



2016 Annual Information Form

For the year ended December 31, 2016

Dated: March 30, 2017

The Right Care – The Right Time – The Right Place

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GLOSSARY OF TERMS

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

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

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

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

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

“**Annual Information Form**” or “**AIF**” means this annual information form for the year ended December 31, 2016 of Extencicare dated March 30, 2017;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

“**EHI**” means Extencicare Holdings, Inc., a corporation incorporated under the laws of Wisconsin that was a subsidiary of Extencicare, prior to the closing of the U.S. Sale Transaction on July 1, 2015;

“**EHSI**” means Extencicare Health Services, Inc., a corporation incorporated under the laws of Delaware that was a subsidiary of Extencicare, prior to the closing of the U.S. Sale Transaction on July 1, 2015; and references to EHSI in this AIF mean EHSI alone or together with its subsidiaries, as the context requires;

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

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

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

“**Extendicare**” or the “**Company**” means the corporation known as “Extendicare Inc.”, which continued as one corporation as a result of the amalgamation of 8067929 Canada Inc., Extendicare Holding General Partner Inc., 8120404 Canada Inc. and Extendicare Inc. effective July 1, 2012, and which is the successor to Extendicare REIT; references to Extendicare or the Company in this AIF mean Extendicare Inc., either alone or together with its subsidiaries, as the context requires;

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

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

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

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

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

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

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

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

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

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

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

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

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

“**ParaMed**” means ParaMed Inc., a corporation incorporated under the laws of Canada and a subsidiary of the Company, which provides home health care services in Canada under the business names ParaMed Home Health Care and ParaMed Select;

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

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

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

“**RAI-MDS**” means resident assessment instrument – minimum data set; a tool used to assess clinical and functional characteristics of residents in long-term care settings in order to measure and assess a resident’s level of care needs;

“**RBC Credit Facility**” means the credit agreement dated as of June 30, 2005, as amended, among Extendicare (as borrower) and Royal Bank of Canada, the lender, relating to a \$47.3 million credit facility, as the same may be further amended, supplemented or modified from time to time in accordance with the terms thereof;

“**REIT**” or “**Extendicare REIT**” means Extendicare Real Estate Investment Trust, an unincorporated open-ended limited purpose trust established under the laws of the Province of Ontario, which was the predecessor of Extendicare and was dissolved effective July 1, 2012;

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

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

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

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

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

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

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

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

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

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

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

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

EXPLANATORY NOTES

The information in this AIF is as at December 31, 2016, unless otherwise indicated.

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

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

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

CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

ADDITIONAL INFORMATION

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

Additional information, including the remuneration of the directors and executive officers of the Company, and securities authorized for issuance under equity compensation plans, is contained in the Company's management information and proxy circulars. The Company's most recent circular is dated April 8, 2016, which was prepared in connection with the Company's annual and special meeting of Shareholders held on May 26, 2016. The Company's next proxy circular will be prepared in connection with the Company's annual general meeting of Shareholders to be held on May 25, 2017.

Additional financial information is provided in the Company's consolidated financial statements and management's discussion and analysis for the financial year ended December 31, 2016, contained in the Company's 2016 Annual Report. Copies of such documents may be obtained from the sources set forth above.

CORPORATE STRUCTURE

NAME, ADDRESS AND INCORPORATION

Extendicare Inc. was originally incorporated in August 1968 and was continued under the CBCA by Articles of Continuance. On July 1, 2012, Extendicare amalgamated with 8067929 Canada Inc., Extendicare Holding General Partner Inc., and 8120404 Canada Inc. to continue as one corporation, with the name "Extendicare Inc.", and is the successor to Extendicare REIT.

The registered and principal office of Extendicare Inc. is located at 3000 Steeles Avenue East, Suite 700, Markham, Ontario, Canada L3R 9W2.

Extendicare's operations are carried on through a number of wholly owned subsidiaries. Extendicare's Canadian long-term care operations, management and consulting services (Extendicare Assist), and group purchasing services (SGP Purchasing Partner Network) are conducted through ECI. Beginning in 2017, Extendicare's home health care operations (ParaMed), which were previously conducted through ECI, are now conducted through ParaMed Inc. Extendicare's retirement living operations (Esprit Lifestyle Communities) are conducted through 9488618 Canada Inc. and its subsidiaries.

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

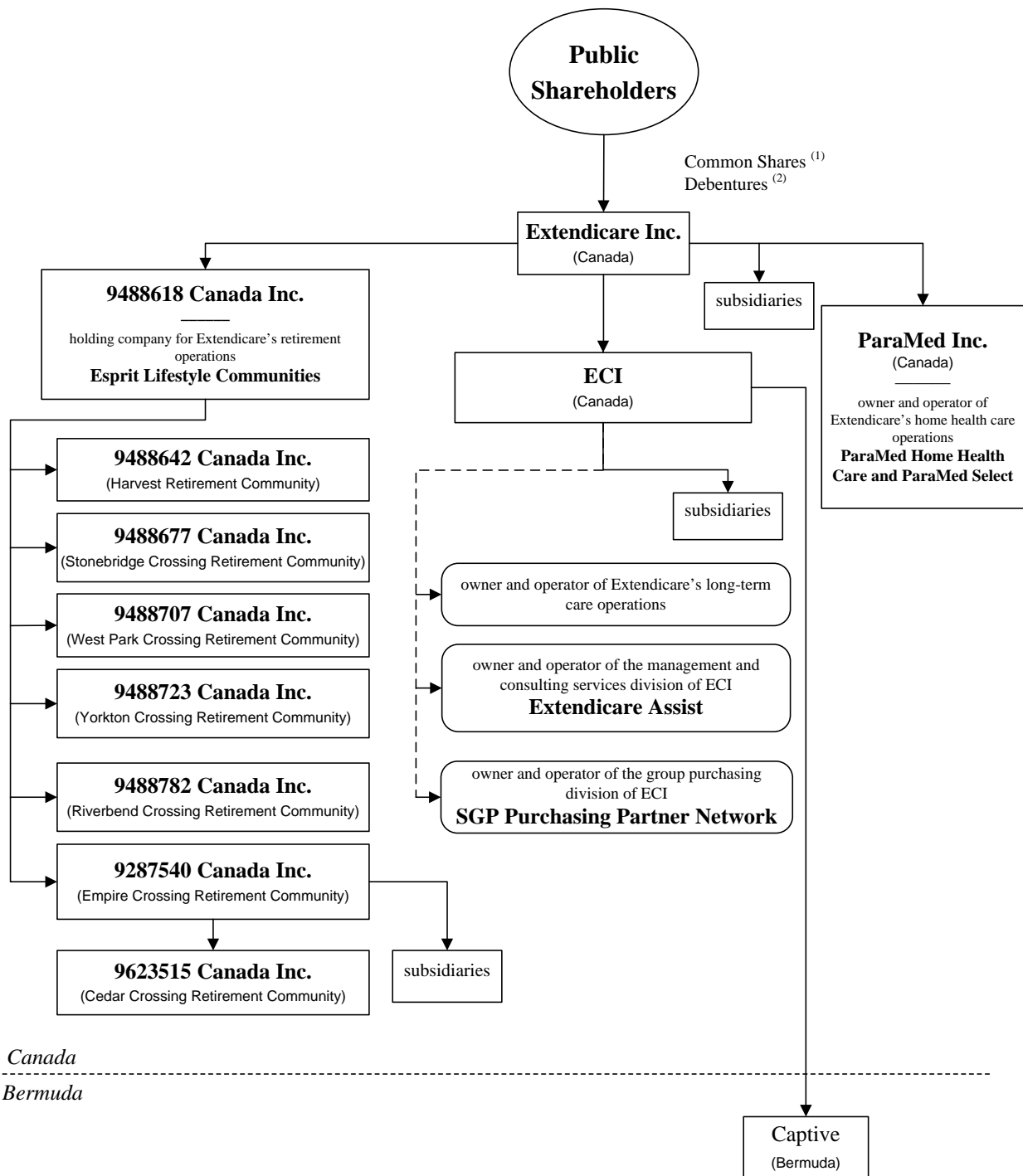
SUBSIDIARIES

The following is a list of the material subsidiaries as of March 30, 2017, all of which are 100% owned directly or indirectly by Extendicare.

Name	Jurisdiction of Incorporation
Extendicare (Canada) Inc.	Canada
9488618 Canada Inc. (holding company for Extendicare's Esprit Lifestyle Communities' retirement operations)	Canada
9287540 Canada Inc. (Empire Crossing)	Canada
9488642 Canada Inc. (Harvest)	Canada
9488677 Canada Inc. (Stonebridge Crossing)	Canada
9488707 Canada Inc. (West Park Crossing)	Canada
9488723 Canada Inc. (Yorkton Crossing)	Canada
9488782 Canada Inc. (Riverbend Crossing)	Canada
9623515 Canada Inc. (Cedar Crossing)	Canada
Laurier Indemnity Company, Ltd.	Bermuda
ParaMed Inc.	Canada

ORGANIZATIONAL STRUCTURE OF EXTENDICARE

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



Notes:

- (1) As at March 30, 2017, there were 88,803,744 Common Shares issued and outstanding.
- (2) As at March 30, 2017, there were \$126,500,000 aggregate principal amount of the 2019 Debentures issued and outstanding.
- (3) All of the subsidiaries of Extencicare are wholly owned.

GENERAL DEVELOPMENT OF THE BUSINESS

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

2015 U.S. SALE TRANSACTION

On July 1, 2015, pursuant to a definitive share purchase agreement dated November 7, 2014, as amended (the "EII SPA"), the Company, through its subsidiary EII (the "Vendor"), completed the sale of its U.S. business (the "U.S. Sale Transaction"), by the transfer by the Vendor of all of the issued and outstanding shares of EHI to a group of investors led by Formation Capital, LLC (Formation Capital), a healthcare-focused private investment firm, and an affiliate of Safanad Inc., a global principal investment firm, acting through FC Domino Acquisition LLC (the "Purchaser"), an acquisition company formed by Formation Capital. At the time of the sale, EHSI's senior care portfolio comprised 156 owned/leased centres (15,183 beds) located in 12 states. The U.S. Sale Transaction was completed for a value of US\$870 million (\$1.1 billion using the noon U.S./Canadian dollar exchange rate of 1.2474 on June 30, 2015), partially settled through the assumption by the Purchaser of mortgage loans and other third-party indebtedness relating to the U.S. business of approximately US\$655 million, and working capital and other specified adjustments, resulting in gross proceeds of US\$280.8 million representing US\$193.4 million received on July 1, 2015, and an intercompany dividend of US\$87.4 million received as part of a pre-closing reorganization on June 30, 2015 (the "Pre-closing Distribution"). The Company has agreed to indemnify the Purchaser for certain obligations of the U.S. operations related to tax, a corporate integrity agreement, and other items, and had recorded provisions totalling US\$25.2 million and a potential receivable of approximately US\$9.3 million, for a potential net liability of US\$15.9 million. In connection with these items, as at December 31, 2016, the Company had provisions remaining totalling US\$21.2 million and a receivable of US\$6.2 million. Total estimated taxes of the U.S. Sale Transaction were US\$33.1 million, resulting in net after-tax proceeds of approximately US\$231.8 million, including the Pre-closing Distribution.

The U.S. Sale Transaction included non-cash proceeds of US\$6.2 million, which represented the net present value ascribed to an ongoing cash stream of US\$28.0 million that the Company is entitled to receive, recorded as deferred consideration, relating to certain U.S. skilled nursing centres that were leased prior to the closing, offset in part by obligations of US\$21.8 million that were assumed related to these leases. The obligations of US\$21.8 million were settled by the end of 2016. The estimated benefit of this cash stream, net of the obligations, is anticipated to average US\$5 million per annum (pre-tax) over 15 years. Subsequent to December 31, 2016, the Company entered into an agreement to defer receipt of substantially all of the anticipated payments for 2017, and approximately half of those anticipated for 2018. Payments are to be restored in 2019, with receipt of the deferred amounts anticipated over the remaining term. There are significant credit risks associated with the realization of this cash stream attributable to factors outside of Extendicare's control that could materially negatively impact the amounts that are expected to be received by the Company.

In October 2014, EHSI completed and executed a settlement agreement with the United States Department of Justice (DOJ), the Office of the Inspector General of the U.S. Department of Health and Human Services (OIG-HHS) and multiple states, which fully and finally resolved the previously disclosed DOJ and OIG-HHS investigations and ancillary claims that were pending since 2010. Pursuant to the terms of the settlement, EHSI made a lump-sum payment of US\$38.0 million to the U.S. government, along with US\$1.0 million in other settlement costs. EHSI denied engaging in any illegal conduct and agreed to the terms of the settlement without any admission of wrongdoing in order to resolve the investigations and ancillary claims and to allow the Company to avoid the expense, distraction, and uncertainty resulting from the broad investigations and to avoid the uncertainty of any protracted litigation. As is standard practice in settlements of OIG-HHS and DOJ investigations, EHSI entered into a corporate integrity agreement with the OIG-HHS (the "CIA") for a five-year period effective October 3, 2014. Under the terms of the EII SPA, Extendicare has agreed to share in the costs incurred in order to implement and comply with the requirements of the CIA. Extendicare's annual cost sharing arrangement with the Purchaser is capped at US\$4.5 million, on the basis that the first US\$2.0 million aggregate annual amount of such costs will be borne by the Purchaser; the next US\$2.0 million aggregate annual amount will be borne by Extendicare; with the next US\$5.0 million aggregate annual amount to be shared equally between the Purchaser and Extendicare; and the balance of any excess costs incurred to be borne by the Purchaser. Extendicare estimates that its obligations to the Purchaser relating to the CIA will average approximately US\$2.5 million per year to October 2019. Though the actual costs for the Purchaser to comply with the CIA are difficult to estimate, the Company has included a provision for such costs in its provision for indemnification obligations, as discussed above.

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

2015 HOME HEALTH ACQUISITION

On April 30, 2015, pursuant to a definitive agreement entered into in January 2015 (the “Home Health Acquisition Agreement”) the Company completed the Home Health Acquisition for \$84.3 million in cash, which included final working capital adjustments and settlement of amounts that had been held in escrow at closing. The Home Health Acquisition was financed with a bridge loan of \$80.0 million (the “Bridge Loan”) and cash on hand. The Bridge Loan was outstanding from April 30, 2015 to July 2, 2015, when it was repaid in full using a portion of the proceeds from the U.S. Sale Transaction. This acquisition brought together two leading Canadian private-sector home health care providers focused on quality, person-centred care and employee satisfaction.

EXPANSION INTO PRIVATE-PAY RETIREMENT SECTOR

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

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

Name/Location	Acquisition / Opening Date	# of Communities	# of Suites	Purchase Price / Development Cost ⁽¹⁾ (millions)	Price per Suite	Expected Stabilized NOI Yield ⁽²⁾
Acquired in Q4-2015						
Empire Crossing, Port Hope, ON	Oct. 1, 2015	1	63	\$20.2	\$315,600	6.9% to 7.1%
Harvest, Tillsonburg, ON	Dec. 1, 2015	1	100	\$28.4	\$284,500	6.7% to 6.9%
Stonebridge Crossing, Saskatoon, and Riverbend Crossing, Regina, SK	Dec. 1, 2015	2	183	\$50.3	\$273,300	7.2%
Acquired in Q1-2016						
West Park Crossing, Moose Jaw, and Yorkton Crossing, Yorkton, SK	Feb. 22, 2016	2	158	\$40.5	\$256,300	7.3% to 7.7%
Opened in Q4-2016						
Cedar Crossing, Simcoe, ON	Nov. 25, 2016	1	70	\$15.8	\$225,600	7.5%
In Progress at Period End						
Uxbridge / Bolton / Barrie, ON	Q4/2017 / Q1/2018 / Q4/2018	3	354	\$106.8	\$301,700	7.0%

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

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

Retirement Acquisitions

During the 2015 fourth quarter, Extencare completed the acquisition of four retirement communities, as summarized in the above table, for an aggregate purchase price of approximately \$98.6 million, inclusive of a \$0.3 million reduction for net working capital adjustments on closing, and \$2.3 million for income support during the lease-up period. In February 2016, the Company acquired an additional two retirement communities for an aggregate purchase price of \$40.5 million, inclusive of \$4.5 million for income support during the lease-up period. The aggregate purchase price of \$139.1 million for these six acquisitions (the “Retirement Acquisitions”) was initially paid in cash with an intention to finance the communities once stabilized. Financing on three of the six newly acquired retirement communities was

secured by the Company in August 2016. Further details of these financings are provided below under the heading “Financing Activity – Retirement Community Financings”.

Retirement Development Projects

In November 2016, the Company opened its newly developed retirement community, Cedar Crossing Retirement Community (70 suites), in Simcoe, Ontario, and currently has three other private-pay retirement communities in various stages of development in Uxbridge, Bolton, and Barrie, Ontario, with a total of 354 suites. The Company broke ground on the Uxbridge project in July 2016, with completion anticipated in the 2017 fourth quarter. The Bolton and Barrie communities are anticipated to be completed during 2018.

The anticipated cost to stabilization of these four retirement development projects is approximately \$122.6 million, or approximately \$289,100 per suite, which amount includes an imputed cost of capital and an estimated lease-up amount to achieve stabilized NOI. The estimated average stabilized NOI yield for the Cedar Crossing Retirement Community is 7.5%, and averages 7.0% for the three projects in various stages of development. Financing on three of the development projects was secured in 2016, with similar financing anticipated to be secured on the fourth. Further details of these financings are provided below under the heading “Financing Activity – Retirement Community Financings”.

FINANCING ACTIVITY

2014 – Settlement of 2014 Convertible Debentures

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

Retirement Community Financings

During 2016, the Company secured construction financing on its retirement development projects in Simcoe, Bolton and Uxbridge for up to \$9.9 million, \$20.8 million and \$20.7 million, respectively, representing approximately 63% of the anticipated costs. In addition, these construction financings provide for additional letter of credit facilities of \$500,000 for the Simcoe project, and \$750,000 for each of the Bolton and Uxbridge projects, at a rate of 2.5% if utilized. The required loan payments are interest-only, based on a floating 30-day banker’s acceptance rate plus 2.5%, with no standby fee. The construction loan for the Simcoe project is repayable on demand by the lender and in any event is to be fully repaid by the earlier of 42 months from closing or 24 months from the issuance of the project’s occupancy permit. The construction loans for the Bolton and Uxbridge projects are also repayable on demand by the lender and in any event are to be repaid by the earlier of 54 months from closing or 36 months from the issuance of the relevant project’s occupancy permit. The Company anticipates securing construction financing under similar terms for the Barrie project. Permanent financing for each of the communities will be sought upon maturity of the construction financing.

In August 2016, the Company secured financing on three of the newly acquired retirement communities (Harvest, Stonebridge and Riverbend) representing non-revolving credit facilities aggregating \$56.3 million, or approximately 71% of the acquisition costs. These financings have seven-year terms, with a floating rate of prime plus 0.5% or 30-day banker’s acceptance rate plus 1.9%. In conjunction with securing these financings, the Company entered into interest rate swap contracts to lock in the rates at 3.11% for the full term.

Mortgages

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

In February 2017, ECI renewed CMHC mortgages totalling \$16.5 million on two of its Ontario LTC centres for a term of 15 years to February 2032, at a fixed rate of 3.35%.

In March 2017, ECI renewed its existing \$5.8 million CMHC mortgage on a Manitoba LTC centre for a term of almost 10 years to November 2026, at a fixed rate of 3.04%.

OTHER DIVESTITURES

2016 Sale of U.S. IT Hosting Business

On December 22, 2016, the Company completed the sale of substantially all of the assets used in the operation of its U.S. IT Hosting business for cash proceeds of \$11.5 million (US\$8.5 million), prior to working capital adjustments and transaction costs. Net proceeds from the sale, after working capital adjustments and transaction costs, were \$9.5 million (US\$7.1 million), resulting in a pre-tax loss on sale of \$8.6 million (after-tax loss of \$8.4 million).

DESCRIPTION OF THE BUSINESS

COMPANY PROFILE

Extendicare has been in operation since 1968, providing care and services to seniors. Following the sale of its U.S. business in 2015 and the repositioning of the Company as a pure-play Canadian services provider to the expanding senior care sector, management has successfully deployed the sale proceeds to expand and grow the Company's operations across the continuum of seniors' care. For further details on the U.S. Sale Transaction and the growth and expansion of the Company's Canadian operations, refer to the discussion under the heading "General Development of the Business – 2015 U.S. Sale Transaction; 2015 Home Health Acquisition; and Expansion into Private-pay Retirement Sector").

Extendicare's core businesses have been the ownership and operation of long-term care centres, the provision of publicly funded home health care services, the provision of management, consulting and group purchasing services to third parties, and, more recently, the ownership and operation of private-pay retirement communities. The Company will continue to seek growth opportunities to augment its core businesses and to pursue opportunities to rebalance its revenue stream across its businesses to achieve a better balance between government-source revenue and higher margin privately funded sources of revenue, such as private-pay home health care services and retirement communities.

Extendicare's mission is to help people live better by providing quality, cost-effective health care to Canadian seniors in a resident-centred environment. Our vision is to become the leading provider of care and services for Canada's growing seniors' population. At the heart of everything that we do is an unwavering commitment to delivering quality customer-centred senior care and services. By doing this, we will live our mission of helping people live better, while keeping our promise to return sustainable value to our shareholders who have invested in this mission.

OPERATIONS

As at February 28, 2017, Extendicare owned and operated 58 long-term care centres, 7 retirement communities through its Esprit Lifestyle Communities retirement operations, and managed 46 senior care and living centres for third parties through Extendicare Assist. In total, we operated 111 senior care and living centres across four provinces in Canada, with capacity for 14,379 residents, with a significant presence in Ontario and Alberta, where approximately 75% and 12% of our residents were served, respectively. In addition, ParaMed provided home health care services from 41 locations across six provinces in Canada, providing approximately 11 million hours of service annually, and SGP Purchasing Partner Network provided group purchasing services to third-party clients representing over 40,400 seniors across Canada. In all, the Company employed approximately 23,800 individuals across Canada that are dedicated to helping people live better through a commitment to quality service and passion for what we do.

At its corporate office in Markham, Ontario, senior management of Extendicare provides the overall strategic direction and management of the business and seeks development and acquisition opportunities. Extendicare's corporate office includes senior management of its operating divisions along with the corporate departments of human resources, internal audit, purchasing, engineering services, clinical and quality of life services, accounting and information technology. These corporate departments establish company-wide policies and procedures, standards, benchmarks and control procedures, and provide a resource for all operations.

In addition, Extendicare has a number of regional offices whose staff are responsible for and support the respective local operations by overseeing policies and programs pertaining to resident care, employee hiring, training and retention, marketing initiatives, risk management and facility maintenance. A quality department also provides oversight and support to enhance quality and manage risk.

The following table summarizes the senior care and living centres operated by Extencicare, including those managed for third parties as at February 28, 2017.

By Province	Long-term Care		Retirement Living		Chronic Care Unit		Total	
	No. of Centres	Resident Capacity	No. of Centres	Resident Capacity	No. of Centres	Resident Capacity	No. of Centres	Resident Capacity
Owned/Leased								
Ontario	34	5,206	3	233	–	–	37	5,439
Alberta	14	1,495	–	–	–	–	14	1,495
Saskatchewan	5	649	4	341	–	–	9	990
Manitoba	5	762	–	–	–	–	5	762
	58	8,112	7	574	–	–	65	8,686
Managed								
Ontario	36	4,658	5	552	1	120	42	5,330
Alberta	1	102	1	93	–	–	2	195
Manitoba	2	168	–	–	–	–	2	168
	39	4,928	6	645	1	120	46	5,693
Total	97	13,040	13	1,219	1	120	111	14,379

(1) For financial reporting purposes, a centre is categorized based on the predominant level of care provided, the type of licensing and the type of funding provided. For example, two of our long-term care centres with retirement wings have been categorized as LTC centres, with their operations included in the LTC operating segment. In addition, government-funded supportive living suites have been categorized as LTC centres due to the nature of the regulatory oversight and government-determined fee structure.

The Company operates nine of its Ontario LTC centres (1,155 LTC beds and 76 retirement suites) under 25-year finance lease arrangements, with full ownership obtained at the end of the lease term. Extencicare believes that ownership of its centres provides financial and strategic advantages.

The following describes the Company's operating segments.

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

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

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

Extencicare is the largest private-sector operator of LTC centres in Canada. The Company owns and operates for its own account 58 LTC centres with capacity for 8,112 residents, inclusive of a stand-alone designated supportive living centre (140 suites) and a designated supportive living wing (60 suites) in Alberta, and two retirement wings (76 suites) in Ontario. This reporting segment excludes the senior care centres that are managed by the Company's Extencicare Assist division on behalf of third parties, as the revenue from those operations is earned on a fee-for-service basis (refer to the discussion below under the heading "Other Canadian Operations – Management and Consulting Services").

Extencicare's long-term care operations represented 57.4% of consolidated revenue from continuing operations for the year ended December 31, 2016, compared to 63.0% in 2015. The change in the revenue mix as compared to 2015 primarily resulted from the impact of growth in revenue from outside of the long-term care segment due primarily to the Home Health Acquisition completed in April 2015.

Retirement Living

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

Through its subsidiaries, Extendicare owns and operates seven retirement communities with capacity for 574 residents, under the Company's Esprit Lifestyle Communities brand (refer to the discussion under the heading "General Development of the Business – Expansion into Private-pay Retirement Sector"). Four of these retirement communities (341 suites) are located in Saskatchewan and three communities (233 suites) are located in Ontario. In addition, we have three (354 suites) in various stages of development in Ontario that are scheduled for completion by the end of 2018.

Extendicare's retirement communities provide services to private-pay residents at rates set by the Company based on the services provided and market conditions. The monthly fees vary depending on the type of accommodation, level of care and services chosen by the resident, and the location of the retirement community. Residents are free to choose the living arrangements best suited to their personal preference and needs and, more importantly, change the level of care and support they receive as their needs evolve over time. Revenue from these operations represented 1.5% of consolidated revenue from continuing operations for the year ended December 31, 2016, compared to 0.1% in 2015.

The Company's retirement communities, operated under its Esprit Lifestyle Communities brand are for seniors who, with the aid of basic care and services, are able to and want to live independently. Our retirement communities offer independent and enhanced living, including short-term stay, rest and respite care, and our Saskatchewan retirement communities offer dedicated memory care suites, all as described below:

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

Home Health Care

Extendicare provides home health care services through ParaMed, which operates from 41 locations in six provinces across Canada (34 in Ontario, 1 in British Columbia, 2 in Alberta, 1 in Manitoba, 2 in Quebec, and 1 in Nova Scotia), providing approximately 11 million hours of service annually. During 2016, ParaMed co-located a number of its Ontario locations as part of the integration of the Home Health Acquisition, reducing the number of offices in Ontario from 40 to 34. Prior to the Home Health Acquisition in 2015, ParaMed's operations were solely in Ontario, where it provided approximately 5.1 million hours of service annually, making it the largest provider of publicly funded home health care in the province. Following the Home Health Acquisition, ParaMed's operations more than doubled and expanded to six provinces. In 2016, ParaMed provided 10.9 million hours of service, of which approximately 83% were provided in Ontario, 11% were provided in British Columbia, 4% in Alberta, and the balance were provided in Manitoba, Quebec and Nova Scotia. In May 2016, ParaMed expanded its presence in British Columbia with the addition of a four-year contract with the Vancouver Coastal Health Authority that is anticipated to add approximately 330,000 hours of service annually. Revenue from the home health care operations represented 39.1% of consolidated revenue from continuing operations for the year ended December 31, 2016, compared to 34.7% in 2015.

ParaMed's 11,800 professionals and staff members are skilled in providing complex nursing care, occupational, physical and speech therapy, and assistance with daily activities to accommodate clients of all ages living at home. Home health care alleviates the demand for in-hospital stays and senior care centres, and allows seniors the independence and dignity of remaining at home for as long as possible. Home care services are provided to individuals of all ages; however, seniors represent the largest group accessing these services. Provincial governments fund a wide range of home health care services, and contract these services to providers such as ParaMed. In 2016, ParaMed received approximately 97% of its revenue from contracts tendered by locally administered provincial agencies, with the remainder from private-pay clients.

In shaping the delivery of health care to Canadians, both the federal and provincial governments have stated that home health care is an area that merits further investment to ensure that more health care services are available in the home. Recent health accord agreements between the federal government and each of the provinces included targeted funding for home health care. For Ontario alone, targeted home health care funding has been reported as an additional \$2.3 billion over the next decade. Based on the approximate 11 million of hours of service provided annually, management believes that ParaMed is the largest private-sector provider of publicly funded home health care in Canada. As additional funds are allocated by governments to this segment of the Canadian health care system, Extencicare anticipates ParaMed's business will grow. As well, ParaMed's platform will enable the growth in the delivery of private-pay home health care services under its new ParaMed Select brand.

Other Canadian Operations

Extencicare's other Canadian operations are composed of its management and consulting services provided by Extencicare Assist and group purchasing services provided by SGP Purchasing Partner Network. These two operations, collectively, represented approximately 1.7% of consolidated revenue from continuing operations for the year ended December 31, 2016.

Management and Consulting Services

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

As a skilled manager and operator of senior care centres for third parties, Extencicare Assist's managed portfolio consisted of 46 centres with capacity for 5,693 residents as at February 28, 2017. This managed portfolio comprised 39 LTC centres (4,928 beds); 6 retirement communities (645 beds) and a chronic care unit (120 beds). The number of managed clients has declined from the 54 centres at the beginning of 2016 primarily due to contracts for eight centres (751 beds) that ceased effective January 1, 2017, following the sale of the centres to a new operator. Extencicare Assist has secured contracts to manage five new centres (494 beds) that it expects to onboard in the second quarter of 2017. Extencicare expects future growth in demand for the provision of senior care management and consulting services to the public, not-for-profit, and private sectors.

Group Purchasing Services

Through its SGP Purchasing Partner Network division, Extencicare offers cost-effective purchasing contracts to other senior care providers for food, capital equipment, furnishings, cleaning and nursing supplies, and office products. SGP Purchasing Partner Network negotiates long-term and high volume contracts with its suppliers that provide members with preferred pricing, thereby providing a cost-effective way to secure quality national brand-name products, along with a range of innovative services. As at February 28, 2017, in addition to providing in-house services to Extencicare's operated centres, SGP Purchasing Partner Network provided services to over 420 third-party clients representing over 40,400 seniors across Canada.

U.S. Continuing Operations – Captive Insurance Company

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

As at December 31, 2016, the accrual for such U.S. self-insured general and professional liabilities was US\$70.6 million, compared to US\$107.2 million at the beginning of the year, and the investments held for U.S. self-insured liabilities totalled US\$101.4 million, compared to US\$127.7 million at the beginning of the year, with the decline in each reflecting the "run off" of these operations and the release of reserves. The loss provisions for Extencicare's U.S. general and professional liability risks are based upon management's best available information, including independent actuarial estimates. The Captive is currently appropriately capitalized, but there can be no assurance that it will remain as such in the future should general and professional liability claims incurred prior to the closing of the U.S. Sale Transaction, including claims incurred but yet to be reported, increase significantly.

SENIOR CARE INDUSTRY

Aging Population

The demographic wave of the aging population is approaching and is a leading driver of demand for senior care services. The significant impact of this shift will occur between the years 2020 and 2040, with the first baby boomer having reached the age of 80 in 2026 and all baby boomers, those born from 1946 to 1965, having reached the age of 65 by 2031. The average age of residents in long-term care centres is in the low to mid-eighties.

According to reports published by Statistics Canada, population estimates for 2015 indicated that, for the first time in Canadian history, the number of individuals aged 65 and over outnumbered those under the age of 15 (source: Statistics Canada, *Population Projections (2013 to 2063, Provinces and Territories (2013 to 2038))*). From 2011 to 2036, the number of individuals aged 65 and over is predicted to more than double, and represent between 23% and 25% of the total population by 2036. The number of seniors aged 80 and over is predicted to double between 2011 and 2036 (source: Statistics Canada, *Canada year book 2012, Seniors*). In addition, seniors are living longer and entering long-term care centres more frail than ever before. As the number of seniors and life expectancy in Canada rises, so will the need for improved care, more complex care and increased capacity in long-term care centres. In 2011, 352,205 seniors aged 65 and over, or 7.1% of all seniors, lived in special care centres, such as long-term care, chronic care and retirement residences. The prevalence of seniors living in special care centres in 2011 increased with age. About 1% of all seniors aged 65 to 69 lived in special care facilities in 2011, and for all seniors aged 85 and over, it was approximately 29.6% (source: Statistics Canada, *Census in Brief – Living Arrangements of Seniors, 2011 Census*, catalogue no. 98-312-X2011003).

Supply/Demand Imbalance

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

Provincial governments control the licenses for LTC beds based on, among other things, government-perceived local demand and budget constraints. In addition, approvals are required to transfer a license to a new owner and to appoint a third-party manager to operate the LTC centre. Such restrictions on supply, coupled with an aging population, have resulted in a decline in the availability of LTC beds.

In Ontario, Extencare's largest market, as at March 31, 2016, there were 624 LTC centres (78,558 beds) with approximately 99% of the beds occupied, and 26,737 individuals on the wait list (up 19.2% from the previous year) (source: MOHLTC Health Data Branch March 2016 report, published February 2017). The province estimates that over the next 10 years there will be 50% more seniors over the age of 75, resulting in growth in the number of people who require long-term care services (source: OLTC report – *Building Better Long-term Care*). A large number of hospitals have difficulty dealing with shorter term admissions due to the number of long-term care residents that occupy beds within their centres and the associated capacity problems. There has been minimal focus on offering and providing funding for rehabilitative services to residents in Canadian long-term care.

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

Cost Containment Pressures

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

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

Changing Family Dynamics

Families have traditionally been the primary source of care-giving for seniors. In Canada, about 8.1 million people, or 28% of the population, aged 15 and older, provided care to a family member or friend with a long-term health condition, disability or aging needs (source: Statistics Canada Study: *Caregivers in Canada, 2012*, released September 2013). However, as a result of the growing number of two-income families, it has become more difficult for immediate family members to be the primary source of care for seniors. At the same time, two-income families are better able to provide financial support for elderly parents, enabling them to receive the care they need, either with in-home support or in alternative care settings.

Competition

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

The home health care sector has both investor-owned and not-for-profit providers, with ParaMed being the largest provider of publicly funded home health care in Ontario, and we believe the largest in Canada, based on service hours provided. With the elimination of the competitive bidding process in Ontario, opportunities for growth in the government-funded space will result from the award of additional hours to existing providers meeting specified service standards.

Extencare's group purchasing, along with its management and consulting services, compete with other similar operations in the health care and hospitality industries.

BUSINESS STRATEGY

Extencare's strategy is to be the leading provider of care and services to seniors in Canada. To do this, we strive to provide quality, person-centred care through compassionate caregivers across the continuum of care. We have complemented our long-term care services through the growth of our home health care operations and recent expansion into the private-pay retirement sector. We intend to continue to grow our private-pay home health care services and retirement business lines through acquisition and development, as well as supporting continued growth in our management, consulting and group purchasing divisions. In doing so, we intend to diversify our revenue streams to achieve a better balance between government and privately funded activities.

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

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

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

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

Provide Quality Services to Help People Live Better

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

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

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

Ontario Redevelopment Program

Extencicare has taken a leadership role in advancing the redevelopment of its 21 class "C" LTC centres (3,287 beds) in Ontario, with a planned investment of over \$500 million over the next decade under the MOHLTC's enhanced redevelopment program. Extencicare's management team has the necessary skills and ability to take full advantage of the Ontario government's proposals, having previously designed and developed 13 of its own LTC centres in Ontario and three senior care centres in Alberta since 1998. The Company believes that this investment in stable, long-life assets will generate a strong and stable return on invested capital. For more information, refer to the discussion under the heading "Description of the Business – Government Regulations and Funding – Ontario Redevelopment Program".

Expansion into Private-pay Retirement Sector

As part of the execution of our strategy to continue to grow along the senior care continuum and diversify our revenue through additional non-government revenue streams, we are expanding into the private-pay retirement sector through the acquisition and development of retirement communities under our Esprit Lifestyle Communities brand. Since the fall of 2015, we have acquired six retirement communities (504 suites) in Ontario and Saskatchewan, have opened one newly constructed retirement community in Ontario (70 suites), and are in the process of developing a further three retirement communities (354 suites) in Ontario. We will continue to seek acquisition and development opportunities of retirement communities with a view to augmenting our core operations and reducing our proportion of government-source revenue.

We acquired experienced employees at the local level with each of the recent acquisitions, and in early 2016, we hired an experienced retirement operator to head up the private-pay retirement division as Vice President of Esprit Lifestyle Communities. In addition, our Vice President of Extencicare Assist and Vice President of LTC Operations have experience with operating retirement communities, both with Extencicare and competitors. Since the early 1980s, Extencicare's operations in Canada have included private-pay retirement suites, either as part of its own portfolio or within its management services operations, which currently manages for others six private-pay retirement communities (645 suites). As well, Extencicare constructed two centres in Alberta in 2010 with designated supportive living suites that offer services similar to that of a retirement community.

Growth through Management, Consulting and Group Purchasing Services

Through our Extencicare Assist division, we continue to leverage our expertise in owning and operating senior care centres to assist a diverse range of partners, which include not-for-profit and for-profit organizations, hospitals, and municipalities. Since the end of 2011, Extencicare Assist has increased the resident capacity of its senior care centres under management from 2,658 to 5,693 as at February 28, 2017, and has recently secured contracts for a further 494 beds that it expects to onboard in the second quarter of 2017.

Through our SGP Purchasing Partner Network division, we continue to leverage our purchasing power to provide cost-effective services to senior care providers. Through a renewed focus on the important relationships with our members and suppliers, we have expanded the number of third-party clients served from 27,100 seniors across Canada at the end of 2014 to 29,600 at the end of 2015, and to 40,400 as at February 28, 2017.

Growth in Home Health Care Operations

Through ParaMed, our strategy is to expand the market share of our home health care business in Canada both through geographic locations and the nature of programs and services provided. The Home Health Acquisition was a significant step in executing on this strategy, providing Extencare with a high quality revenue stream and relatively low capital requirements. Approximately 97% of ParaMed's revenue in 2016 was from government programs. This acquisition expanded our platform into five additional provinces, more than doubled our service volumes, and provided us with the opportunity to expand the private-pay segment of the business under our new ParaMed Select brand. For further information on the Home Health Acquisition refer to the discussion under the heading "General Development of the Business – 2015 Home Health Acquisition".

Increasing Funds from Operations and Adjusted Funds from Operations

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

COMPETITIVE STRENGTHS

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

Based on information available to us, Extencare is the largest private-sector operator of LTC centres in Canada, and we believe, the largest provider of publicly funded home health care in Canada. Ontario is Extencare's largest market where it currently operates approximately 13% of the province's LTC beds, including those centres it manages for third parties, and provides an estimated 22% of the province's publicly funded home health care volumes. Alberta is Extencare's second largest market, where it currently operates, including those centres it manages for third parties, approximately 6% of the LTC and government-funded designated supportive living beds in the province.

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

Commitment to Core Business

Extencare remains committed to its core senior care operations, while continuing to grow its complementary services. Approximately 57% of our revenue from continuing operations for 2016 was from our LTC operations. Management will continue its strategy of augmenting its core business and reducing the proportion of government-source revenue, through seeking growth opportunities in the private-pay home health care and retirement living sectors, and continued expansion of our full management, consulting, group purchasing, accounting and information technology services.

Experienced Operator with Strong Management Team

Extencare has been in the senior care business in Canada since 1968. The members of our senior management team have on average over 25 years of experience in the health care industry and over 17 years of service with Extencare.

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

Management Focus on Key Performance Metrics

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

PROPERTIES

The following tables list the senior care and living centres operated by Extencicare that it either owns or leases, as at February 28, 2017. Nine of our LTC centres in Ontario are operated under 25-year finance lease arrangements maturing beginning in 2026 through to 2028, with full ownership obtained at the end of the respective lease terms.

Name of Owned/Leased Centre	Location	Year Built	Composition of Beds/Suites in Operation					Total
			Preferred		Basic	Short Stay or Convalescent		
			Private	Semi-Private				
Ontario LTC "New" Centres								
1	Extencicare Brampton	Brampton	2001	83	-	55	12	150
2	Extencicare Cobourg	Cobourg	2002	41	-	28	-	69
3	Extencicare Halton Hills	Georgetown	2003	78	-	52	-	130
4	Extencicare Hamilton	Hamilton	2002	96	-	64	-	160
5	Extencicare Kawartha Lakes	Lindsay	2001	38	-	26	-	64
6	Extencicare Lakefield	Lakefield	2001	60	-	38	2	100
7	Extencicare Maple View	Sault Ste. Marie	2013	154	-	102	-	256
8	Extencicare Mississauga	Mississauga	2002	84	-	56	-	140
9	Extencicare Port Hope	Port Hope	2003	76	-	52	-	128
10	Extencicare Rouge Valley	Toronto	2003	114	-	77	1	192
11	Extencicare Southwood Lakes	Windsor	2001	90	-	60	-	150
12	Extencicare Tecumseh	Tecumseh	2003	77	-	51	-	128
13	Extencicare Timmins	Timmins	2013	108	-	72	-	180
13	Ontario LTC "New" Centres			1,099	-	733	15	1,847
				59.5%	-	39.7%	0.8%	100.0%
Ontario LTC "C" Centres								
1	Extencicare Bayview Villa	Willowdale	1970	46	74	82	1	203
2	Extencicare Falconbridge	Sudbury	1973	20	118	94	2	234
3	Extencicare Guildwood Villa	Westhill	1967	15	86	66	2	169
4	Extencicare Haliburton	Haliburton	1976	10	18	32	-	60
5	Extencicare Kapuskasing	Kapuskasing	1974	4	30	25	2	61
6	Extencicare Kingston	Kingston	1974	13	70	67	-	150
7	Extencicare Kirkland Lake	Kirkland Lake	1977	16	44	34	2	96
8	Extencicare Laurier Manor	Gloucester	1970	50	94	96	2	242
9	Extencicare London	London	1970	36	66	67	1	170
10	Extencicare Medex	Ottawa	1973	5	111	77	-	193
11	Extencicare New Orchard Lodge	Ottawa	1965	15	52	42	2	111
12	Extencicare Oshawa	Oshawa	1973	7	87	63	18	175
13	Extencicare Peterborough	Peterborough	1972	34	60	65	15	174
14	Extencicare Port Stanley	Port Stanley	1977	8	20	31	1	60
15	Extencicare Scarborough	Scarborough	1970	3	64	60	23	150
16	Extencicare St. Catharines	St. Catharines	1971	12	78	62	1	153
17	Extencicare Starwood	Nepean	1971	20	96	76	-	192
18	Extencicare Tri-Town	Haileybury	1974	6	30	23	1	60
19	Extencicare Van Daele	Sault Ste. Marie	1979	20	32	34	14	100
20	Extencicare West End Villa	Ottawa	1982	86	48	106	2	242
21	Extencicare York	Sudbury	1973	50	122	90	26	288
21	Ontario LTC "C" Centres ⁽¹⁾			476	1,400	1,292	115	3,283
				14.5%	42.6%	39.4%	3.5%	100.0%
34	Ontario LTC Centres			1,575	1,400	2,025	130	5,130
				30.7%	27.3%	39.5%	2.5%	100.0%
-	Ontario Assisted Living (wings at Cobourg & Lindsay)			76	-	-	-	76
Ontario Retirement Communities								
1	Empire Crossing	Port Hope	2015	63				63
2	Harvest	Tillsonburg	2011	100				100
3	Cedar Crossing	Simcoe	2016	70				70
3	Ontario Retirement Communities			233	-	-	-	233
37	Total Ontario Centres			1,884	1,400	2,025	130	5,439

⁽¹⁾ Ontario LTC "C" Centres – beds in operation of 3,283 exclude 4 beds held in abeyance.

Name of Owned Centre	Location	Year Built	Composition of Beds/Suites in Operation				
			Private	Semi-Private	Basic	Total	
Alberta Long-term Care Centres							
1	Extendicare Athabasca	Athabasca	1967	22	28	-	50
2	Extendicare Bonnyville	Bonnyville	1966	28	22	-	50
3	Extendicare Cedars Villa	Calgary	1964	41	207	-	248
4	Extendicare Eaux Claires	Edmonton	2011	180	-	-	180
5	Extendicare Fort MacLeod	Fort MacLeod	1966	20	30	-	50
6	Extendicare Hillcrest	Calgary	1965	20	92	-	112
7	Extendicare Holyrood	Edmonton	1965	20	54	-	74
8	Extendicare Leduc	Leduc	1965	21	58	-	79
9	Extendicare Michener Hills	Red Deer	2010	208	12	-	220
10	Extendicare Mayerthorpe	Mayerthorpe	1966	22	28	-	50
11	Extendicare St. Paul	St. Paul	1966	30	46	-	76
12	Extendicare Viking	Viking	1965	36	24	-	60
13	Extendicare Vulcan	Vulcan	1965	28	18	-	46
13	Alberta LTC Centres			676	619	-	1,295
Alberta Designated Supportive Living							
-	Extendicare Michener Hills (wing)	Red Deer	2010	60	-	-	60
1	Extendicare Fairmont Park	Lethbridge	2010	140	-	-	140
1	Alberta DSL Centres			200	-	-	200
14	Total Alberta Centres			876	619	-	1,495
Manitoba Long-term Care Centres							
1	Hillcrest Place	Brandon	1972	20	80	-	100
2	Oakview Place	Winnipeg	1970	37	208	-	245
3	Red River Place	Selkirk	1982	94	10	-	104
4	Tuxedo Villa	Winnipeg	1971	41	172	-	213
5	Vista Park Lodge	Winnipeg	1982	90	10	-	100
5	Total Manitoba Centres			282	480	-	762
Saskatchewan Long-term Care Centres							
1	Extendicare Elmview	Regina	1963	18	28	16	62
2	Extendicare Moose Jaw	Moose Jaw	1963	21	100	4	125
3	Extendicare Parkside	Regina	1965	12	80	136	228
4	Extendicare Preston	Saskatoon	1964	20	46	16	82
5	Extendicare Sunset	Regina	1971	10	120	22	152
5	Saskatchewan Centres			81	374	194	649
Saskatchewan Retirement Communities							
1	Stonebridge Crossing	Saskatoon	2012	116	-	-	116
2	Riverbend Crossing Memory Care	Regina	2013	67	-	-	67
3	West Park Crossing	Moose Jaw	2016	79	-	-	79
4	Yorkton Crossing	Yorkton	2016	79	-	-	79
4	Saskatchewan Retirement Communities			341	-	-	341
9	Total Saskatchewan Centres			422	374	194	990
Total Extendicare Owned/Leased Centres							
57	Long-term care						7,836
-	Private-pay assisted living wings						76
1	Government-funded supportive living						200
58	Total of long-term care operating segment						8,112
7	Total of private-pay retirement communities						574
65	Total Extendicare Owned/Leased Centres						8,686

QUALITY OF CARE

Commitment to Care

Extendicare's commitment to excellence emphasizes the corporate philosophy of treating residents and clients with dignity and respect. Extendicare conducts consumer satisfaction surveys for residents, clients and their families and maintains an employee hotline. We work with resident and family councils to improve the quality of care and ensure programs and services, including meal service, meet resident needs and preferences. We have committed to continuously measure, improve and publicly share the results of our performance. Our 2015/2016 Quality and Social Responsibility Report highlights many of our key accomplishments, a copy of which is available on our website at www.extendicare.com.

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

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

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

Extendicare's commitment to quality care begins with its Board of Directors, through its Quality and Risk Committee (the "QR Committee"). The primary objective of the QR Committee is assuring that Extendicare has in place the programs, policies and procedures, including an enterprise-wide risk management framework and action plan, to support and enhance the quality of care provided and compliance with applicable health care laws and regulations. The QR 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; reviewing policies, procedures and standards of conduct designed to provide the appropriate quality of care, resident/client safety and compliance with applicable laws and regulations; and overseeing and monitoring the Company's enterprise risk management framework, overall risk profile and risk management policies, procedures and programs. In addition, the Board participates in tours of Extendicare's senior care centres to enable a hands-on observation of Extendicare's quality and risk management practices, and to provide the Board with an opportunity to converse with employees across all levels of the operation.

Employee Training

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

GOVERNMENT REGULATIONS AND FUNDING

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

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

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

Ontario Bill 41

Ontario is Extencicare's largest market for its senior care services. In December 2015, the Ontario government released a discussion paper called *Patient's First: A Proposal to Strengthen Patient-Centered Health Care in Ontario*. In the discussion paper, the MOHLTC envisions that the provinces 14 LHINs will have a greatly expanded role, making them responsible and accountable for all health service planning and performance across the Ontario health care continuum. On December 8, 2016, Bill 41, *Patients First Act, 2016*, received royal assent, setting the stage for the legislative change process required to achieve the vision introduced in 2015. Bill 41 amends the *Local Health System Integration Act, 2006*, and makes related amendments to more than twenty other pieces of legislation. The major elements of Bill 41 include the removal of the CCACs from the definition of "health services providers", and introduction of rules governing the transfer of the CCACs' assets and staff to the LHINs, in addition to increasing the size and span of control of the LHIN boards. As a result, the accountability for home health care and the coordination of a person's placement in an LTC centre will be transferred from the CCACs to the LHINs during 2017. The government continues to stress its commitment to the expansion of the home health care sector and to smooth the transition of the CCAC workforce. Extencicare has strong relationships with all of the LHINs and does not anticipate any material adverse impact from the implementation of Bill 41.

Ontario Long-term Care

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

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

Operators are permitted to designate up to 60% of the resident capacity of a centre as preferred accommodation and charge higher accommodation rates that vary according to the structural classification of the LTC centre. The following summarizes the composition of the owned/leased LTC centres operated by Extencicare in Ontario, as at February 28, 2017, as well as the maximum preferred differential rates for each classification of bed.

Ontario Owned/Leased	No. of Centres	Composition of Beds				Total
		Private \$25.28 premium	Private \$18.20 premium	Semi-private \$8.09 premium	Basic/Other	
“New”	13	1,099	–	–	748	1,847
“C” ⁽¹⁾	21	–	476	1,400	1,407	3,283
	34	1,099	476	1,400	2,155	5,130

⁽¹⁾ Beds in operation of 3,283 exclude 4 beds held in abeyance.

Overall government funding is occupancy-based, but once the average occupancy level of 97% or higher for the calendar year is achieved, operators receive government funding based on 100% occupancy. In 2011, the MOHLTC implemented an occupancy protection program for occupancy levels between 90% and less than 97%, provided certain policy conditions are met. Under the occupancy protection program, providers with occupancy levels equal to 90% and less than 94% receive funding based on their actual occupancy plus 1%, and those with occupancy levels equal to 94% and less than 97% receive funding based on their actual occupancy plus 2%. In 2016, all but one of Extencicare’s LTC centres in Ontario achieved the 97% occupancy threshold.

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

Ontario Redevelopment Capital Funding

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

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

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

- (1) Structural compliance funding is currently provided to operators who have fully or partially financed their own construction costs at \$5.00 for “A” beds, \$2.50 for “B” beds and \$1.00 for “C” beds.
- (2) Capital cost funding of \$10.35 over 20 years was provided for centres constructed after April 1, 1998, and for “D” beds that were upgraded to the design standards established in 1999.
- (3) Capital cost funding of \$16.65 (base rate revised from \$13.30 in 2015) over 25 years was provided for conversion of “B” and “C” centres either through new construction or renovation under design standards established in 2009. In February 2015, the government released revisions to the redevelopment program, as discussed below under the heading “Ontario Redevelopment Program”.

Extendicare owns 11 “New” LTC centres (1,411 beds) built in Ontario between 2001 and 2004, of which 1,337 of the beds receive per diem capital funding of \$10.35 per bed over 20 years, 34 beds receive structural compliance funding of \$2.50 per bed, and 40 beds receive structural compliance funding of \$5.00 per bed. Extendicare also owns two Ontario LTC centres (436 beds) built in Ontario in 2013 that receive per diem capital funding over 25 years of \$17.65 per bed for 287 beds, and \$14.30 per bed for 149 beds, which includes \$1.00 per bed over the base rates for having achieved LEED Silver status. Extendicare’s remaining 21 owned centres (3,287 beds) in Ontario are “C” rated.

Ontario Long-term Care License Terms

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

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

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

As at December 31, 2016, Extendicare owned 13 “New” centres (1,847 beds) in Ontario, 11 of which have license terms expiring in June 2035 and two have license terms expiring in 2043. Extendicare’s remaining 21 owned class “C” centres (3,287 beds) in Ontario have license terms expiring in June 2025. These class “C” centres are eligible for redevelopment under the MOHLTC’s enhanced redevelopment program, as discussed further below.

Ontario Redevelopment Program

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

During 2016, we formalized a plan to redevelop our 21 class “C” LTC centres (3,287 beds) in Ontario over a 10-year period under this enhanced program. To date, we have requested approval from the MOHLTC to move ahead with seven of the projects, involving the construction of five new centres and renovation of two existing centres. While factors could arise that affect the timing or sequence of this plan, it is the result of extensive planning and represents our current intentions. Each project is unique and the overall plan involves a combination of renovations and new construction. We are working closely with the MOHLTC with a goal to accelerate our efforts to redevelop these centres. As these projects are completed, we expect to realize the benefit of improved performance and extended license terms.

Alberta Long-term Care and Designated Supportive Living

Alberta is Extendicare’s second largest market for its senior care services. Based on information available as at March 31, 2016, the Alberta market had approximately 24,700 LTC and government-funded designated supportive living beds, an increase of approximately 5,200 since 2010. Extendicare operates approximately 6% of these beds (including those under management contracts).

In Alberta, AHS is responsible for the delivery of health services for the entire province, reporting directly to the Minister of Health and Wellness. Since April 2010, AHS has been using an activity-based funding system for continuing care centres that includes the measurement of a resident's acuity through the use of RAI-MDS to determine the resident's level of care and resources required. The Alberta Continuing Care Association is actively engaged in discussions with the Alberta Government and AHS to further enhance care funding to accommodate higher expenses within continuing care, and to revise the existing funding model used within continuing care. It was anticipated that a revised care funding model would be implemented for fiscal 2016/2017; however, following receipt of public input to inform new or revised legislation, the provincial government has yet to communicate any proposed changes to the current model and/or legislation related to long-term care.

In Alberta, the *Supportive Living Accommodation Licensing Act*, or SLAA, governs Extencicare's designated supportive living operations. Licenses are issued for a term of up to three years, following which a renewal application is required. Operating standards under the SLAA are similar to those in Ontario, covering such things as building code and maintenance requirements, environmental standards, accommodation standards, medication policies, nutrition requirements, prevention of abuse, safety and security. Centres are subject to periodic inspection to ensure compliance with the SLAA and licenses may be revoked for non-compliance.

Manitoba and Saskatchewan Long-term Care

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

Retirement Living Regulations

Under its Esprit Lifestyle Communities brand, Extencicare owns and operates seven retirement communities in Ontario and Saskatchewan that are subject to regulation by provincial and local health and social service agencies, and other regulatory bodies, although such regulations are less burdensome and punitive than those governing LTC centres.

In Ontario, the RH Act came into force in June 2010, extending regulation to all forms of retirement centres, requiring that such centres be licensed under the RHRA, and introducing certain measures designed to protect seniors living in retirement communities across Ontario. Under the RH Act and its regulations, a retirement centre is defined as a residential complex containing rental units that is occupied primarily by individuals aged 65 and older and the operator provides at least two of the 13 care services specified in the act, directly or indirectly, to residents. Care services specified under the RH Act range from assistance with feeding and bathing, to the provision of skin care, wound care and dementia programs. A retirement centre does not include premises that are governed by or funded under other Ontario laws, such as LTC centres. Licenses granted under the RH Act are not transferable and may be revoked for non-compliance with the RH Act. Other measures outlined in the RH Act include: (a) granting the RHRA the power to conduct inspections, investigations and enforcement, including issuing financial penalties if necessary; (b) standards for maintenance of physical plant and equipment and resident accommodations; (c) the establishment of mandatory care and safety standards, as well as requirements for emergency plans, infection control and prevention programs, assessment of care needs and care planning, police background checks, and training for staff; (d) the establishment of a residents' bill of rights, including the right to know the true cost of care and accommodation and the residents' right to participate fully in making decisions regarding care; (e) the requirement to establish a policy that promotes zero tolerance of abuse or neglect; and (f) the inclusion of whistle-blowing protection provisions shielding individuals disclosing information to the RHRA regarding the operation of a retirement centre from any retaliation.

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

Ontario Home Health Care

Ontario is ParaMed's largest market, representing approximately 83% of its service volumes, of which approximately 97% is received from government-funded contracts at specified rates, and the remainder from private-pay clients. ParaMed is the largest provider of publicly funded home health care in the province.

The Ontario government's rates for home health care services are pre-determined between the CCACs and the service providers, with varying rates for each contract awarded. The current service rates have remained static since they were last contracted under the competitive bidding model. In 2012, ParaMed signed new open-ended contracts for all of its existing CCAC contracts. The agreements provide for six months' notice to providers for termination of a contract, and providers are to provide the CCAC with twelve months' notice of intention to give up a contract. Under these new agreements, the service delivery model places greater emphasis on quality of care and value than past arrangements, with service providers' performance evaluated based on these elements. Performance against an established set of indicators will guide decisions during future contract discussions.

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

Based upon a recommendation from the Auditor General's special report on the CCACs in September 2015, the MOHLTC has finalized an approach for the harmonization of specific billing rates for personal support services to take effect on April 1, 2017. Based upon an analysis, management does not anticipate any significant overall impact on the Company's home health care revenues. Discussions regarding the approach to the implementation of the harmonized rate are currently in process between the CCACs and home health care providers.

Compliance with Regulations

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

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

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

MARKETING

Extendicare's average occupancy at its Canadian LTC centres was 98.0% in 2016. The large wait lists and government control of supply means that marketing for our LTC centres is of less concern. However, through effective marketing in the local regions in which we serve, we can improve our ability to attract residents willing to pay more for preferred accommodation.

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

With the expansion into the retirement living sector, and launch in early 2016 of our Esprit Lifestyle Communities brand, the Company continues to focus on sales and marketing at each local community it serves. The Company recognizes that marketing of retirement communities, understanding local needs and establishing good relations with local health professionals, is important to achieve and maintain occupancy. Through the acquisitions completed in 2015 and 2016, the Company acquired experienced employees at the local level, and in early 2016 the Company hired an experienced vice president to head up the division.

EMPLOYEES

At December 31, 2016, Extendicare employed approximately 23,800 people in Canada, including approximately: 2,500 registered and licensed practical nurses; 6,300 nursing assistants; 100 therapists; and 2,300 dietary, domestic, maintenance and other centre staff, employed in the long-term care and retirement living operations; 11,000 home health care professionals and other field staff, employed in the home health care operations; and 1,600 administrative employees who work at corporate and regional offices supporting Extendicare's senior care and home health care operations.

There are 113 collective agreements covering approximately 14,100 of Extendicare's employees (including approximately 3,100 home health care employees) represented by 16 different unions, operating under five different collective bargaining legislative jurisdictions. The centres that Extendicare operates are generally subject to legislation that prohibits both strikes and lock-outs, and requires compulsory arbitration to settle labour disputes. In jurisdictions where strikes and lockouts may be permitted, certain essential services regulations apply, which ensure the continuation of resident care and most services. Extendicare believes that it has a good relationship with all of its employees.

RISK FACTORS

RISKS RELATED TO THE BUSINESS

General Business Risks

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

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

Risks Related to Growth Activities

The Company expects that it will continue to have opportunities to acquire businesses or properties, develop properties, expand existing centres, and grow its home health care, management, consulting and group purchasing businesses, but there can be no assurance that this will be the case.

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

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

The success of the Company's ability to grow its management, consulting, group purchasing and home health care businesses, including the private-pay home health care segment, will be determined by numerous factors, including the ability of the Company to retain, renew and secure new contracts, identify suitable markets, develop competitive services and marketing and pricing strategies, attract and retain clients, and hire, retain and motivate key personnel. Changes in government regulations and funding policies, in addition to the financial performance of the business also impact growth potential. Any failure by the Company to grow or operate its businesses effectively may have an adverse effect on the business, results of operations and financial condition of the Company.

Risks Related to Government Funding and Regulatory Changes

Extencicare's earnings are highly reliant on government funding and reimbursement programs, and the effective management of staffing and other costs of operations, which are strictly monitored by government regulatory authorities. Given that the Company operates in a labour-intensive industry, where labour costs account for a significant portion of the Company's operating costs (approximately 87% in 2016), government funding constraints could have a significant adverse effect on the results from operations and cash flows of the Company. Management is unable to predict whether governments will adopt changes in their funding and reimbursement programs, and if adopted and implemented, what effect such changes will have on the Company.

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

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

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

Risks Related to Liability and Insurance

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

Prior to the U.S. Sale Transaction, Extencicare self-insured certain risks related to general and professional liability of its disposed U.S. business through the Captive, its Bermuda-based captive insurance company. However, the obligation to settle any claims relating to the period prior to the closing of the U.S. Sale Transaction, including claims incurred but yet to be reported, remains with Extencicare, which it intends to fund through the Captive.

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

Risks Related to Tax Rules and Regulations

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

Risks Related to Privacy of Client Information and Cyber Security

As a custodian of a large amount of personal information, including health information, relating to its clients and employees, Extencicare is exposed to the potential loss, misuse or theft of any such information. In addition, cyber attacks against large organization are increasing in sophistication and are often focused on financial fraud, compromising sensitive data for inappropriate use or disrupting business operations. Extencicare mitigates this risk by deploying appropriate information technology systems, including controls around logical access, physical access and data management, and training its employees relating to safeguarding of sensitive information.

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

Extendicare has deployed operational technology solutions enabling process automation, electronic health record data collection and automated business intelligence. Technology deployments also present security and privacy risks that must be managed proactively and effectively to prevent breaches that can have an adverse impact on Extendicare's reputation and results of operations. To counter internet-based and internal security threats, Extendicare also deploys leading edge solutions to identify risks to its network, software and hardware systems. Extendicare partners with leading technology security firms to mitigate identified risks and develop contingency plans. As security threats to Extendicare's financial, client and employee data increase and evolve, the Company adjusts and adopts new counter-measures in an effort to ensure it maintains high privacy and security standards.

Although to date the Company has not experienced any material losses relating to cyber attacks or other information security breaches, there can be no assurance that the Company will not incur such losses in the future. The Company's risk and exposure to these matters cannot be fully mitigated because of, among other things, the evolving nature of these threats. As cyber threats continue to evolve, the Company may be required to expend additional resources to continue to modify or enhance protective measures or to investigate and remediate any security vulnerabilities.

Risks Related to Occupancy and Business Volumes

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

Risks of Property Ownership

Real Property Ownership

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

Extendicare owns, or operates under finance lease arrangements whereby ownership transfers at the end of the lease term, 100% of its senior care and living centres, excluding those centres operated under management contracts. Senior care and living centres are limited in terms of alternative uses; therefore, their values are directly driven by the cash flow from operations. All but seven of the sixty-five properties owned by Extendicare at March 30, 2017, are government-funded senior care centres. The value of these properties depends, in part, on government funding and reimbursement programs. The Company's income and funds available for distribution would be adversely affected if governments reduced their funding or reimbursement programs. In addition, overbuilding in any of the market areas in which the Company operates could cause these properties to experience decreased occupancy or depressed margins, which could have a material adverse effect on the business, results of operations and financial condition of the Company. Moreover, certain significant expenditures involved in real property investments, such as real estate taxes, maintenance costs and mortgage payments, represent liabilities that must be met regardless of whether the property is producing any income.

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

Capital Intensive Industry

The Company must commit a substantial portion of its funds to maintain and enhance its senior care and living centres and equipment to meet regulatory standards, operate efficiently and remain competitive in its markets. During 2016, the company spent \$12.1 million in maintenance capital expenditures from continuing operations, and intends to spend in

the range of \$9 million to \$11 million in 2017 to sustain and upgrade its existing centres. In addition, the Company invests in enhancements at existing centres aimed at earnings growth. In Ontario, Extencicare owns 21 LTC centres with 3,287 class “C” beds, which are eligible for redevelopment under the government’s program to redevelop older LTC beds in the province (refer to the discussion under the heading “Description of the Business – Government Regulations and Funding – Ontario Redevelopment Program”). To the extent such redevelopment plans are not implemented or proceed on significantly different timing or terms, including the levels of expected government subsidy funding, they, as well as other future capital requirements, could adversely impact the amount of cash available to the Company and have a material adverse effect on the business, results of operations and financial condition of the Company.

Environmental Liabilities

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

Management has determined that future costs could be incurred for possible asbestos remediation of the Company’s pre-1980 constructed centres. Although asbestos is currently not a health hazard in any of these centres, appropriate remediation procedures may be required to remove potential asbestos-containing materials, consisting primarily of floor and ceiling tiles, in connection with any major renovation or demolition. Based upon current assumptions, the estimated fair value of the decommissioning provision related to the asbestos remediation was approximately \$10 million undiscounted, or \$8.1 million discounted, as at December 31, 2016. The fair value of the decommissioning provision is estimated by computing the present value of the estimated future costs of remediation based on estimated expected dates of remediation. The computation is based on a number of assumptions, which may vary in the future depending upon the availability of new information, changes in technology and in costs of remediation, and other factors. A significant change of these factors in the future could result in a change in assumptions used to calculate the estimated fair value of the current decommissioning provision and could result in a significant change to this obligation.

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

Risks of Rising Personnel Costs

Dependence on Key Personnel

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

Personnel Costs

The long-term care industry is labour intensive. The Company’s labour costs accounted for approximately 87% of its operating costs and approximately 86% of its combined operating and administrative costs from continuing operations in 2016. The Company competes with other health care providers in attracting and retaining qualified and skilled personnel to manage and operate the day-to-day operations of each of its centres and home health care services. The health care industry continues to face shortages of qualified personnel, such as nurses, certified nurse’s assistants, nurse’s aides, and therapists. The shortage of qualified personnel and general inflationary pressures may require the Company to enhance its pay and benefits package to compete effectively for such personnel. The Company may not be able to recover such added costs through increased government funding and reimbursement programs, or through increased rates charged to residents and clients. The inability to retain and/or attract qualified personnel and meet minimum staffing levels may result in: a reduction in occupancy levels and volume of services provided; the use of staffing agencies at added costs; an increased risk in the inability to provide continuity of care between our staff and our residents and clients; and an increased risk of an LTC centre or retirement community being subject to fines and

penalties. An increase in personnel costs or a failure to attract, train and retain qualified and skilled personnel could adversely affect the business, results of operations and financial condition of the Company.

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

Risks Related to Financing

Debt Financing

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

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

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

Debt Covenants

The Company is in compliance with all of its financial covenants as at December 31, 2016. However, there can be no assurance that future covenant requirements will be met. The Company’s bank lines and other debt may be affected by its ability to remain in compliance. If the Company does not remain in compliance with its financial covenants, its ability to amend the covenants or refinance its debt may be affected.

Credit and Interest Rates

The Company has limited the amount of debt that may be subject to changes in interest rates. All of the Company’s long-term debt is at fixed rates, other than its construction loans that had a balance of \$12.6 million drawn as at December 31, 2016. The Company primarily finances its senior care and living centres through fixed-rate mortgages and considers securing interest rate swap agreements for any variable-rate debt. The variable-rate financings aggregating \$56.3 million, secured on three retirement communities, have effectively been converted to fixed rate financings with interest rate swaps over the full term. The Company maintains risk management control systems to monitor interest rate risk attributable to its outstanding or forecasted debt obligations as well as any offsetting hedge positions. The Company does not enter into financial instruments for trading or speculative purposes.

Risks Related to Foreign Currency Rate Fluctuations

The revenue and expenses of our remaining self-sustaining U.S. operations are translated at average rates of exchange in effect during the period. In addition, as part of the proceeds from the U.S. Sale Transaction, the Company is entitled to receive an ongoing cash stream, reflected as deferred consideration, and the foreign exchange impact of this asset is recognized in net earnings. As a result, the Company’s consolidated financial position is subject to foreign currency fluctuation risk, which could adversely impact its operating results and its cash flows. Management may enter into hedging arrangements to mitigate a portion of this risk; however, there can be no assurance that such hedging arrangements, if any, would be sufficient to protect the Company against currency exchange rate losses.

The impact of a one-cent change in the Canadian dollar against the U.S. dollar would impact on our financial results from continuing operations by approximately \$0.4 million, and would impact our total assets and total liabilities as at December 31, 2016, by approximately \$1.7 million and \$1.0 million, respectively.

RISKS RELATED TO THE COMMON SHARES AND DEBENTURES

Unpredictability and Volatility of the Common Share Price

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

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

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

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

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

Company Structure

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

Future Issues of Common Shares and Preferred Shares and Dilution

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

Leverage and Restrictive Covenants in Current and Future Indebtedness

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

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

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

Matters Affecting Trading Prices for the Debentures

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

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

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

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

Conversion of the Debentures Following Certain Transactions

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

Redemption of the Debentures Prior to Maturity

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

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

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

DIVIDENDS

DIVIDEND POLICY

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

DIVIDENDS DECLARED AND PAID

The following summarizes the cash dividends declared and paid by the Company for the three most recently completed financial years and for the 2017 period up to and including the March 2017 dividend, payable on April 17, 2017.

Cash Dividends <i>(\$ per share)</i>	Common Shares	
	Monthly	Year/Period to Date
2017 (January to March)	0.04	0.12
2016	0.04	0.48
2015	0.04	0.48
2014	0.04	0.48

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

DIVIDEND REINVESTMENT PLAN

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

DESCRIPTION OF CAPITAL STRUCTURE

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

COMMON SHARES

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

As at March 30, 2017, there were 88,803,744 Common Shares issued and outstanding.

PREFERRED SHARES

The Preferred Shares may at any time and from time to time be issued in one or more series. The Board of Directors shall, by resolution, duly passed before the issuance of the Preferred Shares of each series, fix the number of the Preferred Shares in such series and determine the designation, rights, privileges, restrictions and conditions attaching to the Preferred Shares of such series, including, but without in any way limiting or restricting the generality of the foregoing, the rate or rates, amount or method or methods of calculation of preferential dividends, whether cumulative or non-cumulative or partially cumulative, and whether such rate(s), amount or method(s) of calculation shall be subject to change or adjustment in the future, the currency or currencies of payment, the date or dates and place or places of payment thereof and the date or dates from which such preferential dividends shall accrue, the redemption price and terms and conditions of redemption (if any), the rights of retraction (if any), and the prices and other terms and conditions of any rights of retraction, voting rights (if any) and conversion or exchange rights (if any) and any sinking fund, purchase fund or other provisions attaching thereto, the whole subject to filing with the Director under the CBCA (or successor legislation thereto) of articles of amendment setting forth the number, designation, rights, privileges, restrictions and conditions to be attached to the Preferred Shares of such series and the issuance of a certificate of amendment in respect thereof.

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

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

As at March 30, 2017, there were no Preferred Shares of any series issued and outstanding.

SHAREHOLDER RIGHTS PLAN

General

The Shareholder Rights Plan was adopted on July 1, 2012, and was reconfirmed by Shareholders at the Company's annual meeting held on June 18, 2015.

Objectives of the Shareholder Rights Plan

The primary objectives of the Shareholder Rights Plan are to ensure, to the extent possible, that in the context of an unsolicited take-over bid for the Company: (i) the Directors are provided with sufficient time to evaluate the bid and, if appropriate, to pursue value-enhancing alternatives to the bid; (ii) Shareholders are given an equal opportunity to

participate in the bid; (iii) Shareholders are given adequate time to properly assess the bid; and (iv) the pressure to tender to the bid, that is typically encountered by securityholders of an issuer that is subject to a bid, is alleviated. The Shareholder Rights Plan does not prevent take-over bids or transactions negotiated with the Company and permits the making of a “Permitted Bid” (as described below).

Summary of the Shareholder Rights Plan

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

Issue of Rights

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

Rights Exercise Privilege

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

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

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

Certificates and Transferability

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

Permitted Bid Requirements

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

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

- (a) the take-over bid must be made by way of a take-over bid circular;
- (b) the take-over bid must be made to all Shareholders (other than the bidder);
- (c) the take-over bid must contain an offer made to all Shareholders (other than the bidder) to acquire Common Shares on the same terms;

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

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

Waiver and Redemption

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

Waiver of Inadvertent Flip-in Event

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

Portfolio Managers

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

Supplements and Amendments

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

Shareholder Rights

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

Term and Shareholder Approval

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

OXFORD PARK AGREEMENT

As announced in January 2016, the Company entered into the Oxford Park Agreement. In May 2016, the managing partners of Oxford Park announced the formation of PointNorth Capital Inc. and that PointNorth Capital Inc. would be the successor to Oxford Park.

Pursuant to the terms of the Oxford Park Agreement:

- Alan Hibben, Gail Paech and Frederic Waks were appointed to the Board;
- Mr. Waks was appointed as Vice-Chairman of the Board;
- it was agreed that Benjamin Hutzler would continue in his role as Chairman of the Board until the annual general meeting of the Company to be held in 2017, at which point the Board would select a new Chair;

- Governor Howard Dean and John Angus retired from the Board;
- Oxford Park withdrew its requisition for a special meeting of Shareholders for the purposes of reconstituting the Board;
- at the 2016 and 2017 annual general meetings of the Company, the Company agreed to include Mr. Hibben, Ms. Paech and Mr. Waks (or in certain circumstances alternate persons nominated by Oxford Park) on its slate of persons to be nominated for election as Directors and to solicit proxies in their support;
- Oxford Park agreed to vote in favour of the Company's nominees to the Board (including Oxford Park's nominees) in connection with such annual general meetings of the Company;
- the post January 2016 obligations of the Company described above are subject to Oxford Park providing evidence of continuing ownership of not less than 3% of the Common Shares as at the date of the Company's management information and proxy circular for the 2016 and 2017 annual general meetings of the Company; and
- Oxford Park has agreed, subject to certain exceptions, that it will not, nor will any of its affiliates, at any time prior to the date of the annual general meeting of the Company to be held in 2018: (i) requisition a meeting of Shareholders, solicit proxies or make or publically propose any take-over bid, plan of arrangement, amalgamation, asset sale or other business combination involving the Company; or (ii) initiate discussions with respect to any of the foregoing, or advise, assist or encourage or negotiate with any person to take any action inconsistent with the foregoing.

DESCRIPTION OF THE DEBENTURES

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

GENERAL

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

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

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

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

SUBORDINATION

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

marshalling of the assets and liabilities of the Company, or otherwise, all Senior Indebtedness of the Company is required to be paid in full, or provision made for such payment, before the Debentureholders are entitled to receive any payment made on account of the principal of or interest on the Debentures.

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

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

CONVERSION RIGHTS

Each 2019 Debenture is convertible into fully paid, non-assessable and freely tradeable Common Shares, at the option of the holder, at any time prior to 4:00 p.m. (Toronto time) on the earlier of September 30, 2019, and the last business day immediately preceding the date specified by the Company for redemption of the 2019 Debentures, at a conversion price of \$11.25 per Common Share, being a conversion rate of approximately 88.8889 Common Shares per \$1,000 principal amount of 2019 Debentures, subject to adjustment in certain events in accordance with the Third Supplemental Indenture. If all conversion rights attaching to the \$126,500,000 aggregate principal amount of the 2019 Debentures outstanding as at March 30, 2017, are exercised, the Company will be required to issue approximately 11,244,444 additional Common Shares, subject to anti-dilution adjustments.

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

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

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

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

REDEMPTION AND PURCHASE

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

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

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

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

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

PUT RIGHT UPON A CHANGE OF CONTROL

Upon the occurrence of a change of control of the Company involving the acquisition by any Person, or group of Persons acting jointly or in concert, of voting control or direction over 66 $\frac{2}{3}$ % or more of the votes attaching, collectively, to (a) outstanding Common Shares and (b) Common Shares issuable upon the conversion or exercise of securities convertible into or carrying the right to acquire Common Shares, in accordance with their terms (a "Change of Control"), each Debentureholder may require the Company to purchase, on the date which is 30 days following the giving of notice of the Change of Control as set out below (the "Put Date"), the whole or any part of such holder's Debentures at a price equal to 101% of the principal amount thereof (the "Put Price") plus accrued and unpaid interest up to but excluding the Put Date (the "Total Put Price"). For greater certainty, the definition of "Change of Control" specifically excludes any transaction or series of transactions in which a new parent entity is established, created, or adopted for, or in replacement of, the Company and subsequent thereto voting control of or direction over the equity interests in the new parent entity are held by the Shareholders immediately prior to such transaction or series of transactions, provided that immediately upon consummation or completion of any such transaction or series of transactions, the acquisition by any Person or group of Persons acting jointly or in concert of voting control or direction over 66 $\frac{2}{3}$ % or more of votes attaching, collectively, to the outstanding equity interests in the new parent entity shall constitute a Change of Control.

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

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

The Indenture contains notification provisions to the following effect:

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

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

AMALGAMATION, MERGER AND SALE OF ASSETS

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

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

METHOD OF PAYMENT

Payment of Principal on Redemption or at Maturity

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

Interest Payment Election

Unless an Event of Default has occurred and is continuing, the Company may elect, at any time and from time to time, subject to applicable regulatory approval, to issue and solicit bids from investment banks, brokers or dealers to sell Common Shares in order to raise funds to satisfy all or part of its obligation to pay interest on the Debentures in accordance with the Indenture (the “Common Share Interest Payment Election”), in which event Debentureholders will be entitled to receive a cash payment equal to the interest payable from the proceeds of the sale of such Common Shares by the Debenture Trustee. The Indenture provides that, upon such election, the Debenture Trustee shall (a) accept the proceeds with respect to the sales of Common Shares by the Company; (b) invest the proceeds of such sales in specified short-term Canadian federal or provincial government or Canadian chartered bank obligations which mature prior to the applicable Interest Payment Date; (c) deliver proceeds to Debentureholders sufficient to satisfy the Company’s interest payment obligations; and (d) perform any other action necessarily incidental thereto as directed by the Company in its absolute discretion. The amount received by a holder in respect of interest and the timing of payment thereof will not be affected by whether the Company elects to utilize the Common Share Interest Payment Election.

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

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

EVENTS OF DEFAULT

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

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

MODIFICATION

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

SATISFACTION AND DISCHARGE OF DEBENTURES

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

OFFERS FOR DEBENTURES

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

MARKET FOR SECURITIES

TRADING PRICE AND VOLUME

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

The following table sets forth the range of high and low prices and the total trading volumes of the Common Shares and the 2019 Debentures on the TSX on a monthly basis from January 2016 to February 2017.

Month	Common Shares (TSX: EXE)			2019 Debentures (TSX: EXE.DB.B)		
	High (\$)	Low (\$)	Volume Traded	High (\$)	Low (\$)	Volume Traded
January 2016	9.64	7.96	6,297,128	104.75	99.00	12,760
February 2016	9.22	8.49	3,107,927	104.50	102.51	5,925
March 2016	9.69	8.99	4,553,298	106.00	103.75	5,220
April 2016	9.65	9.02	3,522,231	106.50	104.25	14,050
May 2016	9.54	8.33	6,116,506	106.00	104.00	9,950
June 2016	8.70	7.62	11,214,995	106.10	104.75	6,360
July 2016	8.42	8.07	4,444,661	107.00	104.65	8,510
August 2016	8.91	8.05	5,880,466	108.00	104.75	9,930
September 2016	9.46	8.40	8,897,628	108.00	105.00	10,060
October 2016	9.68	9.01	4,718,813	110.00	106.50	10,470
November 2016	9.99	8.90	6,916,427	109.00	105.25	35,640
December 2016	10.23	9.46	4,612,367	107.05	105.25	15,250
January 2017	10.59	9.81	4,268,981	106.99	104.75	12,100
February 2017	10.72	10.13	3,779,850	105.15	103.74	6,600

NORMAL COURSE ISSUER BID

On January 10, 2017, Extendicare received the approval of the TSX to renew its normal course issuer bid (the “Bid”) to purchase for cancellation up to 8,800,000 Common Shares (approximately 10% of the public float) through the facilities of the TSX, and on alternative Canadian trading systems. The Bid commenced on January 13, 2017, and provides Extendicare with flexibility to purchase Common Shares for cancellation until January 12, 2018, or on such earlier date as the Bid is complete. Subject to the TSX’s block purchase exception, on any trading day, purchases under the Bid will not exceed 70,940 Common Shares. The price that Extendicare will pay for any Common Shares purchased under the Bid will be the prevailing market price at the time of purchase and any Common Shares purchased will be cancelled. As at March 30, 2017, the Company had not acquired any Common Shares under the Bid.

During 2016, the Company did not acquire any Common Shares for cancellation under its previous outstanding normal course issuer bid that commenced on January 5, 2016, and expired on January 4, 2017.

DIRECTORS AND OFFICERS

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

Name / Residence / Director Since	Current Positions / Principal Occupation for Past Five Years
BENJAMIN J. HUTZEL ⁽³⁾ Ontario, Canada Director since: May 6, 2010	Mr. Hutzel was appointed Chairman of the Board of Extendicare effective November 5, 2013. Mr. Hutzel is a retired partner of Bennett Jones LLP where he had an extensive national and international legal practice specializing in financings, acquisitions and divestitures and joint venture structuring (1994 – 2009). Mr. Hutzel serves on the board of the Woodbine Entertainment Group (a corporation without share capital), where he is also Chair of the Pension, Human Resources and Compensation Committee and a member of the Audit Committee, and was the former Chair of the Audit Committee.
MARGERY O. CUNNINGHAM ⁽¹⁾ New York, United States Director since: August 30, 2010	Ms. Cunningham is a corporate director and consultant, who most recently served as Vice President at Avalere Health, a leading advisory firm focused on health care business strategy and public policy, from August 2011 to October 2016. Prior thereto, Ms. Cunningham was with Lehman Brothers from 1997 to 2008, during which time she held a number of progressively senior executive roles, including as Managing Director and Global Head of Product Training, Associate Director of Credit Research, and High Yield Bond Analyst.
SANDRA L. HANINGTON ⁽¹⁾⁽⁴⁾ Ontario, Canada Director since: August 5, 2014	Ms. Hanington has been the President and Chief Executive Officer of the Royal Canadian Mint since February 2015, and is the co-founder and a director of Jack.org, promoting mental health and wellness for youth in Canada, since 2010. Ms. Hanington served as a director on the board of the CMHC from February 2014 to February 2015. From 1999 to 2011, Ms. Hanington was with BMO Financial Group in a number of senior executive roles in North America.

Name / Residence / Director Since	Current Positions / Principal Occupation for Past Five Years
<p>ALAN R. HIBBEN ^{(1) (2)} Ontario, Canada Director since: January 22, 2016</p>	<p>Mr. Hibben is a corporate director and advisor. Since December 2014, he has been the principal of Shakerhill Partners Ltd., a consulting firm providing strategic and financial advice, specializing in mergers and acquisitions, private equity, financing, corporate strategy, valuation, governance, as well as expert witness services. He is currently providing advice to the Province of Ontario on a number of files. Previously, Mr. Hibben was the Managing Director in the Mergers and Acquisitions Group at RBC Capital Markets from March 2011 to December 2014. He has been a director of a number of Canadian public and private companies, both in financial services and as part of his responsibility for overseeing private equity and venture capital investments. Mr. Hibben is currently a director of Hudbay Minerals Inc (a TSX and NYSE listed company), OPTrust (the pension plan for OPSEU members in Ontario) and is a director of the Mount Sinai Hospital Foundation.</p>
<p>DONNA E. KINGELIN ^{(2) (4)} Ontario, Canada Director since: January 6, 2016</p>	<p>Ms. Kingelin has been the owner and managing partner of Kingswood Consulting, a partnership specializing in providing comprehensive services for seniors' housing companies, since 2012. Previously, Ms. Kingelin held the position of Managing Director at Holiday Corporation, a private independent retirement living company (June 2010 – June 2012). Prior to that, Ms. Kingelin was a senior executive at Revera Inc. (1997 to 2010), a seniors' housing company that is wholly owned by the Public Service Pension Investment Board, and which was taken private in 2007 (formerly Retirement Residences REIT, a TSX listed company). She is currently a member of the Board of Trustees for Lakeridge Health, and was past Chair of its Board of Trustees, past Chair of its resource and quality committees, and a past member of its finance and audit committees. In addition, Ms. Kingelin is currently a Trustee and Chair of the Human Resources Committee of the Oshawa Public Utility Board of Trustees.</p>
<p>TIMOTHY L. LUKENDA Ontario, Canada Director since: May 8, 2008</p>	<p>Mr. Lukenda has been the President and Chief Executive Officer of Extendicare since joining the Company in April 2008. He has 20 years in a leadership role in the North American senior housing and services industry, including 11 years as the President and Chief Operating officer of Tendercare (Michigan) Inc., the largest private operator of skilled nursing centres in the State of Michigan, which was acquired by Extendicare in late 2007. In addition, Mr. Lukenda was a Vice President of Investment Banking at RBC Dominion Securities Inc. from 1991 to 1995. Mr. Lukenda holds a Bachelor of Business Administration in Finance from the University of Notre Dame and a combined LL.B/MBA from the University of Western Ontario.</p>
<p>GAIL PAECH ^{(3) (4)} Ontario, Canada Director since: January 22, 2016</p>	<p>Ms. Paech has been the President and Chief Executive Officer of Associated Medical Services Inc., a Canadian charitable organization that supports the education of health care professionals, compassionate care and bioethics, since 2013. She previously served as Interim Chief Executive Officer of the Ontario Long-Term Care Association, Ontario's largest association of long-term care providers, from August 2011 to June 2012. From 2009 to 2011, Ms. Paech served as Associate Deputy Minister of Economic Development and Trade in Ontario.</p>

Name / Residence / Director Since	Current Positions / Principal Occupation for Past Five Years
ALAN D. TORRIE ^{(1) (3)} Ontario, Canada Director since: January 22, 2016	Mr. Torrie has been the President and Chief Executive Officer of Morneau Shepell Ltd. since 2008, and a member of its board since 2005. A TSX listed company, Morneau Shepell Ltd. is a leading provider of Employee and Family Assistance Programs, the largest administrator of pension and benefits plans and the largest provider of integrated absence management solutions in Canada. Mr. Torrie has served on numerous community boards, and is currently a director and Chairman of the Finance Committee of Appleby College.
FREDERIC A. WAKS ⁽²⁾ Ontario, Canada Director since: January 22, 2016	Mr. Waks has been the President and Chief Executive Officer of Trinity Development Group Inc., an Ottawa-based real estate development firm, since early 2015. He is a former President and Chief Operating Officer of RioCan Real Estate Investment Trust, a TSX listed company, from 2012 to 2014, which he joined in 1995, as Senior VP of Development. Mr. Waks is currently the Chair of the Campus Redevelopment Committee for Baycrest Health Centre, the Vice-Chair of Sunnybrook Hospital Foundation, the Chair of Sherman Campus Leadership Committee, sits on the Friends of Simon Wisenthal Centre Board of Directors, a board member of European Commercial Real Estate Limited, a board member of the Royal Ontario Museum and former Chair of the Jewish Foundation of Greater Toronto.
ELAINE E. EVERSON Ontario, Canada	Ms. Everson was appointed Vice President and Chief Financial Officer of Extencicare in May 2015. Prior thereto, she held the position of Vice President and Controller of Extencicare (since November 2006) and ECI (since May 1994). She joined Extencicare in 1985 as a member of the financial reporting department. Ms. Everson is a CPA, CA, who received her Bachelor of Mathematics degree from the University of Waterloo.
JILLIAN E. FOUNTAIN Ontario, Canada	Ms. Fountain has held the position of Corporate Secretary of Extencicare since 1999. She joined Extencicare in 1988 as a member of the financial reporting department, and is a CPA, CA, who received her Bachelor of Mathematics degree from the University of Waterloo.
(1) Member of the Audit Committee (2) Member of the Acquisitions Committee	(3) Member of the Human Resources, Governance and Nominating Committee (4) Member of the Quality and Risk Committee

As at March 30, 2017, there were 88,803,744 Common Shares issued and outstanding, of which the Directors and officers of Extencicare as a group, beneficially owned, or controlled or directed, directly or indirectly, 619,390, or 0.7%, of the Common Shares.

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

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

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

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

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

Tim Lukenda, Extencicare's President and Chief Executive Officer, and members of his family have a company that owns a long-term care centre and a retirement centre in Ontario, in which Mr. Lukenda has an approximate 7.1% direct and indirect ownership interest, and with which Extencicare has an ongoing relationship through the provision of management services to the LTC centre and group purchasing services to the retirement centre.

TRANSFER AGENT AND REGISTRAR

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

MATERIAL CONTRACTS

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

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

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

INTERESTS OF EXPERTS

KPMG LLP (KPMG), the Company's external auditors, have reported on the consolidated financial statements of the Company, which comprise the consolidated statements of financial position as at December 31, 2016, and December 31, 2015, and the consolidated statements of earnings, comprehensive income, changes in equity, and cash flows for the years then ended. KPMG have advised that they are independent with respect to the Company with the Rules of Professional Conduct/Code of Ethics of various institutes/ordre, including the Rules of Professional Conduct of the Institute of Chartered Professional Accountants of Ontario.

AUDIT COMMITTEE INFORMATION

AUDIT COMMITTEE CHARTER

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

COMPOSITION OF THE AUDIT COMMITTEE

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

RELEVANT EDUCATION AND EXPERIENCE

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

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

EXTERNAL AUDITOR SERVICE FEES

Fees billed by the Company's independent external auditors, KPMG LLP, during fiscal 2016 and 2015, respectively, and the nature of such fees are detailed in the following table. In addition, a description of the nature of the fees is provided below the table.

Fee Category	Year ended 2016	Year ended 2015
Audit	\$969,000	\$1,116,000
Audit related	–	110,000
Other	45,000	442,000
Tax planning	12,000	296,000
Total	\$1,026,000	\$1,964,000

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

Audit-related fees were in respect of due diligence related services, and consultations concerning accounting and financial reporting standards.

Other fees were in respect of an audit opinion on controls at a wholly owned subsidiary, in order that it may provide third-party assurance for services to its clients, and for other advisory services rendered in connection with the Home Health Acquisition.

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 advice with respect to various tax matters.

PRE-APPROVAL POLICIES AND PROCEDURES

The Audit Committee has adopted policies and procedures for the pre-approval of services performed by its external auditors, with the objective of maintaining the independence of the external auditors. The policy requires that the Audit Committee pre-approve all audit, audit-related, tax and other permissible non-audit services to be performed by the external auditors, including all engagements of the external auditors with respect to the Company's subsidiaries. The Audit Committee pre-approved all such fees and services in 2016 in accordance with the policy. The policy sets out the details of the permissible non-audit services consistent with the independence requirements of the Canadian independence standards for auditors. The procedures require the Chief Financial Officer to present the details of any proposed assignments of the external auditor for consideration by the Audit Committee. The procedures do not allow delegation of the Audit Committee's responsibilities to management.

APPENDIX A

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

AUDIT COMMITTEE CHARTER

(1) Purpose

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

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

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

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

(2) Composition

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

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

(3) Meetings and Procedures

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

(4) Responsibilities and Duties

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

(a) Financial Reporting Process and Documents Review

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

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

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

(e) **Other Duties**

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

(5) **General Provisions**

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

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

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

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

(6) **Definitions**

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

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

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

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