



**NOTICE**  
**AND**  
**MANAGEMENT INFORMATION AND PROXY CIRCULAR**  
**FOR THE**  
**ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS**  
**OF**  
**EXTENDICARE INC.**  
**TO BE HELD ON**  
**JUNE 18, 2015**

**Dated: May 7, 2015**

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**NOTICE OF ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS  
OF EXTENDICARE INC.**

**NOTICE IS HEREBY GIVEN** that the Annual and Special Meeting (the “**Meeting**”) of the holders of common shares (collectively, the “**Shareholders**”) of Extendicare Inc. (“**Extendicare**” or the “**Company**”) will be held on:

Thursday, June 18, 2015  
11:00 a.m. (Toronto time)  
The Gallery, TMX Broadcast Centre  
130 King Street West  
Toronto, Ontario, Canada

for the following purposes:

- (1) to receive the consolidated financial statements of the Company for the year ended December 31, 2014 and the report of the auditors thereon;
- (2) to appoint the auditors of the Company;
- (3) to elect directors of the Company;
- (4) to consider and, if deemed advisable, pass, with or without variation, an ordinary resolution reconfirming the shareholder rights plan of the Company that was implemented on July 1, 2012, all as more particularly described and set forth in the accompanying management information and proxy circular of the Company (the “**Information Circular**”);
- (5) to consider and, if deemed advisable, pass, with or without variation, an ordinary resolution to confirm By-Law No. 3, a by-law relating to the advance notice requirements for the nomination of directors of the Company approved by the Board of Directors on March 27, 2015, all as more particularly described and set forth in the Information Circular;
- (6) to approve an advisory (non-binding) resolution to accept the approach of the Company to executive compensation disclosed in the Information Circular; and
- (7) to transact such further business as may properly come before the Meeting or any adjournment thereof.

The accompanying Information Circular contains additional information relating to the matters to be dealt with at the Meeting.

As a Shareholder, you are entitled to attend the Meeting and to cast one vote for each common share of the Company held by you.

Shareholders are cordially invited to attend the Meeting. Whether or not Shareholders are able to attend the Meeting, registered Shareholders and non-registered Shareholders are encouraged to provide voting instructions in accordance with the enclosed form of proxy or voting instruction form, respectively.

To be effective, proxies must be received by Computershare Trust Company of Canada, Stock Transfer Services, 100 University Avenue, 8th Floor, Toronto, Ontario M5J 2Y1, no later than 11:00 a.m. (Toronto time) on June 16, 2015, and if the Meeting is adjourned, not less than 48 hours (excluding Saturdays, Sundays and holidays) prior to the commencement of the adjourned Meeting. In addition, the form of proxy provides instructions on how to vote by telephone or over the internet. If you are a non-registered Shareholder and receive the Meeting materials through an intermediary, you must provide your instructions as specified in the voting instruction form in sufficient time for the intermediary to act on them prior to that deadline. Additional information relating to the exercise of voting rights by registered and non-registered Shareholders is included in the accompanying Information Circular.

If you are a new Shareholder or a non-registered Shareholder who did not elect to receive our 2014 Annual Report, you can view this report on our website at [www.extendicare.com](http://www.extendicare.com). If you wish to receive a hard copy of this report, please contact the Corporate Secretary of the Company at 905-470-5534.

**DATED** at Markham, Ontario on May 7, 2015.

By order of the Board of Directors of Extendicare Inc.



**Jillian E. Fountain**  
Corporate Secretary

## GLOSSARY OF TERMS

The following is a glossary of certain terms used in this Information Circular. Words importing the singular include the plural and vice versa and words importing any gender include all genders.

“**2012 Conversion**” means the conversion of Extencicare 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 Annual Information Form**” means the annual information form of Extencicare for the year ended December 31, 2014;

“**Advance Notice By-Law**” means By-Law No. 3 of the Company to be approved at the Meeting;

“**Advance Notice By-Law Resolution**” means the ordinary resolution in respect of the Advance Notice By-Law, as set forth under the heading “Business of the Meeting – Confirmation and Approval of Advance Notice By-Law”;

“**Advisory (Non-binding) Resolution**” means the advisory (non-binding) ordinary resolution to accept the Company’s approach to executive compensation, as set forth under the heading “Business of the Meeting – Shareholder Advisory Vote on the Approach to Executive Compensation”;

“**Audit Committee**” means the audit committee of the Board of Directors;

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

“**Canadian GAAP**” means accounting principles generally accepted in Canada as recommended in the Chartered Professional Accountants of Canada Handbook at the relevant time, and which for financial years beginning on or after January 1, 2011 is IFRS;

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

“**Common Shares**” means the common shares in the capital of Extencicare Inc.;

“**Computershare**” means Computershare Trust Company of Canada, the registrar and transfer agent of the Company;

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

“**EHSI**” means Extencicare Health Services, Inc., a corporation incorporated under the laws of Delaware and a subsidiary of Extencicare; and references to EHSI in this Information Circular mean EHSI alone or together with its subsidiaries, as the context requires;

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

“**HR/GN Committee**” means the human resources, governance and nominating committee of the Board of Directors;

“**IFRS**” means the generally accepted accounting principles determined with reference to International Financial Reporting Standards, as defined by the International Accounting Standards Board, and which have been prescribed as being Canadian GAAP for publicly accountable enterprises by the Canadian Accounting Standards Board for financial years beginning on or after January 1, 2011, as amended from time to time;

“**Information Circular**” means the management information and proxy circular of Extencicare Inc., together with all appendices thereto, distributed to Shareholders in connection with the Meeting;

“**MD&A**” means management’s discussion and analysis of financial condition and results of operations;

“**Meeting**” means the annual and special meeting of Shareholders to be held on June 18, 2015, at the Gallery, TMX Broadcast Centre, 130 King Street West, Toronto, Ontario, Canada, commencing at 11:00 a.m. (Toronto time) and all postponements or adjournments thereof, to consider and vote on the matters set out in the Notice of Meeting;

“**Named Proxyholder**” has the meaning set forth under the heading “General Proxy Matters – Appointment of Proxyholder”;

“**Non-registered Shareholder**” means a Shareholder who holds their Common Shares in the name of a “nominee”, such as a bank, trust company, securities broker or other financial institution;

“**Notice of Meeting**” means the notice of the Meeting that accompanies this Information Circular;

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

“**Quality and Compliance Committee**” means the quality and compliance committee of the Board of Directors;

“**Record Date**” has the meaning set forth under the heading “General Proxy Matters — Record Date and Voting Rights”;

“**Registered Shareholder**” means a Shareholder who holds their Common Shares in their own name;

“**REIT**” or “**Extencicare REIT**” means Extencicare 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 Extencicare;

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

“**SARs**” means, collectively, the share appreciation rights granted under the SARP and the unit appreciation rights granted under the UARP;

“**SARP**” means the 2012 Share Appreciation Rights Plan of Extencicare, which replaced the UARP effective as of 12:01 a.m. (Toronto time) on July 1, 2012, being the effective time of the 2012 Conversion, and pursuant to which SARs have been and will be granted and Extencicare confirmed and acknowledged that it was liable for all of the obligations of the REIT under the UARP;

“**SEDAR**” means the System for Electronic Document Analysis and Retrieval;

“**Shareholder Rights Plan**” means the shareholder rights plan of the Company implemented on July 1, 2012;

“**Shareholder Rights Plan Resolution**” means the ordinary resolution in respect of the Shareholder Rights Plan, as set forth under the heading “Business of the Meeting – Renewal of the Shareholder Rights Plan”;

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

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

“**UARP**” means the total return unit appreciation rights plan of the REIT, which was replaced by the SARP effective as of 12:01 a.m. (Toronto time) on July 1, 2012, being the effective time of the 2012 Conversion;

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

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

## EXTENDICARE INC.

### MANAGEMENT INFORMATION AND PROXY CIRCULAR

#### GENERAL PROXY MATTERS

##### **Solicitation of Proxies**

This Information Circular is furnished in connection with the solicitation of proxies by management of the Company for use at the Meeting for the purposes set forth herein and in the Notice of Meeting accompanying this Information Circular. Unless otherwise indicated, all information provided in this Information Circular is given as of May 7, 2015. All dollar amounts referenced herein are expressed in Canadian dollars unless indicated otherwise.

It is anticipated that the solicitation of proxies will be primarily by mail, but proxies may also be solicited personally, by telephone or other means of communication by management of the Company, who will not be specifically compensated therefor, or agents of the Company who will be specifically compensated therefor. All costs of the solicitation will be borne by the Company.

##### **Record Date and Voting Rights**

The Board of Directors has fixed the record date for the Meeting at the close of business on April 30, 2015 (the “**Record Date**”) for the purpose of determining Shareholders entitled to receive notice of and to vote at the Meeting. Each Shareholder is entitled to one vote for each Common Share held as of the Record Date. Only Shareholders of record at the close of business on the Record Date and their duly authorized representatives shall be entitled to vote at the Meeting or any adjournment thereof. The voting process is different depending on whether a Shareholder is a registered or a non-registered Shareholder.

##### **Appointment of Proxyholder**

A proxyholder is the person appointed by a Shareholder to cast votes and act on behalf of the Shareholder at the Meeting, including any continuation of the Meeting that may occur in the event that the Meeting is adjourned. The persons named in the accompanying form of proxy are the designated proxyholders (the “**Named Proxyholders**”) and are officers and/or directors of the Company. **A Shareholder has the right to appoint another Person (who need not be a Shareholder) to represent him or her at the Meeting or at any adjournment thereof. To exercise this right, the Shareholder may strike out the printed names and insert the name of the Shareholder’s chosen proxyholder in the blank space provided in the form of proxy for that purpose or complete another proper form of proxy.**

##### ***Voting Instructions for Registered Shareholders***

Registered Shareholders are Shareholders who hold their Common Shares in their own names. **Registered Shareholders who plan to attend and vote in person at the Meeting need not complete or return the accompanying form of proxy.** However, such a Shareholder may still complete and return the form of proxy accompanying this Information Circular to Computershare. Registered Shareholders attending the Meeting in person will be asked to register their attendance with Computershare upon arrival at the Meeting and any proxy previously given may be revoked at the Shareholder’s request.

**Registered Shareholders who do not plan to attend and vote in person at the Meeting can vote by using the accompanying form of proxy.** To be valid, Registered Shareholders’ proxies must be deposited with the Company’s registrar and transfer agent, Computershare Trust Company of Canada, Attention: Stock Transfer Services, 100 University Avenue, 8th Floor, Toronto, Ontario M5J 2Y1 no later than 11:00 a.m. (Toronto time) on June 16, 2015 or, in the case of any adjournment, not less than 48 hours (excluding Saturdays, Sundays and holidays) prior to the commencement of the adjourned Meeting. In addition, the form of proxy provides instructions on how to vote by telephone or over the internet.

##### ***Voting Instructions for Non-registered Shareholders***

Non-registered Shareholders or Shareholders who hold their Common Shares in the name of a “nominee”, such as a bank, trust company, securities broker or other financial institution, will have received this Information Circular in a mailing from their nominee together with a voting instruction form.

**Non-registered Shareholders who plan to attend and vote in person at the Meeting must write their name or the name of someone else whom they wish to attend the Meeting and vote on their behalf in the place provided on the voting instruction form and adhere to the signing and return instructions provided by their nominee.** The person whose name is written in the space provided will have full authority to present matters to the Meeting and to vote on all matters that are presented at the Meeting. Non-registered Shareholders attending the meeting in person should register their attendance with Computershare upon arrival at the Meeting.

**Non-registered Shareholders who do not plan to attend the Meeting in person should mark their voting instructions on the voting instruction form, sign it and return it as instructed by their nominee.** The voting instruction form may provide instructions on how to vote by telephone or over the internet.

Intermediaries must receive the voting instructions from Non-registered Shareholders in sufficient time to be able to act on them. Computershare must receive proxy vote instructions from the intermediaries no later than 11:00 a.m. (Toronto time) on June 16, 2015 or, in the case of any adjournment, not less than 48 hours (excluding Saturdays, Sundays and holidays) prior to the commencement of the adjourned meeting.

## **Revocation of Proxy**

### ***Registered Shareholders***

Registered Shareholders may revoke any prior proxy by providing a new proxy with a later date, provided that the new proxy is received by Computershare no later than 11:00 a.m. (Toronto time) on June 16, 2015 or, in the case of any adjournment, not less than 48 hours (excluding Saturdays, Sundays and holidays) prior to the commencement of the adjourned meeting. A Registered Shareholder may also revoke any prior proxy without providing new voting instructions by preparing a written statement to that effect. Such written statement must be delivered to: (i) the registered office of the Company, at 3000 Steeles Ave. East, Suite 700, Markham, Ontario, L3R 9W2, Attention: Corporate Secretary, no later than the close of business on June 17, 2015 or, in the case of any adjournment, not later than the close of business on the last business day preceding the date of commencement of the adjourned meeting, or (ii) the Chairman of the Meeting prior to commencement of the Meeting, on the day of the Meeting, or any adjournment thereof, or (iii) in any other manner permitted by law. A Registered Shareholder attending the Meeting may vote in person at the Meeting upon registering their attendance with Computershare, in which case any previous proxy given by the Registered Shareholder will be revoked.

### ***Non-registered Shareholders***

Non-registered Shareholders may revoke any prior voting instructions by providing new instructions on a voting instruction form with a later date, or at a later time in the case of voting by telephone or over the internet, provided that the new instructions are received by their nominee in sufficient time for their nominee to act on them. Non-registered Shareholders should contact their nominee if they want to revoke their proxy or change their voting instructions, or if they change their mind and want to vote in person.

## **Exercise of Discretion by Proxyholders**

A Shareholder may instruct the appointed proxyholder how he or she wishes to vote on the matters listed in the Notice of Meeting by checking the appropriate boxes on the form of proxy. If the Shareholder has not specified how to vote on a particular matter, the appointed proxyholder is entitled to vote the Common Shares as he or she sees fit. **If the form of proxy does not specify how to vote on any particular matter and if the Shareholder has authorized the Named Proxyholders to act as his or her proxyholder, the Common Shares will be voted at the Meeting as follows:**

- **FOR the appointment of KPMG LLP as the Company's auditors;**
- **FOR the election of the nine nominees listed in this Information Circular to the Board of Directors;**
- **FOR the Shareholder Rights Plan Resolution;**
- **FOR the Advance Notice By-Law Resolution; and**
- **FOR the Advisory (Non-binding) Resolution to accept the Company's approach to executive compensation.**

The accompanying form of proxy confers discretionary authority upon the persons named therein with respect to amendments or variations to matters identified in the Notice of Meeting and with respect to other matters which may properly come before the Meeting. At the date of this Information Circular, the Board of Directors knows of no such amendments, variations or other matters to come before the Meeting other than the matters referred to in the Notice of Meeting. If any such amendment, variation or other matter which is not now known should properly come before the

Meeting, then the persons named in the enclosed forms of proxy will vote on such matters in accordance with their judgement, pursuant to the discretionary authority conferred by the forms of proxy with respect to such matters.

### **Principal Holders of Common Shares**

As at the close of business on May 7, 2015, there were 87,530,445 Common Shares issued and outstanding. To the knowledge of the directors and the executive officers of the Company, as of the close of business on May 7, 2015, no Person beneficially owned, directly or indirectly, or exercised control or direction over, more than 10% of the voting rights attached to the issued and outstanding Common Shares.

## **BUSINESS OF THE MEETING**

### **Financial Statements**

The consolidated financial statements of the Company for the year ended December 31, 2014, and the report of the auditors thereon, will be placed before the Shareholders by the Company at the Meeting. Shareholders may find a copy of these documents in the Company's 2014 Annual Report, which is available on its website at [www.extendicare.com](http://www.extendicare.com) and on SEDAR at [www.sedar.com](http://www.sedar.com) under Extendicare's issuer profile.

### **Appointment of Auditors**

With the recommendation of the Audit Committee, the Common Shares represented by proxies in favour of the persons named in the enclosed form of proxy will be voted in favour of the appointment of KPMG LLP, the present auditors, as auditors of the Company to hold office until the next annual meeting of the Company to be held in 2016, unless authority to vote in respect of the appointment of auditors is withheld in the form of proxy.

### **External Auditor Services Fees**

Fees billed by the independent external auditor of the Company, KPMG LLP, during fiscal 2013 and 2014 totalled \$1,266,000 and \$1,568,000, respectively. The nature of these fees are summarized below,

**Audit Fees:** The audit fees billed by KPMG LLP for fiscal 2013 and 2014 were \$1,197,000 and \$1,309,000, respectively. These audit fees were in respect of audit services and interim reviews of the consolidated financial statements of the Company, including separate audits and reviews of its wholly owned subsidiaries, and statutory and regulatory filings.

**Audit-related Fees:** The audit-related fees billed by KPMG LLP for fiscal 2013 and 2014 were \$38,000 and \$170,000, respectively. These audit-related fees were in respect of an audit opinion on controls of a wholly owned subsidiary, VCPI, in order to provide third-party assurance for services to its clients, consultations concerning accounting and financial reporting standards and due diligence related services.

**Tax Planning Fees:** The tax planning fees billed by KPMG LLP for fiscal 2013 and 2014 were \$31,000 and \$89,000, respectively. These tax planning fees were in respect of 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 assistance with various tax audit matters.

### **Election of Directors**

The articles of the Company provide that the Board shall consist of a minimum of one and a maximum of twenty directors, with the number of directors from time to time within such range being fixed by resolution of the Board of Directors. Each director is elected annually and will hold office for a term expiring at the close of the next annual meeting of the Company, unless his or her office is vacated earlier due to death, removal, resignation or ceasing to be duly qualified. The Board has fixed the number of directors to be elected to the Board at nine. The Board of Directors presently consists of nine directors, all of whom are nominees for election at the Meeting as set out below under the heading "Nominees for Election as Directors". Each nominee proposed for election at the Meeting has confirmed his or her willingness to serve on the Board and has acknowledged and agreed to abide by the Company's majority voting policy.



**In the absence of a contrary instruction, the persons designated by management of the Company in the accompanying form of proxy intend to vote FOR the nine nominees whose names are set forth below.** The Board of Directors does not contemplate that any of the nominees will be unable to serve as a director. If, for any reason, any of the nominees is unable to serve as a director, the persons named in the enclosed form of proxy reserve the right to vote for another nominee at their sole discretion.

The Board of Directors of Extencicare met on 15 occasions during 2014, at which attendance averaged 99%. During 2014, the Audit Committee met six times (attendance averaged 93%), the HR/GN Committee met six times (attendance averaged 100%), and the Quality and Compliance Committee met four times (attendance averaged 100%).

#### ***Majority Voting Policy Adopted***

In December 2012, the Board adopted a majority voting policy in order to promote enhanced director accountability, and this will be the third meeting at which the policy is in effect. This policy enhances the Company's existing policies of electing directors individually and on an annual basis. The Company's majority voting policy stipulates that for uncontested elections, any nominee for director who receives a greater number of votes "withheld" from his or her election than votes "for" such election shall promptly tender his or her resignation to the Chairman of the Board. The HR/GN Committee will consider the resignation, and absent a compelling reason for the director to remain on the Board, will recommend that the Board of Directors accept the resignation effective within 90 days after the Meeting. The Board of Directors will promptly disclose its decision and, if applicable, the reasons for rejecting the tendered resignation. The nominee will not participate in any committee of the Board or Board deliberations in considering the resignation. In a contested election, where the number of director nominees exceeds the number of director position to be filled through the election, a plurality vote standard will continue to apply. More details on the Company's majority voting policy are provided under the heading "Majority Voting Policy" found in Schedule C – "Statement of Corporate Governance Practices".

#### ***Nominees for Election as Directors***

The following table sets forth information relating to each of the nine nominees proposed for election as directors of the Company, and includes the following: name; province or state and country of residence; principal occupation during the past five years; the number of Common Shares beneficially owned or over which control or direction, directly or indirectly, is exercised by the nominee; the market value of such Common Shares based on the TSX closing price of the Common Shares at May 7, 2015 of \$7.72; the date the nominee became a director of Extencicare (or one of its predecessors); and attendance record at Board meetings of Extencicare during 2014.

If elected to the Board of Directors, each of the nominees set forth below, other than Mr. Lukenda, will be an independent director of the Company.

The information set out below relating to the nominees for election as directors of the Company is based partly on the Company's records and partly on information received by the Company from such nominees.

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#### **Directors nominated to serve until the next Annual Meeting of Shareholders in 2016:**

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**BENJAMIN J. HUTZEL** <sup>(2) (3)</sup>

Chairman of the Board  
Ontario, Canada

**Director since:** May 6, 2010

**Common Shares:** 550,000; \$4,246,000

**Board meetings attended:** 15/15

Mr. Hutzel was appointed Chairman of the Board of Extencicare 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 not-for-profit organization), and is chair of their human resources and compensation committee and a member of their audit committee.

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**Directors nominated to serve until the next Annual Meeting of Shareholders in 2016:**

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**JOHN F. ANGUS** <sup>(1)</sup>

Quebec, Canada

**Director since:** Dec. 14, 2006**Common Shares:** 10,000; \$77,200**Board meetings attended:** 15/15

Mr. Angus is President of Stonehenge Corporation and a former Senior Partner of PerformaCorp Inc. (2007 to December 2014); both are private consulting firms specializing in business turnaround solutions. Mr. Angus is a director of the Institute for Public Affairs of Montreal and a number of other private companies, and is a member of the Turnaround Management Association.

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**MARGERY O. CUNNINGHAM** <sup>(1)</sup>

New York, United States

**Director since:** August 30, 2010**Common Shares:** 2,000; \$15,440**Board meetings attended:** 15/15

Ms. Cunningham joined Avalere Health LLC, 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.

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**GOVERNOR HOWARD B. DEAN, MD** <sup>(2)(3)</sup>

Vermont, United States

**Director since:** May 6, 2010**Common Shares:** 30,000; \$231,600**Board meetings attended:** 15/15

Governor Dean is the former Democratic National Committee Chairman (2005 – 2009), 2004 U.S. presidential candidate, six-term Vermont Governor (1991 – 2003) and physician, and currently serves as a Senior Strategic Advisor and Independent Consultant to the government affairs practice at McKenna Long & Aldridge LLP (2009 to present) focusing on health care and energy issues. Governor Dean is on the board of the National Democratic Institute (a non-profit, non-partisan organization), serves as a contributor to MSNBC and as a consultant for Democracy for America, an organization he founded in 2004.

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**DR. SETH B. GOLDSMITH** <sup>(1)(3)</sup>

Florida, United States

**Director since:** February 23, 1995**Common Shares:** 69,409; \$535,837**Board meetings attended:** 15/15

Dr. Goldsmith is an attorney and Professor Emeritus at the University of Massachusetts at Amherst. Dr. Goldsmith is a former Chief Executive Officer of the Miami Jewish Home & Hospital for the Aged, and has served as a consultant to numerous organizations, including the World Health Organization, Geneva, Switzerland, and the U.S. Army.

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**SANDRA L. HANINGTON** <sup>(1)</sup>

Toronto, Ontario

**Director since:** August 5, 2014**Common Shares:** nil**Board meetings attended:** 6/6

Ms. Hanington is President and Chief Executive Officer of the Royal Canadian Mint (effective February 11, 2015), and is co-founder and 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 (BMO) in a number of senior executive roles in North America. Ms. Hanington was three times named by the Women's Executive Network (WXN)<sup>TM</sup> as one of Canada's Top 100 Most Powerful Women (2007, 2008 and 2009) and was inducted into the WXN Hall of Fame in 2010.

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**ALVIN G. LIBIN** <sup>(2)</sup>

Alberta, Canada

**Director since:** January 20, 1984**Common Shares:** 880,000; \$6,793,600**Board meetings attended:** 15/15

Mr. Libin is President and Chief Executive Officer of Balmon Investments Ltd., a private management services and investment company. Mr. Libin is a director and one of the owners of the Calgary Flames of the National Hockey League, and serves as a director of several private corporate and community boards. Mr. Libin is also an Officer of the Order of Canada, a member of the Alberta Order of Excellence, the co-founder of a nursing center business, and past Chairman of the Alberta Ingenuity Fund.

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**Directors nominated to serve until the next Annual Meeting of Shareholders in 2016:**

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**TIMOTHY L. LUKENDA**

Wisconsin, United States

**Director since:** May 8, 2008**Common Shares:** 140,000; \$1,080,800**Board meetings attended:** 15/15

Mr. Lukenda is the President and Chief Executive Officer of Extencicare. Prior to joining Extencicare, Mr. Lukenda served as the President and Chief Operating Officer of Tendercare (Michigan) Inc. for 11 years, a private operator of skilled nursing centers that was acquired by EHSI in October 2007, and as Vice President, Investment Banking with RBC Dominion Securities Inc. (1991 to 1995).

**J. THOMAS MACQUARRIE, Q.C.** <sup>(1)</sup>

Nova Scotia, Canada

**Director since:** October 8, 1980**Common Shares:** 97,724; \$754,429**Board meetings attended:** 15/15

Mr. MacQuarrie, Q.C., is a Partner in the Atlantic Canada law firm of Stewart McKelvey. Mr. MacQuarrie serves as a director of Aquarius Coatings Inc., a public company, as well as of a number of private corporations.

Notes:

- (1) Member of the Audit Committee  
(2) Member of the HR/GN Committee

- (3) Member of the Quality and Compliance Committee

***Corporate Orders and Bankruptcies***

To the knowledge of the Company, except as described below, none of the proposed nominees for election as a director of the Company had, as at the date of this Information Circular or in the last 10 years, been (a) a director, chief executive officer or chief financial officer of a company that was the subject of a cease trade or similar order or an order that denied the company access to any exemption under securities legislation, for a period of more than 30 consecutive days, or (b) a director or executive officer of a company that made a proposal under legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors.

In March 2009, for a technical reason, a small private company, of which Mr. J. Angus was a shareholder, director and officer, was placed in voluntary receivership and made an assignment in bankruptcy. All creditors of the company were paid in full except for Mr. Angus.

Mr. J. T. MacQuarrie is a director of Aquarius Coatings Inc. whose shares were suspended from trading effective November 3, 2014, for failure to comply with the requirements of the TSX Venture Exchange. In addition, Mr. MacQuarrie was a director of Aquarius Coatings Inc. (Aquarius Coatings) during the period from December 12, 2008 to January 14, 2009, when Aquarius Coatings was subject to a management cease trade order for failing to hold shareholder meetings in connection with the financial years of Aquarius Coatings ended March 31, 2007 and March 31, 2008, in accordance with the requirements of the TSX Venture Exchange.

**Reconfirmation of the Shareholder Rights Plan*****Overview***

The Shareholder Rights Plan was implemented on July 1, 2012, in connection with the 2012 Conversion. At the Meeting, Shareholders will be asked to consider and, if deemed advisable, pass, with or without variation, the Shareholder Rights Plan Resolution, reconfirming the Shareholder Rights Plan. If the Shareholder Rights Plan is not reconfirmed by the Shareholders at the Meeting, the Shareholder Rights Plan and all outstanding rights issued thereunder will terminate and be void and of no further force and effect following the termination of the Meeting.

The reconfirmation of the Shareholder Rights Plan is not being recommended in response to, or in anticipation of, any pending threatened or proposed acquisition or take-over bid that is known to management of the Company or the Board of Directors.

The following is a brief summary of the objectives of the Shareholder Rights Plan. A summary of the principal terms of the Shareholder Rights Plan is included as Schedule A to this Information Circular. The complete text of the Shareholder Rights Plan is available on SEDAR at [www.sedar.com](http://www.sedar.com) under Extencicare's issuer profile.

### ***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 Board is 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 defined in the Shareholder Rights Plan).

In choosing to ask Shareholders to reconfirm the adoption by the Company of the Shareholder Rights Plan, the Board of Directors considered the following concerns inherent in securities legislation governing take-over bids in Canada:

- (a) **Time.** Current securities legislation permits a take-over bid to expire in 35 days which may not be sufficient time to permit Shareholders to consider a bid and to make a reasoned decision or for the Board of Directors to develop value-enhancing alternatives. The Shareholder Rights Plan provides a “Permitted Bid” mechanism whereby the minimum expiry period for a bid must be 60 days after the date of the bid. In addition, the bid must remain open for a further period of 10 business days after the offeror publicly announces that the Common Shares deposited under the bid constitute more than 50% of the Common Shares outstanding held by “Independent Shareholders” (as defined in the Shareholder Rights Plan, and generally, Shareholders other than the offeror or acquiring person, and associates and affiliates and persons acting jointly or in concert with the offeror or acquiring person). Accordingly, the Shareholder Rights Plan is intended to provide Shareholders with adequate time to properly evaluate a take-over bid and to provide the Board of Directors with sufficient time to evaluate the bid and, if appropriate, to pursue value-enhancing alternatives to the bid.
- (b) **Unequal Treatment of Shareholders.** While current securities legislation has substantially addressed many concerns of unequal treatment of Shareholders, there remains the possibility that control of the Company may be acquired pursuant to private agreements under which a small group of Shareholders dispose of their Common Shares at a premium to their market price. In addition, a person may slowly accumulate Common Shares through acquisitions over the TSX, which may result, over time, in an acquisition of control of the Company without payment of fair value for control or a fair sharing of a control premium among all Shareholders. The Shareholder Rights Plan addresses these concerns by applying to essentially all acquisitions of more than 20% of the outstanding Common Shares.
- (c) **Pressure to Tender.** A Shareholder may feel compelled to tender to an inadequate bid for the Company if the Shareholder is concerned about being left in a minority position with discounted Common Shares. This is particularly so in the case of a partial bid for less than all of the outstanding Common Shares, where the bidder wishes to obtain a control position but does not wish to acquire all of the Common Shares. The Shareholder Rights Plan permits partial bids. The Shareholder Rights Plan provides a Shareholder approval mechanism through the “Permitted Bid” mechanism that is intended to ensure a Shareholder can separate his or her decision to tender to the bid from the approval or disapproval of a particular bid. By requiring that a bid remain open for acceptance for a further 10 business days following public announcement that more than 50% of the Common Shares held by Independent Shareholders have been deposited under the bid, a Shareholder’s decision to accept a bid is separated from his or her decision to tender. Shareholders who are not inclined to keep their Common Shares if the Company will be controlled by the acquiror may want to wait and see if the acquiror achieves the more than 50% tender level at the time the Common Shares are first taken up by the acquiror and then subsequently tender their Common Share to exit their investment with assurance that their tender to the bid will be accepted and that they will receive the same consideration. Thus, in the case of a Permitted Bid, Shareholders are given a free choice to decide whether the consideration offered is adequate and properly reflective of a control premium.

### ***Approval of the Shareholder Rights Plan***

The Shareholder Rights Plan must be reconfirmed by a majority of the votes cast by Shareholders present in person or represented by proxy at the Meeting, excluding any votes cast by any Shareholder that, directly or indirectly, on its own or in concert with others, holds or exercises control over more than 20% of the outstanding Common Shares and by the associates, affiliates and insiders of any such Shareholder. Management of the Company is not aware of any Shareholder whose votes would be ineligible to vote on the reconfirmation of the Shareholder Rights Plan at the Meeting.

**The Board of Directors has determined that the reconfirmation of the Shareholder Rights Plan is in the best interests of the Company. The Board of Directors unanimously recommends that Shareholders vote FOR the ordinary resolution approving the reconfirmation of the Shareholder Rights Plan. The text of the Shareholder Rights Plan Resolution, subject to such variation as may be approved at the Meeting, is set forth below:**

“BE IT RESOLVED, as an ordinary resolution of the shareholders of the Company, that:

1. The Shareholder Rights Plan Agreement dated as of July 1, 2012 between the Company and Computershare Trust Company of Canada, as rights agent, be and it is hereby reconfirmed; and
2. Any director or officer of the Company be and is hereby authorized and directed, acting for, in the name of and on behalf of the Company, to execute or cause to be executed, under the corporate seal of the Company or otherwise, and to deliver or cause to be delivered, all such documents, agreements and instruments, and to do or cause to be done all such other acts and things as such director or officer of the Company determines to be necessary or desirable in order to carry out the intent of this resolution and the matters authorized thereby, such determination to be conclusively evidenced by the execution and delivery of any such document, agreement or instrument or the doing of any such act or thing.”

### **Confirmation and Approval of Advance Notice By-Law**

#### ***Background***

On March 27, 2015, the Board adopted the Advance Notice By-Law of the Company (By-Law No. 3) with immediate effect, a copy of which is attached to this Information Circular as Schedule B. In order for the Advance Notice By-Law to remain in effect following the termination of the Meeting, the Advance Notice By-Law must be ratified, confirmed and approved by ordinary resolution of the Shareholders at the Meeting, as set forth more fully below.

#### ***Summary of the Advance Notice By-Law***

The purpose of the Advance Notice By-Law is to provide Shareholders with a clear process to follow for nominating directors of the Company and to ensure that all Shareholders are provided with sufficient disclosure and time to make decisions relating to director nominees so that they can participate in the director election process in an informed manner. In addition, the Advance Notice By-Law should assist in facilitating an orderly and efficient meeting process.

Among other things, the Advance Notice By-Law fixes a deadline by which Shareholders must submit director nominations to the Corporate Secretary of the Company prior to any annual or special meeting of Shareholders, other than pursuant to a Shareholder proposal or a requisition of a meeting of Shareholders, in each case made in accordance with the provisions of the CBCA.

In the case of an annual meeting of Shareholders (including an annual and special meeting), notice to the Company must be made not less than 30 days prior to the date of the annual meeting; provided, however, that if the annual meeting is to be held on a date that is less than 50 days after the date on which the first public announcement of the date of the annual meeting was made, notice may be made not later than the close of business on the 10<sup>th</sup> day following such public announcement. In the case of a special meeting of Shareholders (which is not also an annual meeting), notice to the Company must be made not later than the close of business on the 15<sup>th</sup> day following the day on which the first public announcement of the date of the special meeting was made.

The Advance Notice By-Law also sets forth the information pertaining to each person whom the Shareholder proposes to nominate as a director that must be included in a Shareholder’s written notice to the Corporate Secretary of the Company for the notice to be in proper written form in order for any director nominee to be eligible for election at any annual or special meeting of Shareholders.

The Board of Directors may, in its sole discretion, waive any requirement of the Advance Notice By-Law.

The foregoing is intended only as a summary of the Advance Notice By-Law and is qualified in its entirety by the full text of the Advance Notice By-Law, a copy of which is attached to this Information Circular as Schedule B.

### ***Confirmation and Approval of Advance Notice By-Law by Shareholders***

If the Advance Notice By-Law is approved at the Meeting, the Advance Notice By-Law will continue to be effective and in full force and effect in accordance with its terms and conditions beyond the termination of the Meeting. If the Advance Notice By-Law is not approved at the Meeting, the Advance Notice By-Law will terminate and be of no further force or effect from and after the termination of the Meeting.

**The Board of Directors unanimously recommends that Shareholders vote FOR the ordinary resolution approving the confirmation of the Advance Notice By-Law. The text of the Advance Notice By-Law Resolution, subject to such variation as may be approved at the Meeting, is set forth below:**

“BE IT RESOLVED, as an ordinary resolution of the shareholders of the Company, that:

1. the Company’s Advance Notice By-Law, as set forth in Schedule B to this Information Circular, be and is hereby ratified, confirmed and approved; and
2. any one director or officer of the Company be and is hereby authorized and directed for and on behalf of the Company to do all such acts and things and to execute and deliver, under the corporate seal of the Company or otherwise, all such deeds, documents, instruments and assurances as such director or officer may determine to be necessary or desirable in order to carry out the intention of this resolution.”

### **Shareholder Advisory Vote on the Approach to Executive Compensation**

The Board of Directors believes that Shareholders should have the opportunity to fully understand the objectives, philosophy and principles the Board has used to make executive compensation decisions and to have an advisory vote on the Board’s approach to executive compensation. The Board’s advisory vote policy is substantially consistent with the Canadian Coalition for Good Governance’s model “Say on Pay” policy for boards of directors. This non-binding advisory shareholder vote, commonly known as “Say on Pay”, provides Shareholders with the opportunity to endorse or not endorse the Company’s approach to its executive compensation program in the year that payments are made, as well as over a longer period of time.

At the Company’s annual meeting held in 2014, approximately 95.4% of the Shareholders voted in favour of the Company’s approach to executive compensation. As this vote is an advisory vote, the results will not be binding upon the Board of Directors. However, the HR/GN Committee and the Board of Directors will take the results of the vote into account, as appropriate, together with feedback received from Shareholders, when considering future compensation policies, procedures and decisions. Please refer to the discussion under the heading “Say on Pay” found in Schedule C – “Statement of Corporate Governance Practices” for more details on the Company’s policy with respect to this advisory vote, and how Shareholders may contact the Board of Directors with any comments or questions.

The Company’s compensation policies and procedures are designed to provide a strong and direct link between performance and compensation. To assist Shareholders in making their voting decision, please refer to the Compensation Discussion and Analysis (the “**CD&A**”) below. The CD&A describes the Board of Directors’ approach to executive compensation, the details of the compensation program and the Board of Directors’ compensation decisions in 2014. This disclosure has been approved by the Board on the recommendation of the HR/GN Committee.

**The Board of Directors unanimously recommends the Shareholders vote FOR the Advisory (Non-binding) Resolution. The text of the Advisory (Non-binding) Resolution, subject to such variation as may be approved at the Meeting, is set forth below:**

“Resolved, on an advisory basis and not to diminish the role and responsibilities of the Board of Directors, that the Shareholders accept the approach to executive compensation disclosed in this Information Circular delivered in advance of the 2015 annual and special meeting of Shareholders of the Company.”

## COMPENSATION DISCUSSION AND ANALYSIS

### Composition of the Human Resources, Governance and Nominating Committee

The HR/GN Committee performs the functions of a compensation committee. A description of the roles and responsibilities of the HR/GN Committee is set out under the heading “Compensation” found in Schedule C – “Statement of Corporate Governance Practices”. On issues related to executive compensation, part of the HR/GN Committee’s mandate is to evaluate annually the performance of and recommend compensation for the Chief Executive Officer (the “CEO”) and other senior executives of the Company and its subsidiaries. To aid the HR/GN Committee in making its determinations, the CEO provides recommendations annually to the HR/GN Committee regarding the compensation of all senior executives, other than himself. Each named senior executive, in turn, participates in an annual performance review with the CEO to provide input about his or her contributions during the year. The HR/GN Committee reviews the design and competitiveness of the executive compensation package with a view to ensuring that the Company and its subsidiaries are able to attract and retain high calibre executive officers, and to motivate executive officers performance in furtherance of the strategic objectives of the Company and its subsidiaries.

The HR/GN Committee is composed of three independent directors of the Company. No member of the HR/GN Committee is an officer of the Company or any of its subsidiaries, or has been an officer or employee of the Company or any of its subsidiaries within the last three years. The members of the HR/GN Committee are Benjamin J. Hutzel (Chair), Governor Howard B. Dean, and Alvin G. Libin.

The experience of the members of the HR/GN Committee in top leadership roles during their careers and extensive knowledge of the health care industry as well as their mix of experience in business, governmental affairs and as executives, directors, and members of compensation committees, of various private and public companies, provides the collective experience, skills and insight to effectively support the HR/GN Committee in carrying out its mandate. Further information on the background and experience of Messrs. Hutzel, Dean and Libin is provided under the heading “Election of Directors”.

### Overview of Executive Compensation Programs

The compensation philosophy of the Company is intended to be competitive with service sector and other health care companies of comparable size and complexity in North America in order to attract, retain and motivate a highly qualified workforce and provide career opportunities within the Company and its subsidiaries in its operations across North America. The compensation practices for executives are built around reward systems that recognize financial results, quality of services provided by the Company and individual performance. The total compensation package is designed to provide a strong and direct link between performance and compensation, using a combination of base salary, defined contribution and deferred compensation plans, short-term incentives achieved through annual incentive or bonus payments, and long-term incentives achieved through the Company’s SARP.

Extendicare’s incentive programs use key drivers such as quality of services, regulatory compliance, clinical outcomes, census, accounts receivable, and overall financial performance to promote and encourage specific actions and behaviours. In reviewing and approving the incentive programs, the HR/GN Committee ensures that risk is appropriately considered, that the incentive programs do not encourage undue risk-taking on the part of executives and that risks are accounted and adjusted for in the incentive compensation payouts. In addition, the Company has a formal clawback policy in respect of incentive compensation in the event of material fraud or misconduct, or actions resulting in a restatement of the financial statements of the Company and/or any of its subsidiaries. This is further described below under the heading “Reimbursement of Incentive Compensation”. The HR/GN Committee believes the total compensation package of the CEO and other senior executives of the Company and its subsidiaries is competitive in the markets in which it operates.

**Base Salary:** Base salaries are established by salary ranges developed from publicly available market data and from time to time with the assistance of external consultants. The ranges are intended to be competitive in the markets applicable to the Company’s business units and are intended to allow the organization to recruit and retain qualified employees. In addition to considering the competitive market place in establishing base salaries, the HR/GN Committee also takes into consideration the executive’s individual performance, such as the executive’s success in developing and executing strategic plans of the Company’s business units, addressing the significant challenges affecting the health care industry, developing key employees and demonstrating leadership. Base salaries are reviewed at least annually.

**Short-term Incentives:** An annual incentive program is provided for executive officers and other key employees of the Company and its subsidiaries that is formula-based and is measured against pre-determined performance targets. Awards are granted on the basis of profit center results, consolidated results, quality of services and individual performance as measured against pre-established objectives, such as census levels, clinical outcomes, and regulatory compliance. Incentive potential or levels for each executive are established based on the individual's ability to contribute to the overall goals and performance of the Company and its subsidiaries. The maximum annual incentive payment for 2014 for the Named Executive Officers (the "NEOs"), other than the CEO, ranged from approximately 37% to 50% of their base salaries. The incentive payments are at the discretion of the HR/GN Committee and may be awarded notwithstanding that the applicable pre-determined performance targets are not met (subject to Board approval). In addition, the HR/GN Committee may recommend to the Board for approval a decrease in the amount of incentive payment otherwise earned as a result of material unforeseen events or circumstances, including any restatement of financial results.

With respect to the CEO's short-term incentive awards, the CEO's target bonus is not less than 50% of his base salary, with no specified maximum. The amount of any such bonus is to be determined by the HR/GN Committee in its discretion (subject to Board approval) and shall take into account, among other factors deemed by the HR/GN Committee to be reasonable, Mr. Lukenda's individual performance and the operating results of the Company, including AFFO, Adjusted EBITDA margin, as well as certain occupancy and quality measures. In addition, the HR/GN Committee considers the extent to which the CEO's efforts have contributed to the execution of the Company's strategy during the year.

**Long-term Incentives:** The Company established the 2012 Total Return Share Appreciation Rights Plan, or the SARP, on July 1, 2012, in connection with the 2012 Conversion, which replaced the total return unit appreciation rights plan of the REIT. The principal objectives of the SARP, which are in essence the same as the objectives of the UARP, are to advance the interests of Extencare and its subsidiaries by: (a) focusing participants on, and rewarding participants for, achieving the business and financial goals of the Company and its subsidiaries; and (b) providing an effective medium to long-term incentive for participants and associating a portion of the participants' compensation with the performance of the Company and its subsidiaries. SARs are granted at the discretion of the Board of Directors, upon recommendation by the HR/GN Committee.

Awards under the SARP vest after three years, subject to conditions as described below, and permit the participant to receive, at the election of the Board of Directors, either a payment in cash or equivalent value of Common Shares acquired on the TSX (or any other stock exchange on which the Common Shares are listed and traded), by a broker designated by the participant. Vesting of SARs is subject to continued employment of the participant, with pro-rating provisions in the event of the participant's death, retirement or termination of employment as described below, a minimum Common Share price, and may also be subject to achieving operating performance measures, as determined at the date of grant. Consideration for vested SARs is equal to the appreciation in the Fair Market Value of the vested SARs from the date of grant of the SAR, plus Accrued Distributions. "Fair Market Value" of a Common Share, on any particular date, means the volume-weighted average trading price of the Common Share on the TSX for the 10 trading days immediately preceding such date. "Accrued Distributions" means the aggregate amount of cash distributions per Common Share declared payable to holders of record during the term of the SAR.

The SARP contains provisions providing for adjustments in the event of a corporate reorganization, including an amalgamation or merger of the Company with or into another entity, or in the event of a change in control (as defined in the SARP). Upon termination of employment (for cause) of a participant, all of his or her SARs shall be cancelled and terminated without payment. In the event of the death, retirement, or termination of employment (other than for cause) of a participant, that occurs on or after the first anniversary date of the date of grant of a particular SAR, the number of SARs available to vest for the remaining term of such grant is prorated based on the elapsed time since the date of grant. The balance of the number of SARs under such grant shall be cancelled and terminated without payment. If the date of any such event occurs prior to the first anniversary date of the date of grant of a particular SAR, then such SAR is cancelled and terminated without payment.



In connection with the 2012 Conversion, Extencicare assumed liability for all of the obligations of the REIT under the UARP. Necessary adjustments were made to the unit appreciation rights (the “UARs”) granted under the UARP to reflect the 2012 Conversion, including, without limitation, including in “Accrued Distributions” dividends paid by Extencicare after July 1, 2012 and prior to the vesting date of the UARs, and determining “Appreciation Value” of the UAR based on the volume-weighted average trading price of the Common Shares on the TSX. References to SARs in this Information Circular include UARs granted under the UARP prior to 12:01 a.m. (Toronto time) on July 1, 2012, being the effective time of the 2012 Conversion.

**Defined Benefit Plans:** In Canada, Extencicare and ECI provide an executive defined benefit pension plan and a supplemental executive retirement plan (the “SERP”). Both plans were closed to new entrants in 2000. The defined benefit pension plan is a registered plan. The SERP is a non-registered unfunded plan and all benefits will be paid from cash from operations. The benefit obligations under the SERP are secured by letters of credit. Coverage under these plans provides for a benefit of 4% of the best three consecutive years of base salary for each year of service to a maximum of 15 years and 1% per year thereafter. These arrangements provide a maximum benefit guarantee of 50% of base salary after 10 years of service, 60% after 15 years of service, and 70% after 25 years of service. Normal retirement age is 60 years or age 55 with the Company’s consent. Retirement benefits under these plans are not subject to any deduction for social security or Canada Pension Plan, and are payable as an annuity over the lifetime of the plan participant with a portion continuing to be paid to his or her spouse after the death of the plan participant, depending on the form of pension elected by the participant at retirement.

**Non-Qualified Defined Contribution and Deferred Compensation Plans:** In the U.S., EHSI maintains three separate non-qualified defined contribution and deferred compensation plans; the Executive Retirement Plan (the “ERP”), the Deferred Salary Plan (the “DSP”) and the Deferred Compensation Plan (the “DCP”).

**Executive Retirement Plan:** The ERP is offered to the CEO and EHSI’s vice presidents, under which EHSI contributes an amount equal to 10% of the employee’s annual base salary on a monthly basis into an account to be invested in certain mutual funds at the participant’s discretion. Employees are not permitted to make contributions to the ERP. As well, participants in the ERP are not eligible to participate in the DCP. Amounts contributed by EHSI to the ERP, including amounts earned thereon, vest based on years of employment as follows: 20% after two years; 40% after three years; 70% after four years; and 100% after five years.

**Deferred Salary Plan:** The DSP is offered to the CEO and EHSI’s vice presidents who participate in the ERP. Under the DSP, an employee may defer up to 10% of his or her annual base salary. Amounts contributed by an employee to the DSP are 100% vested and earn interest at the prime rate.

**Deferred Compensation Plan:** The DCP is offered to highly compensated U.S. employees as prescribed by the Internal Revenue Service (the “IRS”). Under the DCP, an employee may defer up to 10% of his or her annual base salary, excluding any bonus. EHSI matches 50% of the amount deferred, with the combined amounts earning interest at the prime rate. Employees who participate in the ERP are not eligible to participate in the DCP. Amounts contributed by an employee are 100% vested and earn interest at the prime rate. Amounts contributed by EHSI to the DCP, including interest thereon, vest to the employee based on the number of years of employment as follows: 20% after two years; 40% after three years; 70% after four years; and 100% after five years.

Any funds that EHSI invests or assets that are acquired pursuant to the above deferred compensation plans continue to be funds or assets of EHSI. No party, other than EHSI, has any interest in such funds or assets. To the extent that any participant acquires a right to receive payment of amounts from EHSI under the deferred compensation plans, such right shall be no greater than the right of any unsecured general creditor of EHSI. EHSI expenses the amounts funded into the deferred compensation plans on a monthly basis. Amounts deferred and vested matching amounts of the plans are payable upon the death, disability or termination of the employee. Amounts held or deferred within these plans are not guaranteed, are “at risk” and are subject to EHSI’s ability to make the scheduled payments. EHSI’s deferred compensation liabilities owing to participants in these deferred compensation plans are unfunded and unsecured.

**Registered Defined Contribution Plans:** In the United States, EHSI provides a 401(k) plan to which it contributes on a discretionary matching basis up to a maximum of 25% of the first 6% of an employee’s annual salary that the employee has contributed. For highly compensated employees (as defined by the IRS), the employee’s contribution is limited to 4% of annual earnings, subject to the legal limits of the plan. EHSI’s matching contributions vest according to the number of years of employment as follows: 20% after two years; 40% after three years; 70% after four years; and 100% after five years.

In Canada, Extencicare and ECI provide a group registered retirement savings plan (the “RRSP”) to executives, under which the employer contributes 10% of the employee’s base salary, subject to the legal limits of the plan. The employer contributions vest immediately. Participants in Extencicare and ECI’s defined benefit plan and SERP are not eligible to participate in the group RRSP.

**Reimbursement of Incentive Compensation:** The Board of Directors of the Company may, in its sole discretion, to the full extent permitted by governing law and to the extent it determines that it is in the Company’s best interest to do so, require reimbursement of full or partial incentive compensation from all current or former Vice Presidents and above of the Company and its subsidiaries in the event of material fraud or misconduct, or actions resulting in the restatement of the Company’s and/or its subsidiaries financial statements that would have reduced the amount of incentive compensation had the financial results been properly reported.

**Restrictions on Trading and Hedging Extencicare Securities:** Senior officers of the Company and its subsidiaries, including the NEOs, are prohibited from directly or indirectly entering into financial instruments designed to hedge or offset a decrease in the market value of the Company’s securities.

## Compensation for 2014

### Base Salary

Base salaries are reviewed annually and may be adjusted to better match the market value of the individual’s role and/or to recognize the individual’s growth and development in his or her position. Changes in the base salaries earned of the NEOs for 2014 are illustrated in the table below. The NEOs received an increase in annual base salary for 2014 of 2%, based on their annual base salary in effect at the end of 2013. However, the table below reflects increases greater than 2% for Messrs. Lukenda, Mann and Keating, as a result of changes to their base salaries earned during 2013, as explained in the footnotes to the table below.

The base salaries for the NEOs, other than for Mr. Tuttle, have been reported in the table below in United States dollars and converted to Canadian dollars using the average U.S./Canadian dollar exchange rate used in preparing the Company’s consolidated financial statements for the 2013 and 2014 fiscal years.

Named Executive	Base Salary Earned		2014
	2013	2014	% Change
<b>T.L. Lukenda</b> <sup>(1)</sup> President and Chief Executive Officer of Extencicare	US\$803,056 C\$827,068	US\$846,900 C\$935,401	5.5%
<b>D.T. Mann</b> <sup>(2)</sup> Senior Vice President and Chief Financial Officer of Extencicare	US\$175,000 C\$180,232	US\$306,000 C\$337,977	74.9%
<b>P. Tuttle</b> President of Canadian Operations of Extencicare	C\$227,364	C\$231,911	2.0%
<b>R. Gurka</b> Senior Vice President of Operations of EHSI	US\$350,900 C\$361,392	US\$357,900 C\$395,301	2.0%
<b>D.C. Keating</b> <sup>(3)</sup> Vice President and General Counsel of EHSI	US\$236,575 C\$243,648	US\$255,000 C\$281,648	7.8%
U.S./Canadian dollar exchange rate	1.0299	1.1045	

#### Notes:

- (1) Mr. Lukenda’s 2014 increase in annual base salary was 2%. However, his increase in base salary earned in 2014 over 2013 was 5.5%, reflecting the impact of an increase in his annual base salary to US\$830,000 in July 2013.
- (2) Mr. Mann joined the Company on June 3, 2013, to transition in as the new Senior Vice President and Chief Financial Officer, effective July 5, 2013. His annual base salary for 2013 was US\$300,000 and the US\$175,000 represented his pro rata base salary earned in 2013.
- (3) Mr. Keating’s 2014 increase in annual base salary was 2%. However, his increase in base salary earned in 2014 over 2013 was 7.8%, reflecting his appointment as Vice President and General Counsel of EHSI in May 2013, at which time his annual base salary was increased to US\$250,000.

### ***Short-term Incentives for 2014***

During 2014, all of the NEOs participated in our annual incentive program.

References to “Net Earnings”, in the following discussion, are to consolidated net earnings (loss) of the Company before the following items on an after-tax basis: (i) fair value adjustments; (ii) loss (gain) on foreign exchange and financial instruments; and (iii) loss (gain) from asset impairment, disposals and other items. All of these line items are disclosed in the Company’s consolidated statements of earnings, and the Company’s net earnings on an after-tax basis prior to these items is disclosed in the Company’s management discussion and analysis for its financial year ended December 31, 2014, contained in the Company’s 2014 Annual Report.

References to “Net Earnings from Continuing Operations”, in the following discussion, are to “Net Earnings” as described above further adjusted to exclude discontinued operations on an after-tax basis.

References to “EBIT”, in the following discussion, are to earnings (loss) from operations before interest and taxes, and before the separately reported items (i) through (iii) listed above.

References to “Adjusted EBITDA”, in the following discussion, are to earnings (loss) from operations before net finance costs, income taxes, depreciation and amortization, and before the separately reported items (i) through (iii) listed above.

References to “Adjusted Budgeted Net Earnings” and “Adjusted Budgeted Net Earnings from Continuing Operations”, in the following discussion, are to the budgeted Net Earnings and budgeted Net Earnings from Continuing Operations recalculated using the same average U.S./Canadian dollar exchange rate that was used for financial reporting purposes in preparing the Company’s consolidated financial statements for the applicable period.

References to “AFFO”, in the following discussion, are to Adjusted EBITDA plus non-cash portion of financing and accretion costs and the principal portion of government capital funding payments, less net interest expense, current income taxes, and facility maintenance (non-growth) capital expenditures.

Extendicare assesses and measures operating results based on these performance measures which are not recognized under Canadian GAAP and do not have standardized meanings prescribed by Canadian GAAP. Such non-GAAP measures may differ from similar computations as reported by other issuers. Detailed descriptions of “Adjusted EBITDA”, and “AFFO” can be found in the Company’s management’s discussion and analysis for its financial year ended December 31, 2014, contained in the Company’s 2014 Annual Report.

The HR/GN Committee has the discretion to consider other adjustments for one-time or unusual items in assessing the financial performance measures of the Company and its subsidiaries as described above.

***Mr. Lukenda, President and CEO of the Company:*** In accordance with Mr. Lukenda’s employment contract, his target bonus is not less than 50% of his base salary with no specified maximum. The amount of any such bonus is to be determined by the HR/GN Committee in its discretion (subject to Board approval) and shall take into account, among other factors deemed by the HR/GN Committee to be reasonable, Mr. Lukenda’s individual performance and the operating results of the Company, including AFFO, Adjusted EBITDA margin, as well as certain occupancy and quality measures. In addition, the HR/GN Committee considers the extent to which the CEO’s efforts have contributed to the execution of the Company’s strategy during the year.

***Mr. Mann, Senior Vice President and Chief Financial Officer of the Company:*** In accordance with Mr. Mann’s employment contract, he is entitled to receive an annual bonus of up to 40% of his base salary, of which 70% is determined based on the performance of the Company and 30% is based on his individual performance. The individual performance objectives are to be agreed upon at the beginning of each fiscal year, and are to be weighted equally, unless otherwise stated. Mr. Mann’s annual bonus can be further enhanced by 2.80%, or up to 42.80% of his base salary, if the Company’s performance attains 105% of budget. The corporate component has been set at 70% of his annual bonus because the HR/GN Committee believes that as Senior Vice President and Chief Financial Officer, a significant portion of Mr. Mann’s annual incentive should be based on the overall performance of the Company.

Mr. Mann's eligibility for an award under the incentive program is conditional upon the Company achieving a minimum of 90% of its Adjusted Budgeted Net Earnings. Notwithstanding the foregoing, if the operations of the Company and its subsidiaries have serious deficiencies in care or services provided, all or part of Mr. Mann's annual bonus may be forfeited.

The following is a description of Mr. Mann's 2014 annual incentive objectives:

*Corporate Performance (70% of total incentive potential):* Mr. Mann's award for the performance of the Company is determined based on the Company achieving a minimum of 90% to a maximum of 105% of Adjusted Budgeted Net Earnings. At 90% of budget, Mr. Mann is eligible for 80% of the award under this incentive, and the award accumulates at the rate of 2% for each additional 1% of budget to a maximum of 110%.

*Individual Performance (30% of total incentive potential):* Mr. Mann's individual objectives for 2014 included: (i) successfully completing refinancings; (ii) assistance in the execution of the strategic process; (iii) initiating the sale of several U.S. skilled nursing centres; and (iv) achieving established accounts receivable collection goals.

**Mr. Tuttle, President of Canadian Operations of the Company:** In accordance with Mr. Tuttle's employment contract, he is eligible to receive an annual bonus of up to 50% of his base salary, of which 50% is determined based on the performance of ECI, 30% is determined based on the performance of the Company, and 20% is determined based on his individual performance. The individual performance objectives are to be agreed upon at the beginning of each fiscal year, and are to be weighted equally, unless otherwise stated. The corporate component has been set at 80% of his annual bonus because the HR/GN Committee believes that as President of Canadian Operations of the Company, a significant component of Mr. Tuttle's annual bonus should be based on the overall performance of ECI and the Company.

Mr. Tuttle's eligibility for an award under the incentive program is conditional upon ECI achieving a minimum of 96% of budgeted EBIT from health care operations. Notwithstanding the foregoing, if ECI has serious deficiencies in care or services provided, all or part of Mr. Tuttle's annual bonus may be forfeited.

The following is a description of Mr. Tuttle's 2014 annual incentive objectives:

*Corporate Performance (80% of total incentive potential):* 50% of Mr. Tuttle's annual bonus potential is determined based on ECI achieving a minimum of 96% of budgeted EBIT from its health care operations, and 30% of his annual bonus potential is determined based on the Company achieving a minimum of 96% of Adjusted Budgeted Net Earnings from Continuing Operations. With respect to the ECI and Company portion of his corporate performance awards, at 96% of budget, Mr. Tuttle is eligible for 5% and 3% of the award potential, respectively, and the awards accumulate at such rates for each additional 1% of budget to a maximum of 105% of budget.

*Individual Performance (20% of total incentive potential):* Mr. Tuttle's individual objectives for 2014 included: (i) improvements in information technology infrastructure; (ii) improvements in financial performance of underperforming centres; and (iii) improvements in reported quality indicators.

**Mr. Gurka, Senior Vice President of Operations of EHSI:** In accordance with Mr. Gurka's terms of employment, he is entitled to receive an annual bonus of up to 40% of his base salary, of which 70% is determined based on the performance of EHSI and 30% is based on his individual performance. The individual performance objectives are to be agreed upon at the beginning of each fiscal year, and are to be weighted equally, unless otherwise stated. Mr. Gurka's annual bonus can be further enhanced by 2.80%, or up to 42.80% of his base salary, if the performance of EHSI attains 105% of budget. The corporate component was set at 70% of his annual bonus because the HR/GN Committee believes that as Senior Vice President of Operations of EHSI, a significant portion of Mr. Gurka's annual incentive should be based on the performance of EHSI.

Mr. Gurka's eligibility for an award under the incentive program is conditional upon EHSI achieving a minimum of 90% of its budgeted EBITDA. Notwithstanding the foregoing, if the operations of EHSI have serious deficiencies in care or services provided, all or part of Mr. Gurka's annual bonus may be forfeited.

The following is a description of Mr. Gurka's 2014 annual incentive objectives:

*Corporate Performance (70% of total incentive potential):* Mr. Gurka's award for corporate performance is determined based on EHSI achieving a minimum of 90% to a maximum of 105% of budgeted EBITDA. At 90% of budget, Mr. Gurka is eligible for 80% of the award under this incentive, and the award accumulates at the rate of 2% for each additional 1% of budget to a maximum of 110%.

*Individual Performance (30% of total incentive potential):* Mr. Gurka's individual objectives for 2014 were based on performance relative to a number of key operational metrics, including: (i) implementation of initiatives related to sales/marketing and cost controls; (ii) continued reduction in administrator and director of nursing turnover; and (iii) reduction of survey findings and certain compliance ratings to below state average.

**Mr. Keating, Vice President, General Counsel of EHSI:** In accordance with Mr. Keating's terms of employment, he is entitled to receive an annual bonus of up to 35% of his base salary, of which 70% is determined based on the performance of EHSI and 30% is based on his individual performance. The individual performance objectives are to be agreed upon at the beginning of each fiscal year, and are to be weighted equally, unless otherwise stated. Mr. Keating's annual bonus can be further enhanced by 2.45%, or up to 37.45% of his base salary, if the performance of EHSI attains 105% of budget. The corporate component was set at 70% of his annual bonus because the HR/GN Committee believes that as Vice President, General Counsel of EHSI, a significant portion of Mr. Keating's annual incentive should be based on the performance of EHSI.

Mr. Keating's eligibility for an award under the incentive program is conditional upon EHSI achieving a minimum of 90% of its budgeted EBITDA. Notwithstanding the foregoing, if the operations of EHSI have serious deficiencies in care or services provided, all or part of Mr. Keating's annual bonus may be forfeited.

The following is a description of Mr. Keating's 2014 annual incentive objectives:

*Corporate Performance (70% of total incentive potential):* Mr. Keating's award for corporate performance is determined based on EHSI achieving a minimum of 90% to a maximum of 105% of budgeted EBITDA. At 90% of budget, Mr. Keating is eligible for 80% of the award under this incentive, and the award accumulates at the rate of 2% for each additional 1% of budget to a maximum of 110%.

*Individual Performance (30% of total incentive potential):* Mr. Keating's individual objectives for 2014 were based on performance relative to a number of key operational metrics, including: (i) assistance in the execution of the strategic process; (ii) managing the litigation process to improve outcomes; and (iii) assistance in negotiation of settlement agreement with the U.S. Department of Justice and the Office of the Inspector General of the U.S. Department of Health and Human Services, and implementation of a corporate integrity agreement.

**2014 Short-term Incentives Awarded:** Other than with respect to the CEO, the HR/GN Committee did not exercise its discretion to award the NEOs short-term incentives in amounts greater than what they were otherwise entitled to receive under their respective incentive programs.

With respect to Mr. Lukenda, the HR/GN Committee exercised its discretion in determining a short-term incentive award for 2014 of US\$375,000, taking into consideration the degree of execution of the strategic direction to exit the U.S. operations and the timing of the transition to a Canadian-focussed company.

The table below summarizes the 2014 financial performance targets that the other NEOs bonuses were based on (as indicated in italics), resulting in the following corporate financial performance measures: Mr. Mann – 90%; Mr. Tuttle – 105% with respect to the Extencicare results and 97% with respect to the ECI results; Mr. Gurka – 90%; and Mr. Keating – 90%.

<b>NEO 2014 Performance Measures</b>	<b>% of Target</b>
Extencicare – Adjusted Budgeted Net Earnings ( <i>Mann</i> )	95%
Extencicare – Adjusted Budgeted Net Earnings from Continuing Operations ( <i>Tuttle</i> )	104.6%
ECI – EBIT of its health care operations ( <i>Tuttle</i> )	97%
EHSI – Adjusted EBITDA ( <i>Gurka and Keating</i> )	95%

With respect to the personal objectives of the other NEOs, they achieved the following: Mr. Mann – 95%; Mr. Tuttle – 67%; Mr. Gurka – 80%; and Mr. Keating – 100%.

As previously reported, one of Mr. Tuttle’s personal objectives for 2013 was not measurable until the end of March 2014. Mr. Tuttle achieved this objective resulting in his achieving 67% of his personal objectives for 2013, and receiving an additional bonus payment of \$7,594 in 2014.

#### **2014 Annual Incentive Table**

The corporate performance measures and weightings set by the HR/GN Committee for 2014 under the annual incentive program, as well as the individual’s achievement of each goal, along with the amount of the annual incentive that was awarded, are set out in the table below. The amount reported for Mr. Tuttle as his 2014 annual incentive bonus, excludes the amount related to 2013 that was not measurable until March 2014, as discussed above. The amounts for each of the NEOs have been reported in the table below in United States dollars and converted to Canadian dollars using the average U.S./Canadian dollar exchange rate used in preparing the Company’s consolidated financial statements for the 2014 year of 1.1045.

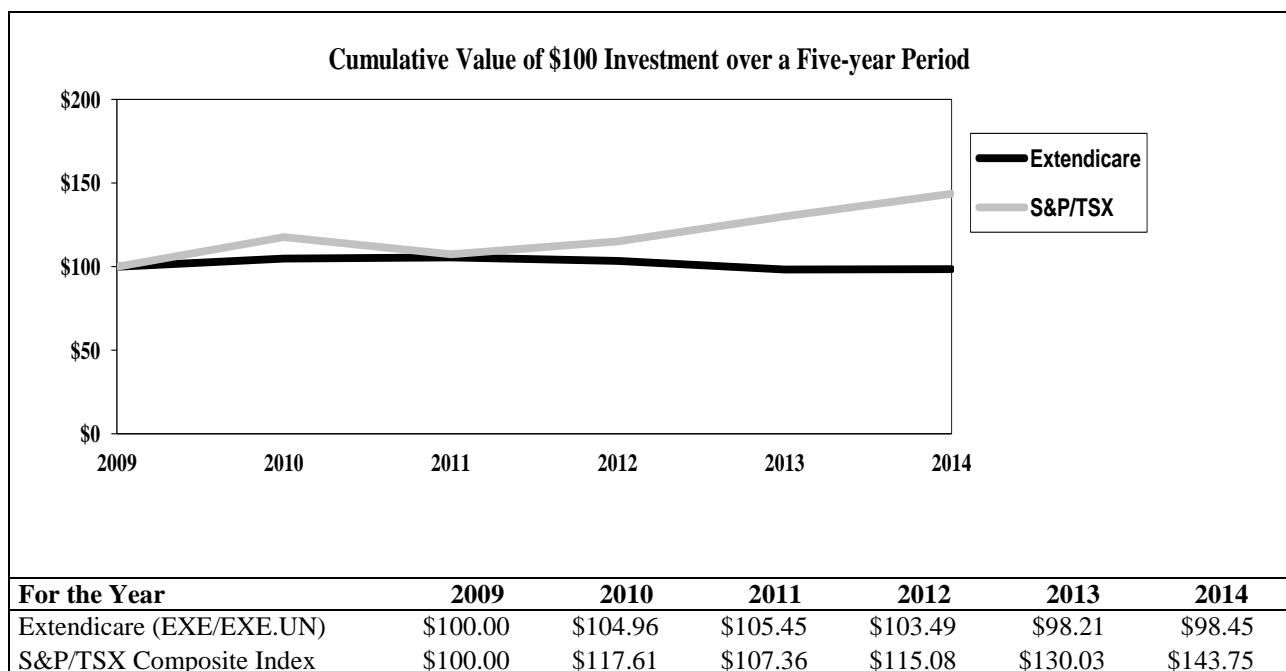
<b>Named Executive</b>	<b>2014 Annual Incentive Opportunity (as a % of base salary)</b>			<b>2014 Annual Incentive Bonus Awarded</b>		
	<b>Minimum</b>	<b>Target</b>	<b>High</b>	<b>% of base salary</b>	<b>Amount (US\$)</b>	<b>Amount (C\$)</b>
<b>T.L. Lukenda</b>	50.00%	50.00%	n/a	44.28%	375,000	414,188
<b>D.T. Mann</b>	32.00%	40.00%	42.80%	36.60%	111,996	123,700
<b>P. Tuttle</b>	14.00%	30.00%	50.00%	25.75%	–	59,717
<b>R. Gurka</b>	32.00%	40.00%	42.80%	34.80%	124,549	137,564
<b>D.C. Keating</b>	28.00%	35.00%	37.45%	32.55%	83,003	91,677

#### **Long-term Incentives for 2014 – Share Appreciation Rights**

Pursuant to the HR/GN Committee’s policy, annual awards of SARs for senior executives are generally made in the first or second quarter of the year, and awards may be granted during the year in connection with, among other things, the hiring or promotion of an employee. The HR/GN Committee did not use a set formula to determine the appropriate number of SARs awarded in 2014. The base value and minimum Common Share price condition of each SAR is equal to the 10 day volume-weighted average trading price of the Common Shares at the date of the grant, which was \$6.88 for the awards granted on May 23, 2014. Accordingly, holders of these SARs will only receive a pay out if the Fair Market Value of the Common Share exceeds the base value at the end of the three-year term. Further details of the SARs granted to the NEOs are provided under the heading “Incentive Plan Awards”.

## Performance Graph

The Common Shares were listed on the TSX on July 5, 2012, in substitution for the REIT Units following the 2012 Conversion. The following graph illustrates the total cumulative return over the last five years on the REIT Units and Common Shares, respectively (assuming a \$100 investment in REIT Units was made on December 31, 2009), with the total cumulative return of the S&P/TSX Composite Index. The values assume the reinvestment of all Common Share dividends and REIT Unit distributions.



The Company's approach to compensation is designed to promote long-term growth and profitability. The management team of the Company and its subsidiaries, including the NEOs, is compensated on the basis of metrics that the Company considers fundamental, such as quality of service, regulatory compliance, clinical outcomes, and overall financial performance, instead of factors tied to the performance of the Common Shares in the market.

The trend in the Company's total cumulative shareholder return, as shown in the graph above, is broadly consistent with the trend in the compensation levels of the CEO, CFO, and other NEOs over the past three years, as disclosed in the "Summary Compensation Table of Named Executive Officers". With the exception of increases due to changes in responsibility, the base salaries of the NEOs were frozen during 2010 and 2011. Other than an increase awarded to Mr. Tuttle, the base salaries of the NEOs were again frozen in 2012. Furthermore, Mr. Lukenda voluntarily took a 10% reduction in his base salary in 2012. With the exception of increases awarded to Messrs. Lukenda and Keating, the base salaries of the NEOs averaged 2% to 2.5% for 2013. For 2014, the NEOs received an increase in annual basis salary of 2%. As well, other than to reflect a change in position of responsibility, there has been no increase in the number of SARs awarded annually to the NEOs since 2009.

## SUMMARY COMPENSATION TABLE OF NAMED EXECUTIVE OFFICERS

The following Summary Compensation Table sets forth all annual and long-term compensation for services in all capacities to the Company and its subsidiaries for the individuals who were, at December 31, 2014, the Chief Executive Officer, the Chief Financial Officer and the next three most highly compensated executive officers (collectively the NEOs) of the Company and its subsidiaries.

Name and Principal Position	Year	Annual Non-					All Other Compensation <sup>(4) (6)</sup>	Total Compensation (C\$)
		Salary <sup>(4)</sup> (C\$)	Option-based Awards <sup>(5)</sup> (C\$)	equity Incentive Plans <sup>(4)</sup> (C\$)	Pension Value <sup>(4)</sup> (C\$)	(C\$)		
<b>T.L. Lukenda</b> President and Chief Executive Officer of Extencicare	2014	935,401	45,500	414,188	93,540	39,471	1,528,100	
	2013	827,068	78,500	128,738	82,707	28,755	1,145,768	
	2012	688,225	90,000	249,900	68,822	32,314	1,129,261	
<b>D.T. Mann</b> <sup>(1)</sup> Senior Vice President and Chief Financial Officer of Extencicare	2014	337,977	27,300	123,700	33,798	24,105	546,880	
	2013	180,232	47,100	51,495	18,023	88,466	385,316	
<b>P. Tuttle</b> <sup>(2)</sup> President of Canadian Operations of Extencicare	2014	231,911	22,750	67,311	–	56,351	378,323	
	2013	227,364	39,250	32,195	–	60,484	359,293	
	2012	221,813	45,000	81,805	–	54,610	403,228	
<b>R. Gurka</b> Senior Vice President of Operations of EHSI	2014	395,301	27,300	137,564	39,530	30,278	629,973	
	2013	361,392	47,100	–	36,139	25,062	469,693	
	2012	343,862	54,000	138,852	34,386	19,281	590,381	
<b>D.C. Keating</b> <sup>(3)</sup> Vice President and General Counsel of EHSI	2014	281,648	16,380	91,677	28,165	18,571	436,441	
	2013	243,648	28,260	–	24,365	19,378	315,651	
	2012	209,916	27,000	81,489	20,992	18,243	357,640	

Notes:

- (1) Mr. Mann was hired in June 2013 to serve as the Senior Vice President and Chief Financial Officer following the retirement of the former Chief Financial Officer. Mr. Mann's annualized base salary for 2013 was \$308,970 (US\$300,000).
- (2) Mr. Tuttle's non-equity incentive plan payment reported for 2014 of \$67,311, represented the annual incentive bonus awarded for 2014 of \$59,717 and an amount related to 2013 of \$7,594 that was not measurable until March 2014.
- (3) Mr. Keating was appointed Vice President and General Counsel of EHSI in May 2013, prior to which he was serving as Vice President and Deputy General Counsel of EHSI.
- (4) Other than Mr. Tuttle's compensation and amounts for option-based awards, compensation of the NEOs is earned in United States dollars and has been converted to Canadian dollars using the average U.S./Canadian dollar exchange rates of 0.9996, 1.0299 and 1.1045 that were used in preparing the Company's consolidated financial statements for the years ended 2012, 2013, and 2014, respectively.
- (5) The value of the option-based awards in 2014, 2013, and 2012 were determined using the Black-Scholes option pricing model, which is the same method used for determining the accounting value. The compensation values for each of the awards presented in the table are as follows:
  - i) 2014 – represents the value of SARs granted on May 23, 2014, carrying a base value of \$6.88, calculated using the Black-Scholes option pricing model, which determined a fair value of \$0.91 per SAR at the date of grant based on the following assumptions: risk-free interest rate of 1.14%; a term of three years with no cancellations and terminations; and expected volatility of 17.65%.
  - ii) 2013 – represents the value of SARs granted on August 23, 2013, carrying a base value of \$6.52, calculated using the Black-Scholes option pricing model, which determined a fair value of \$1.57 per SAR at the date of grant based on the following assumptions: risk-free interest rate of 1.33%; a term of three years with no cancellations and terminations; and expected volatility of 33.50%.
  - iii) 2012 – represents the value of SARs granted on March 15, 2012, carrying a base value of \$8.11, calculated using the Black-Scholes option pricing model, which determined a fair value of \$1.80 per SAR at the date of grant based on the following assumptions: risk-free interest rate of 1.40%; a term of three years with no cancellations and terminations; and expected volatility of 29.84%.



- (6) All other compensation includes employer contributions to qualified 401(k) or RRSP programs, life insurance premiums, long-term disability (LTD) premiums, group accidental death and dismemberment (ADD) premiums, health benefits, travel allowance, and “other” which consists of auto allowances and club dues. In addition, in the case of Mr. Mann “other” includes a signing bonus in 2013 of US\$75,000 as an incentive to rejoin the Company.

The components of the NEOs’ “all other” compensation are as follows:

Named Executive	Year	Employer	Employer	Life/LTD/ ADD/ Health	Other	Total (US\$)	Total (C\$)
		Contribution to Qualified 401(k) (US\$)	Contribution to Group RRSP (C\$)				
<b>T.L. Lukenda</b>	2014	–	–	US\$13,581	US\$22,155	35,736	39,471
	2013	–	–	US\$6,341	US\$21,580	27,921	28,755
	2012	–	–	US\$10,920	US\$21,407	32,327	32,314
<b>D.T. Mann</b>	2014	–	–	US\$12,225	US\$9,600	21,825	24,105
	2013	–	–	US\$5,297	US\$80,600	85,897	88,466
<b>P. Tuttle</b>	2014	–	23,196	C\$18,755	C\$14,400	–	56,351
	2013	–	22,740	C\$23,344	C\$14,400	–	60,484
	2012	–	22,235	C\$17,975	C\$14,400	–	54,610
<b>R. Gurka</b>	2014	2,600	–	US\$13,413	US\$11,400	27,413	30,278
	2013	2,550	–	US\$10,384	US\$11,400	24,334	25,062
	2012	–	–	US\$7,888	US\$11,400	19,288	19,281
<b>D.C. Keating</b>	2014	–	–	US\$9,015	US\$7,800	16,815	18,571
	2013	–	–	US\$11,015	US\$7,800	18,815	19,378
	2012	–	–	US\$10,450	US\$7,800	18,250	18,243

#### INCENTIVE PLAN AWARDS

##### Incentive Plan Awards – outstanding as at December 31, 2014

The following table sets forth the SAR holdings of the NEOs at December 31, 2014. The NEOs’ SARs vest on the third anniversary date of their respective dates of grant and are subject to a minimum Common Share price condition equal to their respective base values only, with no associated performance criteria. For a description of the SARP, refer to the discussion above in the CD&A under the heading “Overview of Executive Compensation Programs – Long-term Incentives”.

Named Executive	SAR Grant Date	Number of SARs (#)	SAR Base Value/ Minimum	SAR Expiration Date	Payout Value of SARs that have not Vested (\$)
			Common Share Price Condition (\$)		
<b>T.L. Lukenda</b>	May 23, 2014	50,000	6.88	May 23, 2017	–
	August 23, 2013	50,000	6.52	August 23, 2016	35,000
	March 15, 2012	50,000	8.11	March 15, 2015	–
<b>D.T. Mann</b>	May 23, 2014	30,000	6.88	May 23, 2017	–
	August 23, 2013	30,000	6.52	August 23, 2016	21,000
<b>P. Tuttle</b>	May 23, 2014	25,000	6.88	May 23, 2017	–
	August 23, 2013	25,000	6.52	August 23, 2016	17,500
	March 15, 2012	25,000	8.11	March 15, 2015	–
<b>R. Gurka</b>	May 23, 2014	30,000	6.88	May 23, 2017	–
	August 23, 2013	30,000	6.52	August 23, 2016	21,000
	March 15, 2012	30,000	8.11	March 15, 2015	–
<b>D.C. Keating</b>	May 23, 2014	18,000	6.88	May 23, 2017	–
	August 23, 2013	18,000	6.52	August 23, 2016	12,600
	March 15, 2012	15,000	8.11	March 15, 2015	–

The payout value of the SARs as at December 31, 2014, is based on the appreciation in value of a Common Share from its base value to the 10 day volume-weighted average trading price of \$6.54 as at December 31, 2014, plus Accrued Distributions. The payout value as at December 31, 2014, amounted to \$0.70 per SAR for the SARs granted in August 2013, and was nil for the SARs granted in each of March 2012 and May 2014, as a result of the respective minimum Common Share price conditions being higher than the 10 day volume-weighted average trading price of \$6.54 as at December 31, 2014.

## Incentive Plan Awards – value earned and paid out during 2014

The following table sets forth the amount earned and paid to the NEOs with respect to SARs that vested and expired during the year ended December 31, 2014. For a description of the SARP, refer to the discussion above in the CD&A under the heading “Overview of Executive Compensation Programs – Long-term Incentives”.

Named Executive	SAR Grant Date	Number of SARs (#)	SAR Base Value/ Minimum Common Share Price Condition (\$)	SAR Expiration Date	Payout Value of SARs (\$)
<b>R. Gurka</b>	August 24, 2011	30,000	7.58	August 24, 2014	86,400

The payout value of the SARs that vested and expired on August 24, 2014, was based on the appreciation in value of a Common Share from its base value of \$7.58 to the 10 day volume-weighted average trading price of \$8.39 at August 24, 2014, plus Accrued Distributions of \$2.07. The payout value at August 24, 2014, was an aggregate of \$2.88 per SAR.

## PENSION PLAN BENEFITS

### Non-Qualified Defined Contribution and Deferred Compensation Plans Table

The following table provides information regarding the three non-qualified plans provided by EHSI to the NEOs. These plans are described within the CD&A under the heading “Overview of Executive Compensation Programs – Non-Qualified Defined Contribution and Deferred Compensation Plans”.

Named Executive	Plan	Accumulated Value at Start of Year	Compensatory	Accumulated Value at Year End
<b>T.L. Lukenda</b>	ERP	US\$521,443	US\$84,690	US\$656,354
	DSP	US\$355,886	–	US\$367,634
	Total – US\$	US\$877,329	US\$84,690	US\$1,023,988
	<b>Total – C\$</b>	<b>C\$933,127</b>	<b>C\$93,540</b>	<b>C\$1,187,928</b>
<b>D.T. Mann</b>	ERP	US\$18,089	US\$30,600	US\$54,920
	<b>Total – C\$</b>	<b>C\$19,240</b>	<b>C\$33,798</b>	<b>C\$63,713</b>
<b>R. Gurka</b>	ERP	US\$412,082	US\$35,790	–US\$482,054
	DSP	US\$239,297	–	US\$283,550
	Total – US\$	US\$651,379	US\$35,790	US\$765,604
	<b>Total – C\$</b>	<b>C\$692,807</b>	<b>C\$39,530</b>	<b>C\$888,177</b>
<b>D.C. Keating</b>	ERP	US\$93,014	US\$25,500	US\$118,531
	DSP	US\$64,834	–	US\$66,974
	Total – US\$	US\$157,848	US\$25,500	US\$185,505
	<b>Total – C\$</b>	<b>C\$167,887</b>	<b>C\$28,165</b>	<b>C\$215,204</b>
U.S./Canadian dollar exchange rate <sup>(1)</sup>		1.0636	1.1045	1.1601

#### Note:

- (1) The U.S./Canadian dollar exchange rates are those that were used by the Company in preparing its consolidated financial statements. The opening and closing pension value amounts have been converted to Canadian dollars using the U.S./Canadian dollar exchange rates of 1.0636 and 1.1601 as at December 31, 2013 and 2014, respectively. The compensatory amounts received during 2014 have been converted to Canadian dollars using the average U.S./Canadian dollar exchange rate of 1.1045.

## TERMINATION AND CHANGE OF CONTROL BENEFITS

### Employment Agreements

*Mr. Lukenda's employment agreement* provides for (i) the payment of a base salary, (ii) incentive compensation and other plans at a level consistent with his position, and (iii) certain other benefits, including but not limited to, an automobile allowance and club dues.

In the event of Mr. Lukenda's termination of employment due to death or disability, he is entitled to (i) his base salary and other accrued benefits earned up to the last day of the month of death or the date of termination for disability, (ii) all deferred compensation, and (iii) the pro rata portion of any bonuses payable in the year of death or termination for disability. In addition, all equity based compensation awards shall automatically become fully vested as of the date of death or termination, subject to the terms of the respective plan documents, and all amounts payable and benefits provided under employee benefit plans in which the employee participates shall be paid in accordance with the terms of the respective plan.

In the event of Mr. Lukenda's termination for cause, he is entitled to his base salary earned up to the date of termination, and all deferred compensation subject to the terms of the respective plan document. In addition, all amounts payable and benefits provided under employee benefit plans in which he participates shall be paid in accordance with the terms of the respective plan.

The agreement provides that Mr. Lukenda may voluntarily terminate his employment at any time during the term of the agreement for good reason in the event of (i) a material failure by the Company to comply with the provisions of the agreement, or (ii) a material diminution of his title, duties, responsibilities, or authority, or (iii) a reduction in his compensation or benefits, other than a uniform reduction in benefits applicable to all senior officers of the Company or (iv) a relocation of his office by more than 30 miles; or (v) a change of control, as defined in his employment agreement.

In the event that Mr. Lukenda is terminated by the Company without cause or Mr. Lukenda terminates his employment for good reason (as a result of an event described in the preceding paragraph), he is entitled to a lump sum payment in the aggregate equal to (i) two times his then-current annual base salary, (ii) two times his estimated expected annual bonus if fully achieved, (iii) the prorated portion of the annual bonus expected to have been earned in the year of termination, (iv) two times the annual value of his car allowance and club dues, and (v) payment for participation in any long-term incentive, retirement or deferred compensation program on the basis that he will have been deemed to be fully vested in all such programs on the date of termination.

*Mr. Tuttle's employment agreement* provides for (i) the payment of a base salary, (ii) incentive compensation and other plans at a level consistent with his position, and (iii) certain other benefits, including but not limited to, an automobile allowance. The following summarizes the terms of his employment agreement in the event of termination.

In the event of Mr. Tuttle's termination of employment due to death, he is entitled to his base salary and other accrued benefits earned up to the date of termination, and all vested deferred compensation.

In the event of Mr. Tuttle's termination for cause, he is entitled to his base salary earned up to the date of termination, and all deferred compensation, subject to the terms of the respective plan document. In addition, all amounts payable and benefits provided under employee benefit plans in which he participates shall be paid in accordance with their respective terms.

The agreement provides, subject to Mr. Tuttle providing written notification within a specified period, that Mr. Tuttle may terminate his employment for good reason in the event of (i) a relocation of his office by more than 50 kilometers, or (ii) a material diminution of his assigned duties and responsibilities, or (iii) a material reduction in his compensation or benefits.

In the event that Mr. Tuttle is terminated by the Company without cause or he terminates his employment for good reason (as a result of an event described in the preceding paragraph), he is entitled to (i) severance pay in the amount of two years of his then-current base salary, (ii) a payment equal to the value of the prorated portion of the annual bonus for the year in which the date of termination occurs, as determined using the financial results for the most recently completed four quarters for the corporate performance and 100% of the specific individual objectives, (iii) a payment in lieu of bonus of a specified percentage of the base salary in (i), using the bonus percentage determined in calculating the prorated bonus payment pursuant to (ii) (which for 2014 was 25.75% of base salary), and (iv) a payment of the value of

perquisites for 24 months. The severance payments would be made semi-monthly over the severance period. In addition, he is entitled to all vested deferred compensation, and subject to Board approval, the immediate vesting of any unvested equity-based compensation awards, which may be exercised in accordance with the terms of the applicable plans.

**Messrs. Mann, Gurka and Keating** each have employment agreements that provide for (i) the payment of a base salary, (ii) incentive compensation and other plans at a level consistent with the employee's position, and (iii) certain other benefits, including but not limited to, an automobile allowance. The following summarizes the terms of their employment agreements in the event of termination.

In the event of the employee's termination of employment due to death or disability, the employee is entitled to (i) his base salary and other accrued benefits earned up to the last day of the month of death or the date of termination for disability, (ii) all deferred compensation, and (iii) the pro rata portion of any bonuses payable in the year of death or termination for disability. In addition, all equity based compensation awards shall automatically become fully vested as of the date of death or termination, subject to the terms of the respective plan documents, and all amounts payable and benefits provided under employee benefit plans in which the employee participates shall be paid in accordance with the terms of the respective plan.

If the employee's employment is terminated for cause, the employee is entitled to his base salary earned up to the date of termination, and all deferred compensation, subject to the terms of the respective plan document. In addition, all amounts payable and benefits provided under employee benefit plans in which the employee participates shall be paid in accordance with their respective terms.

The agreements provide that the employee may terminate his employment for good reason in the event of (i) a material failure by the Company to comply with the provisions of his employment agreement, or (ii) a material diminution of his title, duties, responsibilities, or authority, or (iii) a reduction in his compensation or benefits, other than pursuant to a uniform reduction in benefits applicable to all managers of the Company, or (iv) a relocation of his office by more than 30 miles. In addition, the employee may voluntarily terminate his employment upon the occurrence of a change in control, as defined in his employment agreement, in the event that (i) above occurs within 180 days of the change in control, or in the event that item (ii), (iii) or (iv) occurs at any time following the change in control.

In the event that the employee is terminated by the Company without cause or the employee terminates his employment for good reason (as the result of an event described in the preceding paragraph), the employee is entitled to a lump sum payment in the aggregate equal to (i) severance pay in the amount as described below, (ii) a payment in lieu of bonus in an amount equal to a specified percentage of base salary as described below, (iii) a payment equal to the value of the prorated portion of the annual bonus and equity-based compensation awards for the year in which the date of termination occurs assuming 100% of the incentive compensation potentially attainable for such year would have been owed to the employee, (iv) a payment for the value of perquisites for a period of time as described below, and (v) a payment for participation in any long-term incentive, retirement or deferred compensation program on the basis that the employee will have been deemed to be fully vested in all such programs on the date of termination.

In the event that the employment of Messrs. Mann, Gurka or Keating is terminated without cause or for good reason, the amount of the payments to be made under their respective employment agreements attributed to items (iii) and (v) described in the previous paragraph are determined in the same manner without differentiation. The following outlines the manner of determining the amount of the payments to be made to them attributable to items (i), (ii) and (iv).

**Mr. Mann's employment agreement** provides for: a payment under item (i) of \$20,000 plus 18 months of his then-current base salary plus an additional month of base salary for each year of service for the first six years, to a maximum of 24 months of his then-current base salary; a payment in lieu of bonus under item (ii) of 40% of the base salary pursuant to (i); and a payment under item (iv) equal to the value of perquisites for the number of months paid pursuant to (i).

**Mr. Gurka's employment agreement** provides for: a payment under item (i) of \$20,000 plus 12 months of his then-current base salary; a payment in lieu of bonus under item (ii) of 35% of base salary; and a payment under item (iv) equal to the value of 12 months of perquisites.

**Mr. Keating's employment agreement** provides for: a payment under item (i) of \$20,000 plus 12 months of his then-current base salary; a payment in lieu of bonus under item (ii) of 40% of base salary; and a payment under item (iv) equal to the value of 12 months of perquisites.

## Quantification of Potential Payments upon Termination or Change of Control

The table below reflects estimates of the incremental amounts of compensation that would be paid to the NEOs in the event of their termination without cause or resulting from their termination for good reason, assuming such termination was effective as of December 31, 2014. As discussed above, Mr. Lukenda is eligible to terminate his agreement in the event of a change in control as one of the conditions for good reason. In the event of termination due to death or disability, the only incremental amounts of compensation that would be paid are the prorated portion of any incentive payable in the year of death or termination for disability. No incremental amounts of compensation would be paid in the event of termination for cause. The actual amounts to be paid to an NEO in the event of his termination of employment can only be determined at the time of such termination.

Named Executive / Type of Termination <sup>(1)</sup>	Salary	Payment in Lieu of Bonus	Employer Contribution to Benefit Plans	Other <sup>(2)</sup>	Total (US\$)	SAR (C\$) <sup>(3)</sup>	Total (C\$) <sup>(4)</sup>
<b>T.L. Lukenda</b> Termination without cause or for good reason	US\$1,693,800	US\$846,900	–	US\$44,311	2,585,011	35,000	3,033,871
<b>D.T. Mann</b> Termination without cause or for good reason	US\$479,000	US\$183,600	ERP US\$45,900	US\$25,850	734,350	21,000	872,919
<b>P. Tuttle</b> Termination without cause or for good reason	C\$463,822	C\$119,434	RRSP C\$46,392	C\$56,274	–	17,500	703,422
<b>R. Gurka</b> Termination without cause or for good reason	US\$377,900	US\$143,160	ERP US\$35,790 401(k) US\$2,600	US\$18,537	577,987	21,000	691,523
<b>D.C. Keating</b> Termination without cause or for good reason	US\$275,000	US\$102,000	ERP US\$25,500	US\$11,652	414,152	12,600	493,058

### Notes:

- (1) Refer to the discussion under the heading “Employment Agreements” for a description of what constitutes termination for good reason.
- (2) For Mr. Lukenda, these amounts represent auto allowance and club dues. For Messrs. Mann, Tuttle, Gurka and Keating, these amounts represent auto allowance and health benefits.
- (3) These amounts represent the payout value of SARs as at December 31, 2014, based on the appreciation in value of a Common Share from its base value to the 10 day volume-weighted average trading price of \$6.54 as at December 31, 2014, plus Accrued Distributions.
- (4) Compensation paid in United States dollars is reported in U.S. dollars and then converted to Canadian dollars using the U.S./Canadian dollar exchange rate of 1.1601 as at December 31, 2014, that was used in preparing the Company’s consolidated financial statements for 2014.

## COMPENSATION OF DIRECTORS OF EXTENDICARE

Directors of Extendicare, who are also employees of Extendicare or any of its subsidiaries, are not compensated for their services as directors or as members of any committee of the Board. Directors of the Company are expected to hold a minimum of 10,000 Common Shares within three years of their appointment to the Board of Directors of Extendicare (or any of its predecessors). Directors of Extendicare are prohibited from directly or indirectly entering into financial instruments designed to hedge or offset a decrease in the market value of the Company's securities.

### Director Compensation Table

The following table outlines the compensation paid to each of the Company's non-employee directors in 2014.

Name	Retainer/Meeting Fees Earned (\$)	Travel Allowance (\$)	Common Share Based Awards (\$)	All Other Compensation <sup>(1)</sup> (\$)	Total (\$)	Minimum Unit Ownership Attained
J.F. Angus	96,000	15,000	–	157	111,157	Yes
M. Cunningham	106,000	11,000	–	157	117,157	No
H.B. Dean	91,000	8,000	–	157	99,157	Yes
S.B. Goldsmith	121,750	18,000	–	157	139,907	Yes
B.J. Hutzel	232,500	–	–	157	232,657	Yes
S. L. Hanington	40,667	–	–	157	40,824	No
M.J.L. Kirby	11,625	–	–	157	11,782	Yes
A.G. Libin	85,000	4,000	–	157	89,157	Yes
J.T. MacQuarrie, Q.C.	131,000	17,000	–	157	148,157	Yes
<b>Total</b>	<b>915,542</b>	<b>73,000</b>	<b>–</b>	<b>1,413</b>	<b>989,955</b>	

Note:

(1) All other compensation represents payments for accidental death and dismemberment coverage.

### Components of Directors' Fees for 2014

The cash compensation paid to non-employee directors of the Company for the year ended December 31, 2014, was based on the following elements of compensation.

Components of Directors' Fees <sup>(1)</sup>	2014 (\$)
<b>Basic board annual retainer</b>	35,000
<b>Additional annual retainers:</b>	
Chairman retainer	100,000
Audit Committee Chair	25,000
HR/GN Committee Chair	10,000
Quality and Compliance Committee Chair	10,000
Other committee chairs	5,000
Audit Committee members (excluding chair)	5,000
<b>Per meeting fees</b>	<b>2,000</b>

Note:

(1) In addition to the components set out above, the directors of the Company are entitled to a travel allowance with respect to meetings held outside of their vicinity of residence equal to 50% of the meeting fee, plus a further 50% for each required overnight stay. As well, they are entitled to reimbursement of meeting related travel and out-of-pocket expenses, which is not considered compensation.

## Incentive Plan Awards

The following table sets forth the SARs issued and outstanding as at December 31, 2014, for each non-employee director of the Company. The SARs vest on the third anniversary of their respective dates of grant and are subject to a minimum Common Share price condition equal to their respective base values only, with no associated performance criteria. For a description of the SARP, refer to the discussion in the CD&A under the heading “Overview of Executive Compensation Programs – Long-term Incentives”.

Name	SAR Grant Date	Number of SARs (#)	SAR Base Value/ Minimum Common Share Price Condition (\$)	SAR Expiration Date	Payout Value of SARs that have not Vested (\$)
J.F. Angus	March 15, 2012	10,000	8.11	March 15, 2015	–
M. Cunningham	March 15, 2012	10,000	8.11	March 15, 2015	–
H.B. Dean	March 15, 2012	10,000	8.11	March 15, 2015	–
S.B. Goldsmith	March 15, 2012	10,000	8.11	March 15, 2015	–
B.J. Hutzel	March 15, 2012	10,000	8.11	March 15, 2015	–
A.G. Libin	March 15, 2012	10,000	8.11	March 15, 2015	–
J.T. MacQuarrie, Q.C.	March 15, 2012	10,000	8.11	March 15, 2015	–

The payout value of the SARs as at December 31, 2014, is based on the appreciation in value of a Common Share from its base value to the 10 day volume-weighted average trading price of \$6.54 as at December 31, 2014, plus Accrued Distributions. The payout value as at December 31, 2014, was nil for all of the SARs as a result of their respective minimum Common Share price conditions being higher than the 10 day volume-weighted average trading price of \$6.54 as at December 31, 2014. In addition, the SARs granted on March 15, 2012, vested on March 15, 2015 with no payout value.

## INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS

None of the directors or executive officers of the Company or any of its subsidiaries is indebted to the Company or any of its subsidiaries.

## INTEREST OF CERTAIN PERSONS OR COMPANIES IN MATTERS TO BE ACTED UPON

To the knowledge of the Board of Directors, except as otherwise set out in this Information Circular, no director or executive officer of the Company, or any associate or affiliate of any of the foregoing persons, has any material interest, direct or indirect, by way of beneficial ownership of securities or otherwise, in any matter to be acted upon at the Meeting other than the election of the directors or the appointment of auditors. The directors and senior officers of the Company, as a group, beneficially own, directly or indirectly, or exercise control or direction over, an aggregate of approximately 1.8 million Common Shares, representing approximately 2.1% of the outstanding Common Shares.

## DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

The Company and its subsidiaries carry claims-made insurance coverage with an aggregate policy limit of US\$55.0 million (US\$40.0 million as corporate reimbursement subject to a deductible of US\$750,000 and US\$15.0 million of Side A coverage for non-indemnifiable losses). Under this insurance coverage, each entity has reimbursement coverage to the extent that it has indemnified any such directors and officers. The policy includes securities claims coverage, insuring against any legal obligation to pay on account of any securities claims brought against the Company, or any of its subsidiaries and their respective directors and officers. The total liability is shared among the Company and its respective subsidiaries, and their respective directors and officers so that the limit of liability will not be exclusive to any one of the entities or their respective directors and officers.

The annual premium for the directors' and officers' liability policy that expired on January 31, 2015, was US\$673,065, and the fee for the policy that expires on January 31, 2016, is US\$696,186.

## AUDIT COMMITTEE INFORMATION

The Audit Committee operates within a written mandate, approved by the Board of Directors. Information on the Audit Committee, required by National Instrument 52-110 – Audit Committees of the Canadian Securities Administrators, is disclosed in the 2014 Annual Information Form under the heading “Audit Committee Information”, and in Schedule C to this Information Circular. As well, the Audit Committee reports annually on the fulfillment of its responsibilities. The Audit Committee’s 2014 report follows below.

### Report of the Audit Committee

The Audit Committee continues to monitor, and adopt as appropriate, new regulatory requirements and emerging best practices. The Chief Executive Officer and the Chief Financial Officer of the Company certify the information set forth in the consolidated financial statements and related disclosure materials of the Company, as required by Canadian securities laws.

In 2014, the Audit Committee met on six occasions to review key financial disclosure reports, receive assurance of the adequacy of financial disclosure controls, and review the work of the internal auditor of the Company and that of the external independent auditors, KPMG LLP, including the overall scope and plan for the 2014 audit. The external independent auditors were in attendance at all of the Audit Committee meetings.

Throughout the year, the Audit Committee reviewed with management, the internal auditor and the external independent auditors the appropriateness of the accounting and financial reporting, the impact of the adoption of new accounting pronouncements, the accounting treatment of significant risks and uncertainties, the key estimates and judgements of management that were material to the financial reporting, and the disclosure of critical accounting policies.

The Audit Committee reviewed and recommended to the Board of Directors of the Company for its approval, where appropriate, all public disclosure documents (including news releases) containing audited or unaudited financial information before release to the public. These public disclosure documents included the audited consolidated financial statements, annual MD&A, annual report, annual information form, and the quarterly financial results (including the quarterly MD&A and unaudited quarterly consolidated financial statements). Prior to the release of such documents to the public, the Audit Committee met with management and, where appropriate, the internal auditor and external independent auditors, to review the documents and receive assurance that they were complete, fairly presented, and in accordance with established principles consistently applied.

Prior to the issuance of the annual financial statements, the Audit Committee met with management, the internal auditor, and the external independent auditors. The Audit Committee was assured that management had fulfilled its responsibilities for financial reporting and internal controls and that the external independent auditors had carried out their audit in accordance with their audit plan as approved by the Audit Committee.

The Audit Committee met with management and the external independent auditors to discuss the qualitative aspects of the financial statement reporting, which included the appropriateness of the significant accounting policies, management judgements and accounting estimates and other matters arising from the audit. The Audit Committee met with the external independent auditors, without management, and was advised that there were no unresolved issues with respect to the audit.

In addition, the Audit Committee discussed with KPMG LLP its independence. The Audit Committee reviewed in detail the audit and non-audit related fees paid to KPMG LLP during 2014 and considered the compatibility of the non-audit services with the auditors’ independence and concluded that such services did not compromise the independence of the auditors. The Audit Committee has adopted a policy requiring Audit Committee pre-approval of the engagement of KPMG LLP regarding permissible non-audit related matters.

The Audit Committee is satisfied that it has appropriately fulfilled its mandate to the best of its ability for the year ended December 31, 2014.

Report submitted by the Audit Committee:

J. Thomas MacQuarrie, Q.C. (Chair)  
Seth B. Goldsmith

John F. Angus  
Sandra L. Hanington

Margery O. Cunningham



## GOVERNANCE DISCLOSURE

National Instrument 58-101 – Disclosure of Corporate Governance Practices (NI 58-101) of the Canadian Securities Administrators requires the Company to disclose, on an annual basis, its approach to governance with reference to the guidelines provided in NI 58-101. The disclosure of the Company in this regard is set out in Schedule C to this Information Circular.

## OTHER BUSINESS

The Board of Directors does not currently intend to present, and does not have any reason to believe that others will present, at the Meeting, any item of business other than those set forth in this Information Circular. However, if any other business is properly presented at the Meeting and may properly be considered and acted upon, proxies will be voted by those named in the form of proxy in their discretion. Proxies may also be voted in the discretion of those named with respect to any amendments or variations to the matters identified in the Notice of Meeting.

## SHAREHOLDER PROPOSALS

Shareholders who meet the eligibility requirements under the CBCA are entitled to submit a Shareholder proposal as an item of business at the next annual Shareholder's meeting. Shareholder proposals must be submitted to the Corporate Secretary of Extencicare by February 5, 2016 (at least 90 days prior to the anniversary date of the notice of the prior annual meeting). Only Shareholder proposals that comply with the CBCA requirements received by that date, and the responses of the Company, will be included in the Management Information and Proxy Circular of the Company for the 2016 annual meeting of Shareholders.

## ADDITIONAL INFORMATION

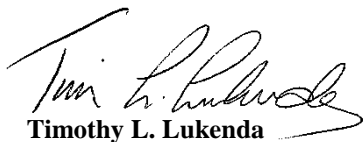
Additional information relating to the Company may be found on SEDAR at [www.sedar.com](http://www.sedar.com) under Extencicare's issuer profile and on the Company's website at [www.extencicare.com](http://www.extencicare.com). Additional financial information is provided in the Company's consolidated financial statements and MD&A for the financial year ended December 31, 2014, as contained in the 2014 Annual Report. A copy of this document and other public documents of the Company are available upon request to:

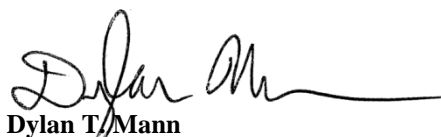
Extencicare Inc.  
Attention: Corporate Secretary  
3000 Steeles Avenue East, Suite 700  
Markham, Ontario L3R 9W2  
Phone: 905-470-5534  
Fax: 905-470-4003

## APPROVAL OF DIRECTORS

The contents and the sending of this Information Circular have been approved by the Board of Directors.

**DATED** at Markham, Ontario on May 7, 2015.

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

  
**Dylan T. Mann**  
Senior Vice President and  
Chief Financial Officer

## SCHEDULE A

### SUMMARY OF THE PRINCIPAL TERMS OF THE SHAREHOLDER RIGHTS PLAN

The following is a summary of the principal provisions of the shareholders rights plan (the “**Shareholder Rights Plan**”) of Extencicare Inc. (“**Extencicare**” or the “**Company**”), 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](http://www.sedar.com) under Extencicare’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 of the Company (the “**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 Board of 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 of Directors 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 of Directors 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 of Directors 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 of Directors may, prior to the close of business on the 10<sup>th</sup> 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 of Directors 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 also be reconfirmed at the annual meeting of the Company to be held in 2018. The Shareholder Rights Plan will terminate in accordance with its terms on July 1, 2021, being the ninth anniversary of its effective date.

**SCHEDULE B**  
**EXTENDICARE INC.**  
**(the “Corporation”)**  
**BY-LAW NO. 3**

A by-law relating generally to the advance notice requirements for the nomination of directors of the Corporation

**BE IT ENACTED** as a by-law of the Corporation as follows:

**ADVANCE NOTICE OF NOMINATION OF DIRECTORS**

1. **Nomination procedures** – Subject only to the *Canada Business Corporations Act* (the “**Act**”), Applicable Securities Laws and the articles of the Corporation, only persons who are nominated in accordance with the following procedures shall be eligible for election as directors of the Corporation. Nominations of persons for election to the board of directors of the Corporation (the “**Board**”) may be made at any annual meeting of shareholders, or at any special meeting of shareholders (but only if one of the purposes for which the special meeting was called was the election of directors):
  - (a) by or at the direction of the Board, including pursuant to a notice of meeting;
  - (b) by or at the direction or request of one or more shareholders pursuant to a proposal made in accordance with the provisions of the Act, or a requisition of the shareholders made in accordance with the provisions of the Act; or
  - (c) by any person (a “**Nominating Shareholder**”) who:
    - (A) at the close of business on the date of the giving of the notice provided for below in this By-Law No. 3 and at the close of business on the record date for notice of such meeting, is entered in the securities register of the Corporation as a holder of one or more shares carrying the right to vote at such meeting or who beneficially owns shares that are entitled to be voted at such meeting; and
    - (B) complies with the notice procedures set forth below in this By-Law No. 3.
2. **Timely notice** – In addition to any other applicable requirements, for a nomination to be made by a Nominating Shareholder, the Nominating Shareholder must have given timely notice thereof in proper written form to the Corporate Secretary of the Corporation at the principal executive offices of the Corporation in accordance with this By-Law No. 3.
3. **Manner of timely notice** – To be timely, a Nominating Shareholder’s notice to the Corporate Secretary of the Corporation must be given:
  - (a) in the case of an annual meeting of shareholders (including an annual and special meeting of shareholders), not less than thirty (30) days prior to the date of the meeting; provided, however, that in the event that the meeting is to be held on a date that is less than fifty (50) days after the date (the “**Notice Date**”) on which the first public announcement of the date of the annual meeting was made, notice by the Nominating Shareholder must be made not later than the close of business on the tenth (10th) day following the Notice Date; and
  - (b) in the case of a special meeting (which is not also an annual meeting) of shareholders called for the purpose of electing directors (whether or not called for other purposes), not later than the close of business on the fifteenth (15th) day following the day on which the first public announcement of the date of the special meeting of shareholders was made.
4. **Proper form of timely notice** – To be in proper written form, a Nominating Shareholder’s notice to the Corporate Secretary of the Corporation must set forth:
  - (a) as to each person whom the Nominating Shareholder proposes to nominate for election as a director:
    - (A) the name, age, business address and residential address of the person;
    - (B) the principal occupation or employment of the person, both present and within the five years preceding the notice;
    - (C) whether the person is a “resident Canadian” within the meaning of the Act;

(D) the class or series and number of shares in the capital of the Corporation which are owned beneficially or of record by the person or under the control or direction of the person as of the record date for the meeting of shareholders (if such date shall then have been made publicly available and shall have occurred) and as of the date of such notice; and

(E) any other information relating to the person that would be required to be disclosed in a dissident's proxy circular in connection with solicitations of proxies for election of directors pursuant to the Act and Applicable Securities Laws; and

- (b) as to the Nominating Shareholder giving the notice, any proxy, contract, arrangement, understanding or relationship pursuant to which such Nominating Shareholder has a right to vote any shares of the Corporation and any other information relating to such Nominating Shareholder that would be required to be made in a dissident's proxy circular in connection with solicitations of proxies for election of directors pursuant to the Act and Applicable Securities Laws.

The Corporation may require any proposed nominee to furnish such other information as may reasonably be required by the Corporation to determine the eligibility of such proposed nominee to serve as an "independent" director of the Corporation or that could be material to a reasonable shareholder's understanding of the "independence", or lack thereof, of such proposed nominee.

5. **Eligibility for nomination as a director** – No person shall be eligible for election as a director of the Corporation unless nominated in accordance with the provisions of this By-Law No. 3 provided, however, that nothing in this By-Law No. 3 shall be deemed to preclude discussion by a shareholder (as distinct from the nomination of directors) at a meeting of shareholders of any matter in respect of which such shareholder would have been entitled to submit a proposal pursuant to the provisions of the Act. The Chairman of the meeting shall have the power and duty to determine whether a nomination was made in accordance with the procedures set forth in the foregoing provisions and, if any proposed nomination is not in compliance with such foregoing provisions, to declare that such defective nomination shall be disregarded.
6. **Terms** – For purposes of this By-Law No. 3:
- (a) "**Applicable Securities Laws**" means the applicable securities legislation of each relevant province and territory of Canada, as amended from time to time, the rules, regulations and forms made or promulgated under any such statute and the published national instruments, multilateral instruments, policies, bulletins and notices of the securities commission and similar regulatory authority of each province and territory of Canada; and
- (b) "**public announcement**" shall mean disclosure in a press release reported by a national news service in Canada, or in a document publicly filed by the Corporation under its profile on the System for Electronic Document Analysis and Retrieval at [www.sedar.com](http://www.sedar.com).
7. **Delivery of Notice** – Notwithstanding any other provision of the by-laws of the Corporation, notice given to the Corporate Secretary of the Corporation pursuant to this By-Law No. 3 may only be given by personal delivery, facsimile transmission or by email (at such email address as stipulated from time to time by the Corporate Secretary of the Corporation for purposes of such notice), and shall be deemed to have been given and made only at the time it is served by personal delivery, email (at the address as aforesaid) or sent by facsimile transmission (provided that receipt of confirmation of such transmission has been received) to the Corporate Secretary at the address of the principal executive offices of the Corporation; provided that if such delivery or electronic communication is made on a day which is a not a business day or later than 5:00 p.m. (Toronto time) on a day which is a business day in the Province of Ontario, then such delivery or electronic communication shall be deemed to have been made on the subsequent day that is a business day in the Province of Ontario.
8. **Board Discretion** – Notwithstanding the foregoing, the Board may, in its sole discretion, waive any requirement in this By-Law No. 3.

**EFFECTIVE DATE.** This by-law is approved and adopted by the Board in accordance with the Act as of the 27th day of March, 2015.

## SCHEDULE C

### EXTENDICARE INC.

#### STATEMENT OF CORPORATE GOVERNANCE PRACTICES

This statement of corporate governance practices sets out Extencicare Inc.'s ("**Extencicare**" or the "**Company**") overview of its corporate governance practices, as assessed in the context of NI 58-101 and NP 58-201. This overview has been prepared by the Human Resources, Governance and Nominating Committee and has been approved by the board of directors (the "**Board of Directors**" or the "**Board**") of the Company.

#### **Overall Responsibilities of the Board**

The Board of Directors is responsible for the overall stewardship of the business and affairs of the Company, including overseeing the Company's financial and strategic planning and direction, as well as management's implementation of the Company's plans. In fulfilling its responsibilities, the Board delegates the day-to-day authority to management of the Company, while reserving the ability to review management decisions and exercise final judgement on any matter. The Board reviews and approves on an annual basis the corporate objectives developed and adopted by the senior management team. The Board discharges its responsibilities directly and through committees. The Board and committee members operate under charters that clearly define their roles and responsibilities.

#### **Independence of Directors**

Independence of the Board of Directors is essential to fulfilling its role in overseeing the Company's business and affairs. Pursuant to a resolution of the Board of Directors, the number of directors of Extencicare to be elected at the June 18, 2015 annual and special meeting of holders of common shares of the Company (the "**Shareholders**") has been fixed at nine. Information relating to each of the nine nominees proposed for election as directors of Extencicare is set out in the "Election of Directors" section of the management information and proxy circular (the "**Information Circular**") relating to such meeting. The Board of Directors have determined that eight of these nine individuals are "independent", as determined in accordance with National Instrument 58-101 of the Canadian Securities Administrators (NI 58-101). By virtue of Mr. Lukenda's current role as President and Chief Executive Officer, he is a non-independent director of the Company. All committees of the Board are composed entirely of independent directors.

Details of other reporting issuers on which Extencicare's directors also sit as board members are disclosed under the heading "Election of Directors" in this Information Circular. At present no director has any common directorship with any other director.

The roles of Extencicare's Chief Executive Officer (the "**CEO**") and Board Chairman are separate. The Board has implemented the practice of holding *in camera* non-management director meetings at each regularly scheduled meeting of the Board to enable open and frank discussion.

**Director Attendance:** Board members are expected to attend all Board meetings and meetings of committees on which they serve. The Board met on 15 occasions during 2014, at which attendance averaged 99%. Each director's attendance record at Board meetings held during the 2014 financial year is described under the "Election of Directors" section of this Information Circular.

#### **Board Mandate**

The mandate of the Board of Directors is attached as Schedule D to this Information Circular.

#### **Position Descriptions**

The Board of Directors has developed a written position description for its Chairman. It has not developed such descriptions for the chair of any of its committees. The chair of each committee is expected to supervise the activities of such committee and to ensure that the committee is taking all steps necessary to fulfill its mandate.

The Board of Directors has developed a written position description for the Chief Executive Officer that outlines the basic functions and responsibilities of the CEO. The CEO's responsibilities include, among other things: directing the business with the objective of providing quality care and service excellence to clients and customers; providing maximum profit and return on invested capital; establishing current and long-range objectives, plans and policies; representing Extencicare with its major clients, and the public, and providing leadership to the management team.

## **Orientation and Continuing Education**

A handbook has been developed that contains Board of Directors and committee mandates, codes of conduct, policies and other relevant information. Materials are updated annually, or more frequently as necessary. To ensure that the members of the Boards remain fully informed about Extencicare's operations on a continuing basis, management reports on Extencicare's and its subsidiaries' activities and on various aspects relevant to the business on an on-going basis, during regularly scheduled Board meetings and through periodic mailings. Management from the main operating divisions are invited to Board of Directors meetings to provide the directors with an overview of the current issues and business strategies. In addition, meetings are periodically combined with tours of the senior care centers of Extencicare so that the directors can gain greater insight into the business operations.

## **Ethical Business Conduct**

Extencicare maintains an approved Business Conduct Policy for its directors, officers and employees, for which no waivers have currently been sought or granted. The Business Conduct Policy addresses conflicts of interest, confidentiality, protection of the assets, fair dealing, and compliance with laws, rules and regulations, and it encourages reporting of any illegal or unethical business practices. Anyone may obtain a copy of the Business Conduct Policy through SEDAR at [www.sedar.com](http://www.sedar.com) or through Extencicare's website at [www.extencicare.com](http://www.extencicare.com).

In circumstances in which the Board of Directors must consider transactions and agreements in respect of which a director or executive officer has a material interest, the nature of such interest is declared, and the affected individual does not participate in the vote on the matter.

## **Nomination of Directors**

Extencicare has a Human Resources, Governance and Nominating Committee (the "**HR/GN Committee**"), which is composed of three members who are all independent directors of Extencicare. On issues relating to the nomination of directors to the Board, the HR/GN Committee makes recommendations as to the size and composition of the Board; reviews qualifications of potential candidates for election to the Board; recommends for the approval of the Board the nominees for the Board of Directors for presentation to the annual Shareholders' meeting; and makes recommendations with respect to the membership of committees. The HR/GN Committee assesses the effectiveness of the Board, the committees and the contributions of individual directors. These assessments include the use of formal surveys. The HR/GN Committee identifies individuals who it believes bring the attributes necessary to ensure the Board consists of individuals with strengths in a number of different areas required to meet Extencicare's needs.

The HR/GN Committee also oversees issues of governance as it applies to Extencicare and recommends amendments to governance procedures where appropriate. In addition, any director who wishes to engage outside advisors with respect to the affairs of Extencicare, at the expense of the Company, may do so by submitting a request through the HR/GN Committee.

The HR/GN Committee met six times during 2014, with full attendance at each meeting.

## **Women on the Board and in Executive Offices**

The Board has not adopted a written policy specifically relating to the identification and nomination of women directors nor does the Board set targets regarding women on the Board. However, the Board values diversity, including, without limitation, diversity of experience, perspective, education, race and gender as part of its overall business strategy. In evaluating potential nominees to the Board, the Board takes into consideration the then current Board composition and the anticipated skills required to round out the capabilities of the Board, including the knowledge and diversity of its membership, with a view to ensuring there is an appropriate mix of relevant skills and experience and sufficiently diverse opinions to support balanced discussion and debate. As at the date hereof, two women are members of the Board, representing approximately 22% of such positions.

The Board does not consider the level of representation of women in executive officer positions when making executive officer appointments, nor does it set targets regarding women in executive positions. However, Extencicare is committed to the fundamental principles of equal employment opportunities and its employment policies and procedures provide that candidates are selected based primarily on experience, skill and ability. As at the date hereof, five women hold executive positions with respect to our continuing Canadian operations, representing approximately 50% of such positions.

## **Majority Voting Policy**

The Board's majority voting policy, as adopted in December 2012, is summarized in this Statement of Corporate Governance Practices, a full copy of which is posted on the Company's website at [www.extendicare.com](http://www.extendicare.com). The policy stipulates that in an uncontested election of directors of the Company, any nominee for director who receives a greater number of votes "withheld" from his or her election than votes "for" such election (an "**Affected Director**") shall promptly tender his or her resignation to the Chairman of the Board following certification of the Shareholder vote.

The HR/GN Committee of the Board will promptly consider the Affected Director's resignation and will recommend to the Board whether to accept the Affected Director's resignation. In making its recommendation to the Board, the HR/GN Committee will consider all factors deemed relevant by its members including, without limitation, the underlying reasons why Shareholders "withheld" votes for election from the Affected Director (if ascertainable), the length of service and qualifications of the Affected Director, the Affected Director's contributions to the Company, whether by accepting such resignation the Company will no longer be in compliance with any applicable law, rule, regulation or governing document, and whether or not accepting the resignation is in the best interests of the Company. The HR/GN Committee may adopt such procedures as it sees fit to assist it in its determinations with respect to this policy.

The Board shall act on the HR/GN Committee's recommendation within 90 days following the applicable annual meeting. In considering the HR/GN Committee's recommendation, the Board will consider the factors considered by the HR/GN Committee and such additional information and factors that the Board considers to be relevant. Following the Board's decision on the resignation, the Board shall promptly disclose, via press release, its decision whether to accept the Affected Director's resignation including the reasons for rejecting the resignation, if applicable.

The Affected Director will not participate in the HR/GN Committee recommendation or the determination made by the Board. However, the Affected Director shall remain active and engaged in all other committee and Board activities, deliberations and decisions during this HR/GN Committee and Board process.

## **Director Term Limits and Other Mechanisms of Board Renewal**

The Board has not adopted director term limits or other mechanisms of board renewal. While the Company recognizes the importance of adding new perspectives to the Board from time to time, there are benefits to having continuity and directors having in-depth knowledge of each facet of the Company's business, which necessarily takes time to develop. The Company believes that it is important to achieve an appropriate balance of both to ensure the effectiveness of the Board.

## **Compensation**

On issues related to compensation, the HR/GN Committee reviews the compensation of senior management with a view to ensuring that the level of compensation reflects performance. The HR/GN Committee recommends to the Board of Directors for its approval the compensation to be given to the CEO and other senior executives of Extendicare and its subsidiaries. The HR/GN Committee is responsible for planning succession to the position of the CEO and for reviewing the performance of the CEO on an annual basis, and for monitoring the development of senior management. Further information on how the HR/GN Committee determines the compensation of the CEO and senior officers can be found under the heading "Compensation Discussion and Analysis" in this Information Circular.

The HR/GN Committee is also responsible for determining and recommending to the Board of Directors for its approval the compensation of the directors. In arriving at its recommendations the HR/GN Committee reviews external surveys to compare the compensation paid by the Company with compensation paid to directors in other organizations.

## **Say on Pay**

At Extendicare's annual meeting to be held in 2015, Shareholders will be participating in the fifth annual non-binding advisory vote on Extendicare's approach to executive compensation, commonly known as "Say on Pay", which gives Shareholders the opportunity to endorse or not endorse Extendicare's approach to its executive compensation program.

At the annual meeting of Extendicare held in 2014, approximately 95.4% of the Shareholders voted in favour of Extendicare's approach to executive compensation.



The Board of Directors' policy on "Say on Pay", as adopted in 2010, is summarized in this Statement of Corporate Governance Practices, a full copy of which is posted on the Company's website at [www.extendicare.com](http://www.extendicare.com), and on SEDAR at [www.sedar.com](http://www.sedar.com) under Extendicare's issuer profile. The Board of Directors believes that this policy is meaningful to its Shareholders and is substantially consistent with that proposed by the Canadian Coalition for Good Governance and with other issuers.

The Board of Directors believes that Shareholders should have the opportunity to fully understand the objectives, philosophy and principles the Board of Directors has used in its approach to executive compensation decisions and to have an advisory vote on the Board's approach to executive compensation.

The result of the advisory vote will be disclosed as part of the Company's report on voting results for its annual meeting. The HR/GN Committee and the Board will take the results of the vote into account, as appropriate, together with feedback received from Shareholders, when considering future compensation policies, procedures and decisions. In the event that a significant number of Shareholders oppose the resolution, the Board will consult with its Shareholders (particularly those who are known to have voted against it) to understand their concerns and will review the Company's approach to compensation in the context of those concerns. Shareholders are encouraged to contact the Board of Directors to discuss their specific concerns.

The Board of Directors is always appreciative of any comments and questions on its executive compensation practices, or any governance matter. Shareholders may contact the Board of Directors, in care of the Corporate Secretary of Extendicare, with any specific concerns they wish to discuss as follows:

**In writing:** Chairman of the Board  
c/o The Corporate Secretary of Extendicare  
3000 Steeles Ave. East, Suite 700  
Markham, Ontario L3R 9W2

**By email:** [governance\\_matters@extendicare.com](mailto:governance_matters@extendicare.com)

The Company will answer correspondence received and will disclose to its Shareholders as soon as is practicable, and no later than in the management information and proxy circular for its next annual meeting, a summary of the significant comments received from Shareholders and the changes to the compensation plans made or to be made by the Board (or why no changes will be made).

### **Other Board Committees**

In addition to the HR/GN Committee described above, Extendicare's other standing committees are the Audit Committee and the Quality and Compliance Committee. From time to time, the Board may also establish special committees to review and make recommendations on specific matters. Copies of each of the committee's mandates may be found on the Company's website at [www.extendicare.com](http://www.extendicare.com).

Information on the Audit Committee, required by National Instrument 52-110 – Audit Committees of the Canadian Securities Administrators, is disclosed in the Company's annual information form under the heading "Audit Committee Information", which is available on SEDAR at [www.sedar.com](http://www.sedar.com) under Extendicare's issuer profile.

### **Quality and Compliance Committee**

Extendicare has a Quality and Compliance Committee (the "**QC Committee**"), which is composed of three independent directors. The primary objective of the QC Committee is to assure that Extendicare and its operations have 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, patient safety and compliance with applicable laws and regulations. The QC Committee met four times during 2014, with full attendance at each meeting.

**SCHEDULE D**  
**EXTENDICARE INC.**

**MANDATE OF THE BOARD OF DIRECTORS**

The board of directors (the “**Board**”) of Extendicare Inc. (“**Extendicare**” or the “**Company**”) is responsible for the stewardship of the business and affairs of the Company, including the strategic planning process, approval of the strategic plan, the identification of principal risks and implementation of systems to manage these risks.

The Board has the responsibility to oversee the conduct of the business of the Company and to supervise management, which is responsible for the day-to-day conduct of the business. The Board’s fundamental objectives are to enhance and preserve the business of the Company and its underlying value. In performing its functions, the Board should consider the legitimate interests of its stakeholders such as employees, customers and communities may have in the Company. In supervising the conduct of the business, the Board, through the Chief Executive Officer of the Company (the “**CEO**”), shall set the standards of conduct for the enterprise.

The following points outline the key principles or guidelines governing how the Board will operate to carry out its overall stewardship responsibility.

**Number of Directors**

The articles of the Company provide that the Board may have a minimum of one director and a maximum of twenty directors, with the number of directors from time to time within such range being fixed by resolution of the Board. The ideal size of the Board will provide a diversity of expertise and opinion, as well as efficient operation and decision-making. At least 25% of the directors of the Company shall be resident Canadians.

The human resources, governance and nominating committee of the Board (the “**HR/GN Committee**”) will review the size of the Board annually and make a recommendation to the Board if it believes a change in the size of the Board would be in the best interests of the Company. The Board should have an appropriate mix of skills, knowledge and experience in the business and an understanding of the industry in which the Company operates. Directors are required to commit the requisite time for all of the business of the Board and to demonstrate integrity, accountability and informed judgement. At least a majority of the Board will be comprised of directors who are determined to be “independent”, as defined in applicable securities laws and the rules or guidelines of any stock exchange upon which the securities of the Company are listed for trading.

**Director Nomination**

The HR/GN Committee shall be responsible for recommending to the Board suitable candidates for nominees for election as directors.

**Election and Term**

Directors shall be elected by the shareholders at each annual meeting of shareholders to hold office for a term expiring at the close of the next annual meeting. The directors may, between annual meetings of shareholders, appoint one or more additional directors for a term to expire (subject to further appointment) at the close of the next annual meeting of shareholders, but the number of additional directors so appointed shall not at any time exceed one-third of the number of directors who held office immediately after the expiration of the immediately preceding annual meeting of shareholders.

**Vacancy**

A quorum of directors may fill a vacancy among the directors, except a vacancy resulting from an increase in the minimum and maximum number of directors or from a failure to elect the minimum number of directors provided for in the articles. If there is not a quorum of directors, or if there has been a failure to elect the minimum number of directors provided for in the articles, the directors then in office shall forthwith call a special meeting of shareholders to fill the vacancy and, if they fail to call a meeting or if there are no directors then in office, the meeting may be called by any shareholder. A director appointed or elected to fill a vacancy shall hold office for the unexpired term of his or her predecessor.

**Review of Independence of Outside Directors**

The HR/GN Committee will review on an annual basis any relationship between outside directors and the Company which might be construed in any way to compromise the designation of any director as being independent or unrelated to the Company. The objective of such review will be to determine the existence of any relationships, to ensure that the composition of the Board remains such that at least a majority of the directors are independent and unrelated and that where relationships exist, the director is acting appropriately. A director should bring to the attention of the Chairman and the HR/GN Committee any potential conflicts of interest as they arise.

Directors shall disclose all actual or potential conflicts of interest and refrain from voting on matters in which the director has a conflict of interest. In addition, a director should excuse himself or herself from any discussion or decision on any matter in which the director is precluded from voting as a result of a conflict of interest or which otherwise affects his or her personal, business or professional interests.

### **Board Meetings**

Meetings of the directors shall be called and held in accordance with By-Law No. 1 of the Company. The Board may invite any of Extencicare's officers, employees, advisors or consultants or any other person to attend meetings of the Board to assist in the discussion and examination of the matters under consideration by the Board. Attendees will be excused for any agenda items that are reserved for discussion among directors only.

### **Committees**

The directors may appoint from their number one or more committees of directors and, subject to By-Law No. 1 of the Company, may grant or delegate to the committees such authority and such powers as the directors may in their sole discretion deem necessary or desirable. Unless otherwise determined by the directors, a quorum for meetings of any committee shall be a majority of its members and each committee shall have the power to appoint its chairman. Each member of a committee shall serve during the pleasure of the directors and, in any event, only so long as he or she shall be a director.

The Board shall appoint from among the directors an audit committee of the Board (the "**Audit Committee**") to consist of not less than three members. The composition of the Audit Committee shall comply with applicable securities laws, including National Instrument 52-110 – Audit Committees.

### **Board and Committee Meeting Agendas and Information**

The Chairman and the CEO, in consultation with the Secretary, will develop the agenda for each Board and committee meeting. Agendas will be distributed to the Board or committee members before each meeting, and all members shall be free to suggest additions to the agenda in advance of the meeting.

Whenever practicable, information and reports that are important to the Board's or committee's understanding of meeting agenda items will be circulated to the directors and committee members in advance of the meeting. Reports may be presented during the meeting by members of the Board, management and/or staff, or by invited outside advisors. It is recognized that under some circumstances, due to the confidential nature of matters to be discussed at a meeting, it may not be prudent or appropriate to distribute written materials in advance.

### **External Advisors**

Each director shall have the authority to retain outside counsel and any other external advisors as appropriate with the approval of the HR/GN Committee.

As well, the Board or any of its committees may conduct or authorize investigations into any matters within their respective scope or responsibilities. As such, the Board or any of its committees are authorized to retain and determine funding for independent professionals to assist in the conduct of any such investigation.

### **Contacts with Senior Management**

All of the directors shall have open access to senior management of Extencicare. It is expected that directors will exercise judgement to ensure that such contact is not disruptive to the operations of Extencicare. Written communications from directors to members of management shall be copied to the Chairman and CEO of the Company.

### **Board/Committee Assessment**

The Board, through the HR/GN Committee, shall establish and conduct orientation and education programs for new directors through which the performance expectations for members of the Board shall be communicated. The HR/GN Committee shall implement a process for assessing the effectiveness of the Board as a whole, the committees and the contributions of individual directors, which may include the use of periodic formal surveys.

### **Senior Management Succession Planning**

The Board shall have responsibility for the appointment and evaluation of the performance of the CEO and senior officers of the Company and its subsidiaries and shall require the HR/GN Committee to make recommendations with respect to such matters. The HR/GN Committee shall monitor, review and provide guidance in respect of executive management training, development and succession planning.

## **Directors' and Senior Management Compensation**

The HR/GN Committee shall be responsible for making recommendations to the Board concerning the compensation of directors, the CEO and senior officers of the Company and its subsidiaries, including the adequacy and form of compensation, including the use of incentive programs and awards made pursuant thereto. The HR/GN Committee shall review senior management's performance against the objective of maximizing shareholder value, measuring their contribution to that objective, and overseeing compensation policies.

## **Strategic Planning**

Management is responsible for the development of long-term corporate strategy, while the role of the Board is to review, question and validate, and ultimately to approve the strategies proposed by management.

## **Managing Risk**

The Board shall have overall responsibility for assessing the principal risks facing the Company, ensuring the implementation of the appropriate strategies and systems to manage such risks, and reviewing any material legal matters relating to the Company as a whole or its investment in any major operating business.

## **Communications Policy**

The Board shall approve Extencicare's core public disclosure documents disseminated to shareholders and the investing public, including the annual report, management information and proxy circular, annual information form, interim quarterly reports and any prospectuses. The Audit Committee shall review and recommend for approval to the Board the quarterly and annual financial statements, including the related management's discussion and analysis, press releases relating to financial matters and any other financial information contained in core public disclosure documents. The Board requires that Extencicare make accurate, timely and effective communication to shareholders and the investment community.

The Board shall have responsibility for reviewing the Company's policies and practices with respect to disclosure of financial and other information, including insider reporting and trading. The Board shall approve and monitor the disclosure policies designed to assist the Company in meeting its objective of providing timely, consistent and credible dissemination of information, consistent with disclosure requirements under applicable securities law. The Board shall review the Company's policies relating to communication and disclosure on an annual basis.

Generally, communications from shareholders and the investment community will be directed to either of the Chief Executive Officer, Chief Financial Officer, Director of Investor Relations, or Corporate Secretary of Extencicare to provide an appropriate response depending on the nature of the communication. It is expected that, if communications from stakeholders are made to the Chairman or to other individual directors, management will be informed and consulted to determine any appropriate response.

## **Internal Control and Management Information Systems**

The Board shall review the reports of management of Extencicare and the Audit Committee concerning the integrity of the Company's internal control and management information systems. Where appropriate, the Board shall require management of Extencicare and the Audit Committee to implement changes to such systems with a view to ensuring integrity of such systems.

## **Corporate Governance Policy**

The Company shall make full and complete disclosure of its system of corporate governance on an annual basis in its annual shareholder documents and/or securities commission filings where required, and on its website. The Board, through the HR/GN Committee, shall have the responsibility for developing the Company's approach to governance issues, including the responsibility for this disclosure.

**EXTENDICARE**<sup>®</sup>