meets the independence criteria as set out by the Canadian Securities Administrators in section 1.4 of National Instrument 52-110.

EXTENDICARE®