

# EXTENDICARE

**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 Experience”. 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 Multilateral Instrument 52-110.