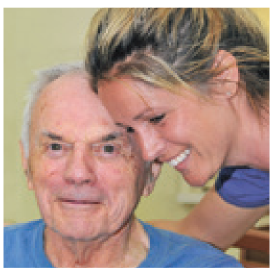
EXTENDICARE®

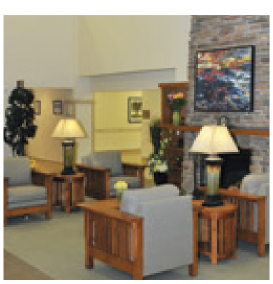
... helping people live better

2014 Annual Report



THE RIGHT **CARE**

THE RIGHT **TIME**



THE RIGHT **PLACE**

OUR
STRATEGY

Expanding along the health care continuum, Extendicare will continue to be a leader in the delivery of high-quality senior care and services, offering the right care, at the right time, in the right place to Canadian seniors.

Through our network of 104 owned and operated health care centres as well as our home health care operations, we are committed to delivering care to meet the needs of a growing seniors' population in Canada.

Our qualified and highly trained workforce of 16,800 individuals is dedicated to *helping people live better* through a commitment to quality service and a passion for what we do.

LONG-TERM CARE

Extendicare's long-term care services are designed for those who can no longer be cared for at home or in an assisted living centre due to illness, injury, frailty, or other limitations.

Contents

ASSISTED LIVING

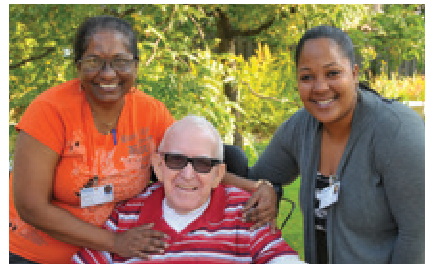
Extendicare assisted living centres allow seniors to enjoy life to its fullest while receiving assistance with activities of daily living.

HOME HEALTH CARE

ParaMed Home Health Care helps Canadians enjoy greater independence in the home with a high level of care and service that meets exceptional quality standards and exceeds our client's expectations.

FOCUS ON **CARE**







OVERVIEW

Over more than 45 years, Extendicare has developed a reputation for providing quality, clinically based services in a cost-effective manner. The hallmarks of Extendicare's philosophy are dignity and respect, which guide its interactions with residents, clients and their families, as well as with staff and business partners. Extendicare's goal is to be the provider of choice in every community where it operates.

Extendicare is committed to providing quality care and services and ensuring that we continue to look after the best interests of residents, home care clients, employees, and the company as a whole.

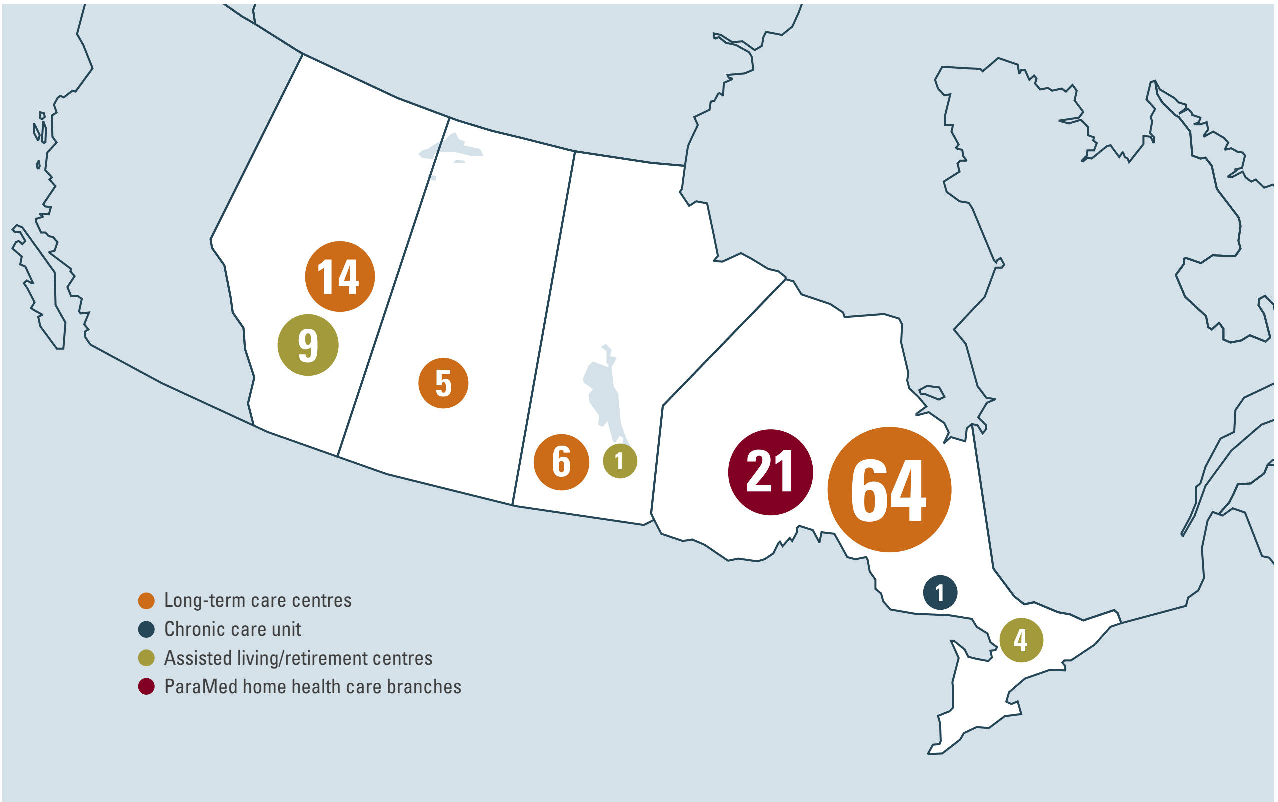
OUR MISSION:

Extendicare is about ***helping people live better.***

OUR VISION:

- We help our residents and clients live better by promoting quality of life.
- We create remarkable moments through highly engaged and motivated team members.
- Stakeholders know this because we continuously measure, improve and publicly share our performance.

OPERATIONS **OVERVIEW**



LONG-TERM CARE
90 centres
12,086 beds

ASSISTED LIVING
14 centres
1,500 beds

HOME HEALTH CARE
5.1M hours

OWNED CENTRES OPERATED IN 4 PROVINCES
58

MANAGED CENTRES OPERATED IN 3 PROVINCES
46

RESIDENT CAPACITY
13,586

RESIDENT OCCUPANCY
98%

CAREGIVERS / EMPLOYEES
16,800

LETTER TO **SHAREHOLDERS**

Fellow Shareholders,

As a leader in the Canadian senior care and services industry, Extendicare is focussed on meeting the evolving needs of a growing demographic group. Our mission is to *help people live better* by providing our residents and clients with high-quality care and customer satisfaction. In short, our mission is to deliver peace of mind to our customers and their families. Our success over the past 45 years has been attributable to our customer focus, adaptability to emerging health care trends and our financial strength. And these will be the keys to our future prosperity as well.

2014 was a particularly transformational year for Extendicare. After a lengthy and thorough strategic process, we effected our previously stated objective to reposition the Company into a pure-play Canadian senior care and services provider. To expedite this strategy and to crystallize value for our shareholders, we announced a definitive agreement to sell our U.S. business in November.

We are proud of our legacy in the U.S. and I would like to acknowledge the efforts of every team member from caregivers at the bedside to management and office personnel who are responsible for our many achievements over the years in the U.S. senior care industry. Our time spent in the U.S. was fruitful, and we will leverage our experience serving a large, competitive and value-conscious market towards our renewed focus to expand along the health care continuum in Canada. This milestone transaction provides us with the capabilities and financial resources to accelerate our vision to expand our service offerings and to further grow our business in Canada.

FINANCIAL RESULTS

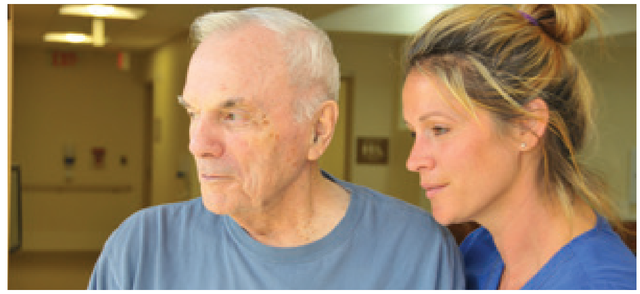
During a year of transition, I am pleased with the financial results we were able to deliver. Extendicare grew 2014 revenue to $816.1 million, up 4.1% compared to the prior year. Improvements in revenue were derived from funding enhancements and volume growth in our home health care, management and group purchasing services. Our 2014 Adjusted EBITDA was $74.6 million, representing an increase of 7.3% from $69.5 in 2013. This resulted in a margin improvement to 9.1% from 8.9% in the prior year.

Extendicare is in a solid financial position and well-situated to continue with the momentum as we embark on our Canadian-focused strategy. With the benefit of the U.S. sale proceeds, we intend to pursue growth opportunities across our multiple business lines.

CANADA: THE RIGHT PLACE

Extendicare is uniquely positioned to capitalize on industry trends and we intend to broaden our footprint in Canada to meet the demands of the aging population. Through our network of 104 owned and operated health care centres and extensive home health care operations, we are proud of our ability to deliver high-quality senior care services that offer the right care, at the right time, in the right place to facilitate the needs of Canadian seniors. With our focused growth strategy and commitment to reinvest in Canada, we look forward to expanding our market presence along

Our mission is to *help people live better* by providing our residents and clients with high-quality care and customer satisfaction.



the continuum of care. By doing so, it also allows us to diversify our revenue streams by growing our private pay sources of funding as a complement to our government funded services.

At Extendicare, we will continue to focus on growing our resident-centred care services through the continued investment and redevelopment of our existing long-term care business, increase our scale in the home health care business with our ParaMed division and expand our presence in the independent and assisted living segments.

Aligned with our vision and strategy, Extendicare recently announced the acquisition of the home health business of Revera Inc. for $83.0 million. This acquisition enables us to expand our already robust home health care business into five additional provinces. With the increasing emphasis on home health care as an effective way to deliver efficient health care to a growing seniors' population, many of whom prefer to remain in their homes, the growth prospects for this business are strong. We have an unparalleled ability to meet the needs of Canada's seniors' population with sound fundamentals in place. With over 95% of expanded ParaMed's initial revenue coming from government contracts, the home health care business provides Extendicare with a high quality revenue stream, with relatively low capital requirements, along with an opportunity to expand the private-pay segment of this business.

FUTURE OUTLOOK

Looking forward, we are confident in our ability to strategically reinvest the proceeds from the sale of our U.S. business back into the Canadian health care marketplace. In doing so, we believe Extendicare will be positioned to be the leader in meeting the evolving needs of Canada's seniors. We will be part of the solution as government and other stakeholders seek to meet the triple aim of high quality, lower cost and greater customer satisfaction from all health care providers. By successfully executing on this mission, we will also be able to deliver consistent and appropriate returns to our shareholders who have demonstrated their belief in what we do through their financial commitment. As we continue to build on our achievements, I would like to thank each of our team members for their continued dedication and daily contributions as they are the essential ingredient that drives our success. Additionally, I would like to express my gratitude for the wise counsel and support of our board of directors. I am delighted to embark on this new and exciting chapter of Extendicare's journey in Canada and look forward to the bright future that lies ahead.

Sincerely,

Timothy L. Lukenda
President and Chief Executive Officer

CORPORATE PROFILE

Extendicare is a leading provider of care and services for seniors throughout Canada. Through our network of 104 operated senior care centres (58 owned/46 managed), as well as our home health care operations, we are committed to delivering care throughout the health care continuum to meet the needs of a growing seniors' population in Canada. Our qualified and highly trained workforce of 16,800 individuals is dedicated to *helping people live better* through a commitment to quality service and a passion for what we do.

Extendicare's common shares trade on the TSX under the symbol "EXE", and pay monthly cash dividends at the discretion of its board of directors. More information is available at **www.extendicare.com.**

FINANCIAL HIGHLIGHTS[1]

(millions of dollars unless otherwise noted)

Revenue from Continuing Operations

Net Operating Income from Continuing Operations[2]

Adjusted EBITDA from Continuing Operations[2]

Adjusted Funds from Continuing Operations[2]

	2014	2013	2012
Balance Sheet			
Cash and short-term investments	**35.5**	96.0	71.4
Total assets	**1,915.3**	1,849.1	1,807.9
Long-term debt, including current portion	**479.0**	1,164.9	1,132.2
Disposal group held for sale:			
Assets held for sale	**1,254.5**	36.4	3.1
Liabilities held for sale	**1,130.8**	16.3	0.5
Shareholder Information[2]			
Adjusted funds from continuing operations	**34.4**	32.9	32.9
Adjusted funds from operations (AFFO)	**73.7**	71.1	84.6
AFFO ($ per basic share/unit)	**0.84**	0.82	0.99
Distributions declared	**42.1**	52.0	71.5
Distributions declared ($ per basic share/unit)	**0.48**	0.60	0.84
Weighed average shares/units:			
Basic (thousands)	**87,736**	86,738	85,039
Diluted (thousands)	**98,980**	103,708	100,420

(1) The financial highlights reflect the classification of Extendicare's operations held for sale as at December 31, 2014, as discontinued operations for the years ended 2012, 2013 and 2014.
(2) Refer to non-GAAP measures on page 9.

Forward-looking Statements

Information provided by Extendicare from time to time, including in this Annual Report, contains or may contain forward-looking statements concerning anticipated future events, results, circumstances, economic performance or expectations with respect to Extendicare and its subsidiaries, including, without limitation, statements regarding its business operations, business strategy and financial condition. Please refer to page 7 for a caution to the reader on the reliance of such statements.

FINANCIAL REVIEW

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Forward-looking Statements

Information provided by Extendicare from time to time, including in this Annual Report, contains or may contain forward-looking statements concerning anticipated future events, results, circumstances, economic performance or expectations with respect to Extendicare and its subsidiaries, including, without limitation, statements regarding Extendicare's business operations, business strategy, growth strategy, results of operations and financial condition; the sale by the Company of substantially all of its U.S. business (the "U.S. Sale Transaction"), including statements relating to the expected net after-tax cash proceeds, the net benefit (pre-tax) of an ongoing cash stream relating to certain U.S. skilled nursing centres leased prior to the closing and the net proceeds from the sale of 10 U.S. skilled nursing centres that are not part of the U.S. Sale Transaction; and the acquisition by the Company of the Revera Home Health business from Revera Inc. (the "Home Health Acquisition"), including statements related to the expected annual revenue and adjusted funds from operations to be derived from the acquisition. 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 risk, 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 and acquisitions (including the U.S. Sale Transaction and Home Health Acquisition), including risks relating to completion; and those other risks, uncertainties and other factors identified in the Company's other public filings with the Canadian securities regulators available on SEDAR at www.sedar.com.

The forward-looking statements contained in this Annual Report 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 Report. 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.

March 16, 2015

BASIS OF PRESENTATION

Extendicare Inc. ("Extendicare" or the "Company") is a Canadian public company whose common shares (the "Common Shares") trade on the Toronto Stock Exchange (TSX) under the symbol "EXE". Extendicare and its predecessors have been in operation since 1968, providing care and services to seniors throughout North America. As previously announced, Extendicare is in the process of selling substantially all of its U.S. business and senior care operations (the "U.S. Sale Transaction") as part of the Company's strategic objective to be a leading provider of care and services for seniors focused solely in Canada.

This Management's Discussion and Analysis (MD&A) provides information on Extendicare and its subsidiaries, and unless the context otherwise requires, references to "Extendicare", the "Company", "we", "us" and "our" or similar terms refer to Extendicare Inc., either alone or together with its subsidiaries. The registered office of Extendicare is located at 3000 Steeles Avenue East, Markham, Ontario, Canada, L3R 9W2.

Extendicare does not carry on business directly, but does so indirectly through its subsidiaries. Extendicare's Canadian operations are conducted through its wholly owned Canadian subsidiary, Extendicare (Canada) Inc. and its subsidiaries (collectively "ECI"). As previously noted, Extendicare is in the process of disposing of substantially all of its U.S. business, which business is conducted through its wholly owned U.S. subsidiary, Extendicare Health Services, Inc. and its subsidiaries (collectively "EHSI"). As a result of the pending sale of the U.S. business, Extendicare's financial information has been restated for the classification of EHSI's operations as discontinued operations. Ten of the U.S. skilled nursing centres, which are not part of the U.S. Sale Transaction, will continue to be held for sale and have also been classified as discontinued operations. For further information, refer to the discussion under the heading "Overview – Strategic Review – Sale of U.S. Business" and to *note 7* of the audited consolidated financial statements.

Extendicare will retain, as part of its continuing operations, its U.S. subsidiary, Virtual Care Provider, Inc. (VCPI), which provides a range of information technology solutions to long-term and post-acute health care providers, and its wholly owned Bermuda-based captive insurance company, Laurier Indemnity Company, Ltd. (the "Captive"), which, along with third-party insurers, insures Extendicare's U.S. general and professional liability risks.

Extendicare has prepared this MD&A to provide information to assist its current and prospective investors' understanding of Extendicare's financial results for the year ended December 31, 2014. This MD&A should be read in conjunction with Extendicare's audited consolidated financial statements for the years ended 2014 and 2013, and the notes thereto, found in Extendicare's 2014 Annual Report. These financial statements and notes are available on Extendicare's website at www.extendicare.com. Additional information about Extendicare, including its latest Annual Information Form, can be found on SEDAR at www.sedar.com.

This MD&A and the accompanying audited consolidated financial statements for the years ended 2014 and 2013, including the notes thereto, have been prepared in accordance with International Financial Reporting Standards (IFRS). All currencies are in Canadian dollars unless otherwise indicated. Except as otherwise specified, references to years indicate the fiscal year ended December 31, 2014, or December 31 of the year referenced.

In May 2013, the IFRS Interpretations Committee (IFRIC) issued IFRIC Interpretation 21 – Levies (IFRIC 21), an interpretation on the accounting for levies imposed by governments, which became effective for the Company on January 1, 2014, on a retrospective basis to January 1, 2013. The Company has restated its comparative interim periods for 2013 to reflect the recognition of the full amount of the annual property tax expense for the Company's U.S. operations in the first quarter, which operations have now been classified as discontinued. For further information, refer to *note 4* of the audited consolidated financial statements. The impact of applying IFRIC 21 has resulted in the following adjustments to the operating expenses of the Company's U.S. discontinued operations: an increase in expense of $8.2 million in the 2014 first quarter; a decrease in expense of $2.7 million in each of the 2014 second, third, and fourth quarters; an increase in expense of $7.3 million in the 2013 first quarter; and a decrease in expense of $2.3 million, $2.5 million, and $2.5 million in the 2013 second, third and fourth quarters, respectively. The impact of applying IFRIC 21 affects the comparability of the Company's quarterly net earnings (loss) and results from discontinued operations during the year. As a result, the impact of applying IFRIC 21 has been excluded from the computation of certain non-GAAP measures.

The discussion and analysis in this MD&A are based upon information available to management as of March 16, 2015. This MD&A should not be considered all-inclusive, as it excludes changes that may occur in general economic, political and environmental conditions. Additionally, other events may or may not occur, which could affect the Company in the future.

We use a number of key performance indicators in this document for monitoring and analyzing our financial results that are not defined by IFRS. These performance indicators are not considered to be generally accepted accounting principles, or GAAP, and may not be comparable to similar measures presented by other companies. Please refer to the "Key Performance Indicators" section of this MD&A for a description of how such indicators are defined. In addition, we include in our discussion of financial results, financial measures such as "net operating income", "net operating income margin", "Adjusted EBITDA", "Adjusted EBITDA margin", "earnings before depreciation, amortization, loss from asset impairment, disposal and other items", "earnings (loss) from continuing operations before separately reported gains/losses, net of taxes", "earnings (loss) before separately reported gains/losses, net of taxes", "Funds from Operations", and "Adjusted Funds from Operations". A discussion of how we define these non-GAAP measures is provided below under the heading "Non-GAAP Measures".

NON-GAAP MEASURES

Extendicare assesses and measures operating results and financial position based on performance measures referred to as "net operating income", "net operating income margin", "EBITDA", "Adjusted EBITDA", "Adjusted EBITDA margin", "earnings before depreciation, amortization, loss from asset impairment, disposal and other items", "earnings (loss) from continuing operations before separately reported gains/losses, net of taxes", "earnings (loss) before separately reported gains/losses, net of taxes", "Funds from Operations", and "Adjusted Funds from Operations". These measures are commonly used by Extendicare and its investors as a means of assessing the performance of the core operations in comparison to prior periods. They are presented by Extendicare on a consistent basis from period to period, thereby allowing for consistent comparability of its operating performance. These are not measures recognized under GAAP and do not have standardized meanings prescribed by GAAP. These non-GAAP measures are presented in this document because either: (i) management believes that they are a relevant measure of the ability of Extendicare to make cash distributions; or (ii) certain ongoing rights and obligations of Extendicare may be calculated using these measures. Such non-GAAP measures may differ from similar computations as reported by other issuers, and accordingly, may not be comparable to similarly titled measures as reported by such issuers. They are not intended to replace earnings (loss) from continuing operations, net earnings (loss), cash flow, or other measures of financial performance and liquidity reported in accordance with GAAP.

References to "net operating income" in this document are to revenue less operating expenses, and this value represents the underlying performance of our operating business segments. References to "net operating income margin" are to net operating income as a percentage of revenue.

References to "EBITDA" in this document are to earnings (loss) from continuing operations before net finance costs, income taxes, depreciation and amortization. References to "Adjusted EBITDA" in this document are to EBITDA adjusted to exclude the line item "loss (gain) from asset impairment, disposals and other items". References to "Adjusted EBITDA Margin" are to Adjusted EBITDA as a percentage of revenue. Management believes that certain lenders, investors and analysts use EBITDA and Adjusted EBITDA to measure a company's ability to service debt and meet other payment obligations, and as a common valuation measurement in the long-term care industry. For example, certain of our debt covenants use Adjusted EBITDA in their calculations.

References to "earnings (loss) from continuing operations before separately reported gains/losses, net of tax", or to "earnings (loss) before separately reported gains/losses, net of tax" in this document are to earnings (loss) from continuing operations, or to earnings (loss), excluding the following separately reported line items: "provision for U.S. government investigations", "fair value adjustments", "loss (gain) on foreign exchange and financial instruments", and "loss (gain) from asset impairment, disposals and other items". These line items are reported separately and excluded from certain performance measures, because they are transitional in nature and would otherwise distort historical trends. They relate to the change in the fair value of, or gains and losses on termination of, convertible debentures, and interest rate agreements, as well as gains or losses on the disposal or impairment of assets, and foreign exchange gains or losses on capital items. In addition, these line items may include provisions for settlement of U.S. government investigations, restructuring charges and the write-off of unamortized financing costs on early retirement of debt. The above separately reported line items are reported on a pre-tax and on an after-tax basis as a means of deriving earnings (loss) from operations and related earnings per share/unit excluding such items.

"Funds from Operations", or "FFO", is defined as Adjusted EBITDA less depreciation for furniture, fixtures, equipment and computers, or "depreciation for FFEC", accretion costs, net interest expense, and current income taxes. Depreciation for FFEC is considered representative of the amount of maintenance (non-growth) capital expenditures, or "maintenance capex", to be used in determining "Funds from Operations", as the depreciation term is generally in line with the life of these assets.

"Adjusted Funds from Operations", or "AFFO", is defined as FFO plus the non-cash portion of financing and accretion costs and the principal portion of government capital funding payments, and is further adjusted to account for the difference in total maintenance capex incurred from the amount deducted in determining FFO. Because our actual maintenance capex spending fluctuates on a quarterly basis with the timing of projects and seasonality, the adjustment to AFFO for these expenditures from the amount of depreciation for FFEC already deducted in determining FFO, may result in an increase to AFFO in the interim periods reported.

Both FFO and AFFO are subject to other adjustments, as determined by management in its discretion, that are not representative of Extendicare's operating performance.

OVERVIEW

Business Strategy

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

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

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

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

Strategic Review – Sale of U.S. Business

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

As announced on November 7, 2014, the Company and its subsidiary, Extendicare International Inc. (the "Vendor"), entered into a definitive share purchase agreement to sell substantially all of the Company's U.S. business 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, for US$870 million ($1.0 billion using the closing U.S./Canadian dollar exchange rate of 1.1601 as at December 31, 2014), subject to a number of adjustments, including a reduction on account of the outstanding amount of mortgage loans and other indebtedness relating to the U.S. business at closing, which as at December 31, 2014, was US$661.6 million. The Company estimates the net after-tax cash proceeds from the U.S. Sale Transaction to be in the range of US$230 million to US$250 million, which includes a deduction of pre-tax US$9.0 million for advisor fees and other transaction costs. The estimate of after-tax proceeds is subject to change at the time of closing, which is anticipated to occur in the 2015 second quarter.

In addition, in connection with the U.S. Sale Transaction, the Company expects to receive additional value ascribed to an ongoing cash stream relating to certain U.S. skilled nursing centres to be leased prior to the closing, the estimated net benefit of which is anticipated to average US$5 million per annum (pre-tax) over 15 years, and proceeds from the sale of 10 U.S. skilled nursing centres that are not part of the U.S. Sale Transaction. With regard to the 10 centres that are not part of the U.S. Sale Transaction, we anticipate net proceeds to approximate the carrying value of the centres of US$18.9 million (net of related long-term debt of US$9.7 million), as at December 31, 2014.

Under the terms of the U.S. Sale Transaction, Extendicare will share in the costs to be incurred by the Purchaser in order to implement and comply with the requirements of the corporate integrity agreement that took effect for EHSI on October 3, 2014, and which has a five-year term ending in October 2019. 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; the next US$5.0 million aggregate annual amount will be shared equally between the Purchaser and Extendicare; and the balance of any excess incurred will be borne by the Purchaser. Extendicare estimates that its obligations to the Purchaser relating to the corporate integrity agreement will be less than US$2.0 million per year to October 2019. For further information on the corporate integrity agreement, refer to the discussion under the heading "Overview – Significant 2014 Events and Developments – 2010 U.S. Government Investigations".

The U.S. Sale Transaction will be completed by the transfer to the Purchaser of all of the issued and outstanding shares of Extendicare Holdings, Inc. (EHI), a U.S. subsidiary of the Company that is the holding company of EHSI, which owns and operates the U.S. business. Completion of the U.S. Sale Transaction is subject to receiving certain U.S. state licensure approvals, lender and other third-party consents and other customary conditions. Further information relating to the U.S. Sale Transaction, including a summary of the conditions of closing, is available in the Company's related material change report dated November 17, 2014, filed on SEDAR at www.sedar.com.

As at December 31, 2014, the net carrying value of the U.S. business held for sale on our consolidated statement of financial position was $123.7 million, representing assets held for sale of $1,254.5 million, net of liabilities held for sale of $1,130.8 million. The loss from discontinued operations was $23.1 million for 2014 compared to $4.9 million for 2013.

The following table summarizes the senior care centres owned or managed by EHSI as at December 31, 2014, all of which have been designated as held for sale and classified as discontinued operations. For further information, refer to *note 7* of the audited consolidated financial statements.

	Skilled Nursing		Assisted Living		Total	
By Type of Ownership	No. of Centres	Resident Capacity	No. of Centres	Resident Capacity	No. of Centres	Resident Capacity
Under Sale Agreement to Formation Capital						
Owned and operated	128	12,834	4	270	132	13,104
Operated under lease arrangements	3	311	–	–	3	311
Leased out to third-party operators	21	1,762	–	–	21	1,762
	152	14,907	4	270	156	15,177
Others Discontinued/Held for Sale						
Owned and operated	10	917	–	–	10	917
Managed (contracts to terminate in 2015)	4	399	6	159	10	558
	14	1,316	6	159	20	1,475
Total discontinued/held for sale	**166**	**16,223**	**10**	**429**	**176**	**16,652**

Revera Home Health Acquisition

As previously announced in January 2015, the Company entered into a definitive agreement to acquire the Revera Home Health business for $83.0 million in cash, before working capital adjustments (the "Home Health Acquisition") from Revera Inc. The completion of the Home Health Acquisition is subject to customary closing conditions and regulatory approvals, including assignment of government contracts, and is expected to close in the 2015 second quarter.

The Home Health Acquisition is expected to be temporarily financed with a fully committed bridge loan of up to $80.0 million (the "Bridge Loan") and cash on hand. Any Bridge Loan, if utilized, will be repaid from the proceeds of the U.S. Sale Transaction, which is also expected to close in the second quarter of 2015. We estimate that the Home Health Acquisition will initially generate revenue of approximately $189 million per annum, and will add approximately $0.10 (annualized) to our AFFO per share in the first year, excluding any temporary financing costs.

The Home Health Acquisition brings together two leading Canadian private-sector home health care providers focused on quality, person-centred care and employee satisfaction. Extendicare plans to rebrand the Revera Home Health business under ParaMed, Extendicare's home health care division. Revera Home Health serves 31 communities across six provinces (Ontario, British Columbia, Alberta, Quebec, Manitoba and Nova Scotia) and employs approximately 5,700 people. Further information relating to the Home Health Acquisition is available in the Company's related material change report dated January 23, 2015, filed on SEDAR at www.sedar.com.

Business Overview

Extendicare, through its subsidiaries, is the largest private-sector operator of long-term care centres in Canada and the largest provider of publicly funded home health care services in Ontario, Canada. Of Extendicare's revenue from Canadian operations in 2014, approximately 74.6% was generated from its long-term care operations, 23.7% was from its home health care business and the balance was from its management and group purchasing operations.

As at December 31, 2014, Extendicare operated 104 senior care centres in Canada, with capacity for 13,586 residents, with a significant presence in Ontario and Alberta, where approximately 71% and 17% of its residents were served, respectively. Through its ParaMed Home Health Care (ParaMed) division, Extendicare operates 21 branches in Ontario, and employs approximately 5,400 individuals that provided 5.1 million hours of service in 2014.

All of Extendicare's non-managed centres are either owned or leased under finance lease arrangements. Nine of our centres in Ontario are operated under 25-year finance lease arrangements, with full ownership obtained at the end of the lease term. We believe that ownership increases our operating flexibility by allowing us to: refurbish centres to meet changing consumer demands; expand or add assisted living and retirement centres adjacent to our long-term care centres; divest centres and exit markets at our discretion; and more directly control occupancy costs.

The following summarizes the senior care centres operated by Extendicare's Canadian operations as at December 31, 2014, which consist of long-term care (LTC) centres, assisted living (AL) and retirement centres, and a chronic care unit.

	Long-term Care		Assisted Living/Retirement		Chronic Care Unit		Total	
By Province	No. of Centres	Resident Capacity	No. of Centres	Resident Capacity	No. of Centres	Resident Capacity	No. of Centres	Resident Capacity
Owned/Leased (1)								
Ontario	34	5,134	–	76	–	–	34	5,210
Alberta	13	1,295	1	200	–	–	14	1,495
Manitoba	5	762	–	–	–	–	5	762
Saskatchewan	5	649	–	–	–	–	5	649
	57	7,840	1	276	–	–	58	8,116
Managed								
Ontario	30	3,904	4	440	1	120	35	4,464
Alberta	1	102	8	736	–	–	9	838
Manitoba	1	120	1	48	–	–	2	168
	32	4,126	13	1,224	1	120	46	5,470
Total	**89**	**11,966**	**14**	**1,500**	**1**	**120**	**104**	**13,586**

(1) Extendicare operates nine long-term care centres (1,155 LTC beds and 76 AL beds) in Ontario 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.

The following reflects the change in operating capacity of our Canadian senior care centres during 2014 and 2013.

	2014		2013	
Extendicare Senior Care Centres	**No. of Centres**	**Resident Capacity**	No. of Centres	Resident Capacity
As at beginning of year	**93**	**12,479**	88	11,467
Managed contracts added	**11**	**1,110**	8	1,338
Developed (1)	**–**	**–**	2	436
Disposed/closed (2)	**–**	**–**	(3)	(384)
Managed contracts matured	**–**	**–**	(2)	(374)
Operational capacity adjustments	**–**	**(3)**	–	(4)
As at end of year	**104**	**13,586**	93	12,479

(1) In April 2013, we opened a new 256-bed LTC centre in Sault Ste. Marie and in October 2013, we opened a new 180-bed LTC centre in Timmins.
(2) In October 2013, we closed an LTC centre in Timmins (119 beds) upon the opening of our new LTC centre .

Operating Segments

Prior to the announcement of the U.S. Sale Transaction, the Company had two reportable operating segments that consisted of its U.S. operations and its Canadian operations. With the reclassification of the U.S. senior care and related operations to discontinued operations, the Company has determined there to be two reportable operating segments within its Canadian operations, being its long-term care and home health care operations, leaving its management and group purchasing operations to be reported as "other Canadian operations", and the Canadian corporate functions and any eliminations as "corporate Canada". The Company continues to segment its U.S. operations as one segment, with the continuing operations consisting of VCPI and the Captive, and the discontinued operations consisting of the U.S. senior care and related businesses conducted through EHSI that are held for sale.

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

LONG-TERM CARE

Through its subsidiaries, Extendicare owns and operates 57 LTC centres in Canada, three of which include AL wings, and one stand-alone AL centre, with capacity for 7,840 LTC residents and 276 AL residents.

In Canada, provincial legislation and regulations closely control all aspects of operation and funding of long-term care centres, including the fee structure, subsidies, the adequacy of physical centres, standards of care and accommodation, equipment and personnel. 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. Nobody is refused access to long-term care because of financial difficulty. A government subsidy, generally based on an income test, is available for residents who are unable to afford the resident co-payment.

In Ontario, operators have the opportunity to receive additional funding through higher accommodation rates charged to residents for private and semi-private accommodation, at maximum preferred accommodation rates that are fixed by the government. Operators are permitted to designate up to 60% of the resident capacity of a centre as preferred accommodation at higher fixed rates that vary according to the structural classification of the LTC centre. In Ontario, Extendicare operates 13 "New" centres (1,847 beds), built since 1998 under the 1999 design standards, and 21 "C" centres (3,287 beds), built prior to 1998 that meet the 1972 design standards.

The following summarizes the composition of the owned/leased LTC centres operated by Extendicare in Ontario as at December 31, 2014.

		Composition of Beds				
Ontario Owned/Leased	No. of Centres	Private – up to $23.25 premium	Private – $18.00 premium	Semi-private – $8.00 premium	Basic/Other	Total
"New"	13	1,099	–	–	748	1,847
"C"	21	–	476	1,400	1,411	3,287
	34	1,099	476	1,400	2,159	5,134

In addition to LTC centres, Extendicare operates two AL wings (76 beds) in Ontario that are attached to LTC centres, which provide services to private-pay residents at rates set by Extendicare based on services provided and market conditions. In Alberta, Extendicare owns and operates designated supportive living beds, which is a type of AL bed, in two centres. One is a 60-bed wing at an LTC centre and the other is a stand-alone 140-bed centre. Designated supportive living offers services similar to that of an AL centre, and was introduced by Alberta Health Services (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 fixed-fee structure determined by the government.

Extendicare's AL operations have been combined with the long-term care operating segment for financial reporting purposes, because they are either in wings attached to LTC centres or, in the case of the Alberta AL's, are government regulated with fixed-fee structures.

HOME HEALTH CARE

Extendicare provides home health care services through its ParaMed division. ParaMed's professionals and staff members are skilled in providing complex nursing care, occupational, physical and speech therapy, and assistance with daily activities to accommodate those living at home.

Provincial governments fund a wide range of home health care services, and contract these services to providers such as ParaMed. In 2014, ParaMed received approximately 98% of its revenue from contracts tendered by locally administered provincial agencies, with the remainder from private-pay clients. Up until August 2013, ParaMed provided services in Ontario and Alberta. However, in August 2013, ParaMed closed its operations in Alberta as a result of the outcome of an AHS initiative to reduce the number of service providers in the province. Consequently, throughout 2014, ParaMed's operations were solely in Ontario, where it provided approximately 5.1 million hours of service, making it the largest provider of publicly funded home health care in Ontario.

OTHER CANADIAN OPERATIONS

Extendicare's other Canadian operations are composed of its management and group purchasing services.

Management Services

Through its Extendicare Assist division, Extendicare has leveraged its expertise in operating senior care centres by providing a wide range of management and consulting services to third-party owners. As at December 31, 2014, Extendicare managed for others, 46 senior care centres with capacity for 5,470 residents, compared to 35 centres at the end of 2013.

Group Purchasing Services

Through its Silver Group Purchasing division, Extendicare offers cost-effective purchasing contracts to other senior care providers for food, capital equipment, furnishings, cleaning and nursing supplies, and office products. As at December 31, 2014, Silver Group Purchasing provided services to third-party clients with capacity for 27,100 residents.

U.S. CONTINUING OPERATIONS

Following the closing of the U.S. Sale Transaction, Extendicare will retain its wholly owned subsidiaries, VCPI and the Captive. These operations represented approximately 4% of consolidated revenue from continuing operations in 2014.

Virtual Care Provider, Inc. (VCPI)

Since 2001, Extendicare has offered information technology hosting and professional services to long-term and post-acute health care providers across the U.S. through VCPI. VCPI provides a full continuum of information technology services, including hosting and application support from its data centre in Milwaukee, Wisconsin, facility technology installation and management, network management services and professional consulting services. As at December 31, 2014, VCPI was providing services to 2,130 health care providers in 47 states, as well as to EHSI. VCPI's revenue in 2014 was US$29.1 million, of which US$8.4 million was from services provided to EHSI.

Captive Insurance Company

Extendicare self-insures certain risks related to general and professional liability of its U.S. operations through the Captive. With the classification of the U.S. senior care operations as discontinued operations, the expense for self-insured liabilities incurred by the Captive has also been reclassified to discontinued operations. However, the obligation to settle any claims incurred prior to the closing of the U.S. Sale Transaction, including claims incurred but yet to be reported, remains with Extendicare and the Captive. Most of the risks that Extendicare self-insures are long-term in nature, and accordingly, claim payments for any particular policy year can occur over a long period of time. Consequently, neither the accrual for self-insured liabilities nor the Captives' investments held for self-insured liabilities have been classified as held for sale as at December 31, 2014. In addition, through the Captive, the Company also maintains third-party liability insurance on a "claims made" basis, as opposed to "occurrence based" coverage, meaning that some level of coverage will continue to be required until the claims have been resolved. The costs of the third-party insurance, along with the costs to administer and manage the settlement of the claims have not been classified as discontinued, and are included in the continuing administrative costs of the U.S. operations.

As at December 31, 2014, the accrual for self-insured general and professional liabilities was $133.4 million (US$115.0 million) and the investments held for self-insured liabilities totalled $154.2 million (US$132.9 million). The provisions for loss for our professional liability risks are based upon management's best available information, including actuarial estimates. The Captive is currently appropriately capitalized, but there can be no assurance that it will remain appropriately capitalized in the future should claims against the Company increase significantly. For further information on our self-insured liabilities, refer to the discussion under the heading "Accrual for Self-insured Liabilities" found within the "Liquidity and Capital Resources" section of this MD&A.

Significant 2014 Events and Developments

This section provides an update on Extendicare's U.S. government investigations, the Pennsylvania lease transaction, and significant financing activity. Refer to the discussion under the heading "Other Significant Developments" for a summary of other developments affecting the financial results or operations of Extendicare.

2010 U.S. GOVERNMENT INVESTIGATIONS

In October 2014, EHSI completed and executed a settlement agreement with the U.S. Department of Justice (DOJ), the Office of the Inspector General (OIG) of the U.S. Department of Health and Human Services and multiple states, which fully and finally resolved the previously disclosed DOJ and OIG investigations and ancillary claims that have been pending since 2010 (the "2010 U.S. Government Investigations").

Pursuant to the terms of the settlement, EHSI made a lump-sum payment of US$38.0 million to the government, along with US$1.0 million in other settlement costs. The settlements had been fully accrued for in the 2014 second quarter in the amount of $42.2 million (US$39.0 million), and have now been classified as discontinued operations.

As previously disclosed in 2010, EHSI received subpoenas from the OIG relating to the submission of claims that the OIG believed may be in violation of the U.S. Social Security Act. Starting in November 2012, representatives of the OIG and the DOJ met with senior representatives of EHSI to discuss the OIG's and DOJ's investigations into the submission of claims that related to the quality of care provided to residents and patients of EHSI's skilled nursing centres and the provision of rehabilitation services. EHSI has denied engaging in any illegal conduct and has 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 and DOJ investigations, EHSI has entered into a corporate integrity agreement with the OIG (the "CIA") for a five-year period effective October 3, 2014. During its term, the CIA will require EHSI to continue to maintain a compliance program at all of its U.S. skilled nursing centres and related rehabilitation operations designed to ensure compliance of EHSI's operations with U.S. federal and state health care program requirements. The CIA will also require EHSI to conduct certain additional compliance-related activities during its term, including various training, monitoring and review procedures, and to retain an independent third-party monitor. It is anticipated that these additional obligations of the CIA may cost EHSI between US$1.5 million and US$3.5 million per annum during the five-year term of the agreement. The Company's participation in U.S. federal and state health care programs will not be adversely affected by the settlement or the CIA.

Extendicare does not expect the settlement of the 2010 U.S. Government Investigations to have a material adverse effect on the Company's business or long-term consolidated financial position; however, the settlement and related payment have had an impact on the Company's results of operations for fiscal 2014.

PENNSYLVANIA LEASE TRANSACTION

As previously announced in November 2014, EHSI entered into an operations transfer agreement to lease all 22 of its owned skilled nursing centres in the states of Pennsylvania (2,502 beds), Delaware (120 beds) and West Virginia (120 beds) to an experienced third-party long-term care operator. Under the agreement, the operating leases have 15-year terms with two 5-year extensions at the option of the operator. The average annual lease revenue will be US$27.3 million, after taking into account lease incentives. The leases will not include options to purchase the associated real estate assets. The transfer of operations is subject to third-party approvals, including state licensure. Leases on the first 10 centres closed in January 2015, and the balance are anticipated to close in the 2015 second quarter.

As a result of this transaction, EHSI will no longer operate skilled nursing centres in the states of Pennsylvania, Delaware and West Virginia. The decision to exit the operations of these centres is primarily related to the increasing exposure to undue litigation risks and the associated high liability costs that are prevalent in Pennsylvania and West Virginia, in particular. Despite a strong and improving quality record in these centres, we have experienced an increase of over 300% in the number of liability claims in these states over the past several years.

2014 U.S. PRIVATEBANK PENNSYLVANIA LOAN

On September 22, 2014, EHSI obtained a US$30.0 million non-recourse term loan (the "2014 PrivateBank Pennsylvania Loan") from The PrivateBank and Trust Company (The PrivateBank). In October 2014, the proceeds of this loan, together with available cash, were used to settle the 2010 U.S. Government Investigations of US$39.0 million. The 2014 PrivateBank Pennsylvania Loan is secured by first mortgages on five skilled nursing centres in the state of Pennsylvania, has a five-year term maturing in September 2019, with monthly principal and interest payments based on a 25-year amortization period, and one-month LIBOR plus 450 basis points.

2014 U.S. PRIVATEBANK KENTUCKY LOAN AND SETTLEMENT OF 2014 CONVERTIBLE DEBENTURES

On June 6, 2014, EHSI obtained a US$100.0 million non-recourse term loan (the "2014 PrivateBank Kentucky Loan") from The PrivateBank and other banks in the syndicate. These proceeds, together with other available cash on hand, were used to fund a US$110.5 million dividend paid by Extendicare's U.S. subsidiaries to their Canadian parent. The payment of this cross-border dividend attracted withholding tax of $6.1 million (US$5.5 million). Extendicare used the proceeds, together with available cash on hand, to repay the principal owing under its outstanding 5.7% convertible unsecured subordinated debentures (the "2014 Debentures"), in the aggregate principal amount of $113.9 million that matured on June 30, 2014.

The 2014 PrivateBank Kentucky Loan is secured by first mortgages and an assignment of rents and leases on 19 skilled nursing centres in the state of Kentucky that EHSI leases out to a third-party operator. The 2014 PrivateBank Kentucky Loan has a five-year term maturing in June 2019, with monthly principal and interest payments based on a 25-year amortization period and one-month LIBOR plus 475 basis points.

2014 U.S. REVOLVING LOAN AND TERMINATION OF U.S. CREDIT FACILITY

On June 30, 2014, EHSI entered into a US$35.0 million revolving loan agreement with The PrivateBank (the "EHSI Revolving Loan") with a five-year term to June 2019 and interest based on LIBOR plus 400 basis points. The EHSI Revolving Loan replaced the US$100.0 million senior secured revolving credit facility that was terminated on June 25, 2014. EHSI recorded a $1.2 million (US$1.1 million) pre-tax loss on retirement of debt related to the write-off of unamortized deferred finance charges.

The EHSI Revolving Loan is secured by accounts receivable of 35 centres (32 skilled nursing centres and three assisted living centres). Under the loan agreement, the combined operations of the 35 centres must meet minimum debt service and fixed charge coverage ratios and maintain a minimum level of tangible net worth.

The amount available to be borrowed under the EHSI Revolving Loan is 80% of eligible receivables that are less than 90 days old. The maximum amount available to be borrowed under the EHSI Revolving Loan as at December 31, 2014, was US$17.7 million, of which EHSI had utilized US$7.5 million under letters of credit, leaving US$10.2 million available for future borrowings for working capital and corporate purposes. The letters of credit are in favour of workers' compensation programs that renew annually and mature in June 2015.

KEY PERFORMANCE INDICATORS

In order to compare Extendicare's financial performance between periods, management assesses the key performance indicators for all of its continuing operations. In addition, we assess the operations on a same-facility basis between the reported periods. Set forth below is an analysis of the key performance indicators and a discussion of significant trends when comparing Extendicare's financial results from continuing operations.

The following is a glossary of terms for some of our key performance indicators:

"Average Daily Revenue Rate", or **"ADRR"** means the aggregate revenue earned divided by the aggregate census in the corresponding period, by payor source;

"Census" is defined as the number of residents occupying beds (or units in the case of an assisted living centre) over a period of time;

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

"Non same-facility", in the context of comparing our 2014 and 2013 operations in this document, refers to (i) those centres and businesses that we have ceased operating (including those under a sale agreement), (ii) those centres that are new to our portfolio since January 1, 2013, and (iii) those centres that are classified as held for sale. For the purposes of comparing our 2014 and 2013 results, the non same-facility operations are composed of: our LTC centres in Sault Ste. Marie and Timmins, Ontario, where we opened two new LTC centres in 2013 that resulted in the closing of three existing LTC centres and the downsizing of another; and our Alberta home health care operations, where we discontinued operating in August 2013;

"Occupancy" is measured as the percentage of census relative to the total available resident capacity. Total operational resident capacity is the number of beds (or units in the case of an assisted living centre) available for occupancy multiplied by the number of days in the period; and

"Same-facility", in the context of comparing our 2014 and 2013 operations in this document, refers to those centres and businesses that were operated by us on January 1, 2013, and throughout 2013 and 2014 to date, and are not classified as held for sale.

Canadian Operations

The funding received by ECI for its long-term care centres and home health care services is regulated by provincial authorities (rather than federal authorities), who 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 ECI. For more information on government funding in Canada, including recent developments and their impact or expected impact on Extendicare, please see "Update of Regulatory and Reimbursement Changes Affecting Results – Canadian Operations".

The following table provides ECI's average daily revenue rates and occupancy levels from its senior care centres, and home health care volumes, on a quarterly and annual basis for each of 2014 and 2013.

					2014					2013
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year
Average Daily Revenue Rate *($)*										
Total operations	**194.47**	**196.21**	**197.17**	**204.14**	**198.03**	191.12	192.39	191.86	201.82	194.33
Same-facility basis	**194.51**	**196.32**	**197.05**	**204.36**	**198.09**	191.67	192.47	192.19	201.20	194.41
Average Occupancy *(%)*										
Total operations	**97.3%**	**97.6%**	**98.2%**	**98.2%**	**97.9%**	97.5%	97.6%	98.0%	97.8%	97.7%
Same-facility basis (1)	**97.5%**	**97.6%**	**98.1%**	**98.1%**	**97.9%**	97.5%	97.6%	98.0%	98.2%	97.8%
Ontario Long-term Care										
Total operations	**97.2%**	**97.8%**	**98.4%**	**98.4%**	**98.0%**	97.4%	97.6%	98.2%	97.6%	97.7%
Preferred Accommodation										
"New" centres – private	**93.0%**	**95.5%**	**96.3%**	**97.5%**	**95.6%**	98.7%	88.9%	88.8%	83.1%	89.3%
"C" centres – private	**96.8%**	**97.1%**	**98.2%**	**98.5%**	**97.6%**	96.8%	96.4%	96.2%	96.7%	96.5%
"C" centres – semi-private(2)	**59.5%**	**59.5%**	**60.4%**	**61.0%**	**60.1%**	64.4%	62.9%	62.6%	54.9%	61.0%
Home Health Care Volumes										
Hours of service (000's)	**1,213.7**	**1,281.6**	**1,303.8**	**1,283.4**	**5,082.5**	1,190.1	1,245.9	1,220.6	1,254.7	4,911.3
Hours per day	**13,485**	**14,084**	**14,172**	**13,950**	**13,925**	13,223	13,691	13,268	13,638	13,456
Same-facility basis (1)										
Hours of service (000's)	**1,213.7**	**1,281.6**	**1,303.8**	**1,283.4**	**5,082.5**	1,129.2	1,187.8	1,200.3	1,254.6	4,771.9
Hours per day	**13,485**	**14,084**	**14,172**	**13,950**	**13,925**	12,547	13,052	13,047	13,637	13,074

(1) Same-facility basis excludes the non same-facility operations that are composed of our LTC centres in Sault Ste. Marie and Timmins, Ontario, where we opened two new LTC centres in 2013 that resulted in the closing of three existing LTC centres and the downsizing of another, and our Alberta home health care operations, where we discontinued operating in August 2013.

(2) Average occupancy reported for the available semi-private rooms, reflects percentage of residents occupying those beds and paying the premium rate

Revenue from provincial programs represented approximately 70% of ECI's long-term care centre revenue in 2014. In the 2014 fourth quarter, ECI's average daily revenue rate from same-facility operations increased by 1.5% to $204.36 from $201.20 in the 2013 fourth quarter, and increased by 3.7% from $197.05 in the 2014 third quarter. The majority of ECI's long-term care operations are in Ontario, which operates under a funding envelope system, under which a substantial portion of the revenue is tied to flow-through funding. Therefore, the flow-through funding is matched with the related costs for resident care in the periods in which the costs are incurred. As a result, ECI's average revenue rates fluctuate by quarter, and are generally at their lowest in the first quarter and at their highest in the fourth quarter. For the 2014 year, the average daily revenue rate increased by 1.9% both on a total and same-facility basis to $198.03 and $198.09, respectively. For further information on these funding enhancements, refer to the discussion under the heading "Update of Regulatory and Reimbursement Changes Affecting Results – Canadian Operations".

ECI's average occupancy from same-facility operations was 98.1% this quarter compared to 98.2% in the 2013 fourth quarter, and to 98.1% in the 2014 third quarter. In terms of the quarterly trends throughout the year, slightly lower occupancy levels are to be expected during the winter months as a result of flu outbreaks, which could lead to temporary freezes on admissions. For the 2014 year, our average occupancy in Canada was 97.9%

compared to 97.7% in 2013, with some of the improvement reflecting the full year of operation of our new larger LTC centre in Timmins, Ontario, that was completed in the fall of 2013. On a same-facility basis, our average occupancy was relatively unchanged at 97.9% in 2014 compared to 97.8% in 2013.

In Ontario, overall funding is occupancy-based, but once the average occupancy level of 97% or higher for the year is achieved, operators receive funding based on 100% occupancy. In each of 2014 and 2013, ECI's average occupancy for its Ontario LTC centres totalled above 97%, with only one of its centres averaging slightly below 97%.

In addition, ECI's Ontario LTC centres receive premiums for preferred accommodation. The average occupancy of our private beds in our "New" centres was 97.5% in the 2014 fourth quarter and 95.6% for the year, both of which improved over the same corresponding periods of 2013, primarily due to the full year of operation at our new northern Ontario centres. The average occupancy of our private beds at our "C" centres improved to 98.5% in the 2014 fourth quarter from 96.7% in the same 2013 period, and for the year improved to 97.6% in 2014 compared to 96.5% in 2013.

Revenue from provincial programs represented approximately 98% of ECI's home health care revenue in 2014 (2013 – 98%). ParaMed's average daily hours of service from its Ontario operations increased by 2.3% this quarter to 13,950 from 13,637 in the 2013 fourth quarter. In comparison to the 2014 third quarter, our average daily volumes in Ontario decreased this quarter by 1.6% from 14,172, and were impacted by a work stoppage related to a labour dispute that has since been resolved, and by declines in volumes at some of the community care access centres (CCACs) as they work to balance their budgets for the fiscal year. For 2014, ParaMed's Ontario volumes increased by 6.5% to 13,925 hours per day from 13,074 in 2013. For further information on the home health care operations, refer to the discussion under the heading "Update of Regulatory and Reimbursement Changes Affecting Results – Canadian Operations – Ontario Home Health Care Legislation and Funding".

IMPACT OF U.S. DOLLAR AND FOREIGN CURRENCY TRANSLATION

Impact on Financial Statements

The majority of our total operations are currently conducted in the United States, of which most of have been classified as discontinued as at December 31, 2014. Our total U.S. operations accounted for 74.6% of our consolidated assets at December 31, 2014, 100% of our earnings from discontinued operations, and 52.2% of our total AFFO in 2014. However, as a percentage of revenue and Adjusted EBITDA from continuing operations in 2014, our continuing U.S. operations represented only 4.2% and 1.8%, respectively.

Changes in the exchange rates used to translate the results of the U.S. operations to Canadian dollars can affect the comparison of the consolidated results. The following table illustrates the positive/(negative) effect of changes in the average exchange rates used in translating the U.S. results for the 2014 fourth quarter and for the 2014 year.

	Q4		Year	
Exchange Rate Impact on Periods	**2014**	2013	**2014**	2013
Average U.S./Canadian dollar exchange rate	**1.1351**	1.0489	**1.1045**	1.0299
Results *(millions of dollars)*				
Revenue	**0.7**		**2.3**	
Net operating income	**0.3**		**0.6**	
Adjusted EBITDA	**0.2**		**0.1**	
Earnings (loss) from continuing operations	**0.1**		**(0.2)**	
Earnings (loss) from discontinued operations	**1.0**		**(0.8)**	
Net earnings (loss)	**1.1**		**(1.0)**	
AFFO (continuing operations)	**0.2**		**(0.1)**	
AFFO	**0.8**		**2.6**	

The following table illustrates the contribution from our U.S. operations to selected line items of our financial results and the impact of a one-cent change in the Canadian dollar against the U.S. dollar on those line items, for each of 2014 and 2013.

	Results		Impact of One-Cent Change in Exchange Rate (1)	
U.S. Operations	**2014**	2013	**2014**	2013
(millions of dollars)	*US$*	*US$*	*C$*	*C$*
Revenue	***30.9***	*30.0*	**0.3**	0.3
Net operating income	***8.8***	*8.6*	**0.1**	0.1
Adjusted EBITDA	***1.2***	*(2.3)*	**–**	–
Earnings (loss) from continuing operations	***(2.6)***	*(6.1)*	**–**	–
Earnings (loss) from discontinued operations	***(21.7)***	*(4.6)*	**(0.2)**	–
Net earnings (loss)	***(24.2)***	*(10.7)*	**(0.2)**	(0.1)
AFFO (continuing operations)	***(0.8)***	*(4.4)*	**–**	–
AFFO	***34.8***	*32.8*	**0.3**	0.3
Total assets	***1,232.4***	*1,246.6*	**12.3**	12.5
Total liabilities	***1,091.2***	*992.2*	**10.9**	9.9

(1) A weaker Canadian dollar against the U.S. dollar has a positive effect on reported results; while a stronger Canadian dollar has a negative effect on reported results.

DIVIDEND POLICY

The declaration and payment of dividends by Extendicare is at the discretion of the Board as to the amount and timing of dividends to be declared and paid, after consideration of a number of factors including results of operations, requirements for capital expenditures and working capital, future financial prospects of Extendicare, debt covenants and obligations, and any other factors deemed relevant by the Board. If the Board determines that it would be in Extendicare's best interests, it may reduce, for any period, the amount and frequency of dividends to be distributed to holders of Common Shares.

As previously announced on April 29, 2013, the Board elected to reduce Extendicare's monthly dividend to $0.04 per share from $0.07 per share, commencing with the May 2013 dividend.

Dividends declared in 2014 totalled $42.1 million, or $0.48 per share, representing a payout ratio (dividends declared as a percentage of AFFO), of approximately 57% of AFFO of $73.7 million, or $0.84 per basic share. For 2013, dividends declared totalled $52.0 million, or $0.60 per share, representing approximately 73% of total AFFO of $71.1 million, or $0.820 per basic share.

Taxability of Dividends

Any distributions made by Extendicare Inc. on its Common Shares will be taxed as dividends. Any such dividends that are designated by Extendicare as "eligible dividends" for Canadian federal income tax purposes will qualify for the enhanced dividend tax credit. However, there may be limitations on the ability of Extendicare to designate all or any portion of any dividends as "eligible dividends", and accordingly, no assurance can be given as to the extent to which any dividends will be designated as "eligible dividends".

For U.S. tax purposes, any distributions made by Extendicare Inc. on its Common Shares to U.S. residents who meet the statutory holding period requirements for their shares, will be treated as a qualified dividend to the extent such distribution is paid from current or accumulated earnings and profits as determined under U.S. federal income tax principles. It is anticipated that Extendicare will calculate its current earnings and profits to determine the portion of its distributions that may be treated as qualified dividends and communicate this information to U.S. shareholders by January 31st following each calendar year end. Extendicare is not required by law to calculate its accumulated earnings and profits under U.S. federal income tax principles and it has not and will not calculate accumulated earnings and profits. Accordingly, any distributions in excess of current earnings and profits are required to be treated as non-qualified dividends.

2014 SELECTED ANNUAL INFORMATION

The following is a summary of selected annual financial information for each of 2014, 2013 and 2012.

(thousands of dollars unless otherwise noted)	**2014**	2013	2012
Financial Results			
Revenue	**816,119**	783,809	761,867
Earnings before depreciation, amortization, loss from asset impairment, disposals and other items	**74,666**	69,553	73,572
Earnings from continuing operations	**4,322**	10,165	17,296
per basic share/unit ($)	**0.05**	0.12	0.20
Earnings (loss) from discontinued operations	**(23,075)**	(4,882)	45,360
Net earnings (loss)	**(18,753)**	5,283	62,656
per basic share/unit ($)	**(0.21)**	0.06	0.74
per diluted share/unit ($)	**(0.21)**	0.06	0.68
AFFO (continuing operations)	**34,357**	32,851	32,875
per basic share/unit ($)	**0.392**	0.379	0.387
AFFO	**73,692**	71,114	84,569
per basic share/unit ($)	**0.840**	0.820	0.994
Cash distributions declared	**42,131**	52,023	71,497
per share/unit ($)	**0.480**	0.600	0.840
Financial Position *(at year end)*			
Total assets	**1,915,286**	1,849,088	1,807,916
Assets of disposal group held for sale	**1,254,535**	36,418	3,121
Liabilities of disposal group held for sale	**1,130,813**	16,356	512
Total non-current liabilities	**622,256**	1,378,943	1,390,122
Long-term debt (at year end)	**453,200**	1,016,785	1,038,787
Long-term debt including current portion (at year end)	**478,989**	1,164,836	1,132,235
U.S./Canadian dollar average exchange rate for the year	**1.1045**	1.0299	0.9996
U.S./Canadian dollar closing exchange rate at year end	**1.1601**	1.0636	0.9949

The selected information provided under the “Financial Results” heading for 2013 and 2012, reflects the classification of the U.S. operations identified as held for sale in 2014 as discontinued. A comparison between the 2014 and 2013 results is provided under the heading “2014 Financial Review”. In comparison to 2012, the results of the continuing operations in 2013 were negatively impacted by a reinsurance premium refund of $3.5 million recognized in 2012, start-up losses on our new northern Ontario centres, and the closing of our Alberta home health care operations. With respect to the earnings from discontinued operations of $45.4 million reported in 2012, these results included an after-tax gain of $35.0 million related to the sale of our U.S. group purchasing organization in January 2012.

The selected information provided under the “Financial Position” heading as at year end for each of 2014, 2013 and 2012 reflects only those operations identified as held for sale at the end of each of the respective periods, in accordance with IFRS. The assets held for sale of $3.1 million, as at December 31, 2012, related to four closed centres. The assets held for sale of $36.4 million as at December 31, 2013, related to 11 U.S. skilled nursing centres held for sale and one closed centre. The assets held for sale of $1,254.5 million, as at December 31, 2014, related to the operations to be sold in connection with the U.S. Sale Transaction and the remaining 10 U.S. skilled nursing centres that are not part of the U.S. Sale Transaction.

The closing rates used to translate the assets and liabilities of our U.S. operations were 1.1601 at December 31, 2014, 1.0636 at December 31, 2013, and 0.9949 at December 31, 2012. Total assets at the end of 2013 of $1,849.1 million increased by $41.2 million from $1,807.9 million at the end of 2012, primarily due to the impact of a weaker Canadian dollar at the end of 2013, which increased the assets of our U.S. operations by $89.1 million, and was partially offset by a decline in the balance of property and equipment as a result of depreciation in excess of capital expenditures. Total assets at the end of 2014 of $1,915.3 million increased by $66.2 million from the end of 2013, reflecting the impact of a weaker Canadian dollar, which increased the assets of our U.S. operations by $117.8 million, and was partially offset by the impact of depreciation and impairment charges on the balance of property and equipment and goodwill.

A comparison between the 2014 and the 2013 results is provided in the discussion under the headings "2014 Financial Review" and "Liquidity and Capital Resources".

2014 SELECTED QUARTERLY INFORMATION

The following is a summary of selected quarterly financial information.

				2014				2013
(thousands of dollars unless otherwise noted)	**Q1**	**Q2**	**Q3**	**Q4**	Q1	Q2	Q3	Q4
Revenue	**194,254**	**201,111**	**207,918**	**212,836**	189,175	194,121	195,113	205,400
Net operating income	**22,702**	**27,290**	**28,718**	**29,313**	23,672	25,556	27,679	29,190
Net operating income margin	***11.7%***	***13.6%***	***13.8%***	***13.8%***	*12.5%*	*13.2%*	*14.2%*	*14.2%*
Adjusted EBITDA	**13,887**	**18,184**	**19,572**	**23,023**	14,415	16,490	18,941	19,707
Adjusted EBITDA margin	***7.1%***	***9.0%***	***9.4%***	***10.8%***	*7.6%*	*8.5%*	*9.7%*	*9.6%*
Earnings (loss) from continuing operations	**(1,790)**	**1,804**	**3,082**	**1,126**	1,302	2,281	3,106	3,476
Earnings (loss) from discontinued operations	**732**	**(22,696)**	**(9,093)**	**7,982**	(1,906)	4,267	2,502	(9,745)
Net earnings (loss)	**(1,058)**	**(20,892)**	**(6,011)**	**9,208**	(604)	6,548	5,608	(6,269)
AFFO (continuing operations)	**6,380**	**8,371**	**9,002**	**10,604**	7,118	7,992	10,752	6,989
per basic share ($)	**0.073**	**0.096**	**0.102**	**0.121**	0.083	0.092	0.124	0.080
AFFO	**21,471**	**15,532**	**17,272**	**19,417**	18,223	22,100	20,380	10,411
per basic share ($)	**0.246**	**0.177**	**0.196**	**0.221**	0.211	0.255	0.235	0.119
Maintenance Capex								
Continuing operations	**496**	**2,499**	**3,414**	**6,352**	635	1,780	1,301	6,546
Discontinued operations	**4,254**	**3,428**	**3,451**	**3,547**	4,084	3,953	4,231	5,708
Cash dividends declared	**10,491**	**10,520**	**10,547**	**10,573**	18,122	13,004	10,435	10,462
per share ($)	**0.120**	**0.120**	**0.120**	**0.120**	0.210	0.150	0.120	0.120
Weighted Average Number of Shares								
Basic	**87,386**	**87,628**	**87,854**	**88,066**	86,221	86,658	86,922	87,140
Diluted	**104,355**	**102,710**	**99,099**	**99,311**	103,192	103,528	103,892	104,109
U.S./Canadian dollar average exchange rate for the period	**1.1033**	**1.0904**	**1.0891**	**1.1351**	1.0083	1.0234	1.0385	1.0489

The following is a reconciliation of "earnings (loss) from continuing operations before income taxes" to "Adjusted EBITDA" and "net operating income".

	2014				2013			
(thousands of dollars)	**Q1**	**Q2**	**Q3**	**Q4**	Q1	Q2	Q3	Q4
Earnings (loss) from continuing operations before income taxes	**(1,451)**	**3,523**	**4,740**	**2,029**	2,492	3,981	4,840	4,982
Add (Deduct):								
Depreciation and amortization	**5,705**	**5,710**	**5,749**	**6,680**	5,196	5,462	5,391	5,590
Net finance costs	**9,073**	**7,555**	**7,159**	**7,163**	6,716	6,777	8,076	8,087
Loss from asset impairment, disposals and other items	**560**	**1,396**	**1,924**	**7,151**	11	270	634	1,048
Adjusted EBITDA	**13,887**	**18,184**	**19,572**	**23,023**	14,415	16,490	18,941	19,707
Add (Deduct):								
Administrative costs	**7,542**	**7,840**	**7,890**	**5,021**	7,932	7,791	7,482	8,179
Lease costs	**1,273**	**1,266**	**1,256**	**1,269**	1,325	1,275	1,256	1,304
Net operating income	**22,702**	**27,290**	**28,718**	**29,313**	23,672	25,556	27,679	29,190

There are a number of factors affecting the trend of our quarterly results from continuing operations. For seasonal trends, while year-over-year quarterly comparisons will generally remain appropriate, sequential quarters can vary materially. We already report as separate line items, "fair value adjustments", "loss (gain) on foreign exchange and financial instruments" and "loss (gain) from asset impairment, disposals and other items", which are transitional in nature and would otherwise distort historical trends.

With respect to our core operations, the significant factors that impact the results from period to period are as follows:

- Ontario long-term care funding tied to flow-through envelopes requires revenue be matched with the related costs for resident care in the periods in which the costs are incurred, resulting in a fluctuation in revenue and operating expenses by quarter, such that they are generally at their lowest in the first quarter and at their highest in the fourth quarter;
- Ontario long-term care providers generally receive annual flow-through funding increases and CMI adjustments effective April 1st and accommodation funding increases effective July 1st, and Alberta long-term care providers generally receive annual inflationary rate increases and acuity-based funding adjustments on April 1st and accommodation funding increases effective July 1st;
- maintenance capex spending, which impacts our AFFO, fluctuates on a quarterly basis with the timing of projects and seasonality, and is generally at its lowest in the first quarter and its highest in the fourth quarter;
- utility costs are generally at their highest in the first quarter and their lowest in the third quarter, and can vary by as much as $1.5 million between the two quarters; and
- foreign currency exchange rate fluctuations between the U.S. and Canadian dollars and impact on translation of our U.S. operations from U.S. dollars to Canadian dollars.

Further details on the above can be found under the sections "Overview – Significant 2014 Events and Developments", "Key Performance Indicators", "Impact of U.S. Dollar and Foreign Currency Translation", "Other Significant Developments" and "Update of Regulatory and Reimbursement Changes Affecting Results".

ADJUSTED FUNDS FROM OPERATIONS

The following table provides a reconciliation of our Adjusted EBITDA to Funds from Operations (FFO) and AFFO.

	Three months ended December 31			Years ended December 31		
(thousands of dollars unless otherwise noted)	**2014**	2013	Change	**2014**	2013	Change
Adjusted EBITDA	**23,023**	19,707	3,316	**74,666**	69,553	5,113
Depreciation for FFEC (maintenance capex) [1]	**(2,466)**	(2,256)	(210)	**(9,394)**	(8,780)	(614)
Accretion costs	**(557)**	(488)	(69)	**(2,176)**	(1,906)	(270)
Interest expense	**(7,512)**	(8,905)	1,393	**(32,905)**	(34,501)	1,596
Interest income	**906**	1,204	(298)	**3,835**	4,171	(336)
	13,394	9,262	4,132	**34,026**	28,537	5,489
Current income tax expense (recovery) [2]	**824**	(219)	1,043	**4,063**	1,096	2,967
FFO (continuing operations)	**12,570**	9,481	3,089	**29,963**	27,441	2,522
Amortization of financing costs	**357**	370	(13)	**1,552**	1,597	(45)
Accretion costs	**557**	488	69	**2,176**	1,906	270
Principal portion of government capital funding payments	**1,006**	940	66	**4,033**	3,389	644
Additional maintenance capex [1]	**(3,886)**	(4,290)	404	**(3,367)**	(1,482)	(1,885)
AFFO (continuing operations)	**10,604**	6,989	3,615	**34,357**	32,851	1,506
Discontinued operations	**8,813**	3,422	5,391	**39,335**	38,263	1,072
AFFO [3]	**19,417**	10,411	9,006	**73,692**	71,114	2,578
Per Basic Share *($)*						
FFO (continuing operations)	**0.144**	0.109	0.035	**0.342**	0.316	0.026
FFO	**0.230**	0.167	0.063	**0.765**	0.770	(0.005)
AFFO (continuing operations)	**0.121**	0.080	0.041	**0.392**	0.379	0.013
AFFO	**0.221**	0.119	0.102	**0.840**	0.820	0.020
Per Diluted Share *($)*						
FFO (continuing operations	**0.144**	0.109	0.035	**0.342**	0.316	0.026
FFO	**0.214**	0.168	0.046	**0.747**	0.756	(0.009)
AFFO (continuing operations)	**0.121**	0.080	0.041	**0.392**	0.379	0.013
AFFO	**0.204**	0.124	0.080	**0.799**	0.784	0.015
Dividends *($)*						
Declared	**10,573**	10,462	111	**42,131**	52,023	(9,892)
Declared per share *($)*	**0.120**	0.120	–	**0.480**	0.600	(0.120)
Weighted Average Number of Shares						
Basic	**88,066**	87,140		**87,736**	86,738	
Diluted	**99,311**	104,109		**98,980**	103,708	

(1) These two line items combined represent the total of our maintenance capex incurred in the period. An amount equivalent to our depreciation for FFEC, or furniture, fixtures, equipment and computers, is deducted in determining FFO, and the difference in total maintenance capex incurred is adjusted for in determining AFFO.

(2) Excludes current income tax with respect to gains or losses on foreign exchange, financial instruments, asset impairment, disposals and other items that are excluded from the computation of AFFO.

(3) Refer to the reconciliation that follows under the heading "Reconciliation of Net Cash from Operating Activities to AFFO".

AFFO Fourth Quarter Financial Review

The following provides a breakdown of AFFO and maintenance capex between our Canadian and U.S. operations.

	Three months ended December 31						
			2014			2013	Total
(thousands of dollars unless otherwise noted)	**Canada**	**U.S.**	**Total**	Canada	U.S.	Total	Change
AFFO (continuing operations)	**7,665**	**2,939**	**10,604**	7,450	(461)	6,989	3,615
Discontinued operations	**–**	**8,813**	**8,813**	–	3,422	3,422	5,391
AFFO	**7,665**	**11,752**	**19,417**	7,450	2,961	10,411	9,006
Maintenance capex (continuing operations)	**5,806**	**546**	**6,352**	5,792	754	6,546	(194)
Discontinued operations	**–**	**3,547**	**3,547**	–	5,708	5,708	(2,161)
Maintenance capex	**5,806**	**4,093**	**9,899**	5,792	6,462	12,254	(2,355)
Average U.S./Canadian dollar exchange rate			**1.1351**			1.0489	

AFFO was $19.4 million ($0.221 per basic share) in the 2014 fourth quarter compared to $10.4 million ($0.119 per basic share) in the 2013 fourth quarter, representing an increase of $9.0 million, of which $5.4 million was from discontinued operations and $3.6 million was from continuing operations.

AFFO from continuing operations was $10.6 million ($0.121 per basic share) in the 2014 fourth quarter compared to $7.0 million in the 2013 fourth quarter ($0.080 per basic share). The improvement of $3.6 million was due to an increase in Adjusted EBITDA of $3.3 million, lower net finance costs of $1.1 million and a decline in maintenance capex of $0.2 million, partially offset by higher current taxes of $1.0 million. Current income taxes for the 2014 fourth quarter were $0.8 million representing 6.2% of pre-tax FFO from continuing operations, and were reduced by approximately $0.7 million due to the utilization of non-capital loss carryforwards. In comparison, current income taxes for the 2013 fourth quarter were a recovery of $0.2 million, with taxable income predominately sheltered by non-capital loss carryforwards. A discussion of Adjusted EBITDA from continuing operations can be found under the headings "2014 Fourth Quarter Financial Review" and "2014 Financial Review".

The improvement in AFFO from discontinued operations of $5.4 million was due to an increase in Adjusted EBITDA from discontinued operations of $11.0 million, of which $11.6 million related to a reduction in the self-insured liabilities expense, and lower maintenance capex of $2.2 million, partially offset by a $6.0 million increase in current taxes and higher net finance costs of $1.8 million.

AFFO 2014 Financial Review

The following provides a breakdown of AFFO and maintenance capex between our Canadian and U.S. operations.

	Years ended December 31						
			2014			2013	Total
(thousands of dollars unless otherwise noted)	**Canada**	**U.S.**	**Total**	Canada	U.S.	Total	Change
AFFO (continuing operations)	**35,231**	**(874)**	**34,357**	37,347	(4,496)	32,851	1,506
Discontinued operations	**–**	**39,335**	**39,335**	–	38,263	38,263	1,072
AFFO	**35,231**	**38,461**	**73,692**	37,347	33,767	71,114	2,578
Maintenance capex (continuing operations)	**10,438**	**2,323**	**12,761**	8,081	2,181	10,262	2,499
Discontinued operations	**–**	**14,680**	**14,680**	–	17,976	17,976	(3,296)
Maintenance capex	**10,438**	**17,003**	**27,441**	8,081	20,157	28,238	(797)
Average U.S./Canadian dollar exchange rate			**1.1045**			1.0299	

AFFO was $73.7 million ($0.840 per basic share) in 2014 compared to $71.1 million ($0.820 per basic share) in 2013, representing an increase of $2.6 million, of which $1.5 million was from continuing operations and $1.1 million was from discontinued operations.

AFFO from continuing operations was $34.4 million ($0.392 per basic share) in 2014 compared to $32.9 million in 2013 ($0.379 per basic share). The improvement of $1.5 million was due to an increase in Adjusted EBITDA of $5.1 million, lower net finance costs of $1.3 million, an increase in principal government capital funding payments of $0.6 million, partially offset by higher current taxes of $3.0 million and an increase in maintenance capex of $2.5 million. Current income taxes for 2014 were $4.1 million representing 11.9% of pre-tax FFO from continuing operations, and were reduced by approximately $2.0 million due to the utilization of non-capital loss carryforwards. In comparison, current income taxes for 2013 were $1.1 million and were reduced by approximately $5.6 million due to the utilization of non-capital losses.

The improvement in AFFO from discontinued operations of $1.1 million was due to an increase in Adjusted EBITDA from discontinued operations of $16.7 million, of which $10.5 million related to a reduction in the self-insured liabilities expense, and lower maintenance capex of $3.3 million, partially offset by a $15.4 million increase in current taxes and higher net finance costs of $3.5 million. The increase in current income taxes this year included higher withholding taxes on cross-border dividends of $6.3 million ($6.8 million this year compared to $0.5 million in 2013) and the impact of book-to-file adjustments that reduced current income taxes by approximately $4.8 million in 2013.

The effective tax rates on our FFO can be impacted by: adjustments to our estimates of annual deferred timing differences, particularly when dealing with cash-based tax items versus accounting accruals; changes in the proportion of earnings between taxable and non-taxable entities; book-to-file adjustments for prior year filings; cross-border dividends; and the ability to utilize loss carryforwards. The restructuring of our Canadian legal entities in mid-2012 enhanced our ability to utilize available non-capital loss carryforwards. Our Canadian non-capital loss carryforwards were utilized by the end of 2014. As a result, we anticipate that our annual effective tax rate on FFO from continuing operations for 2015 will increase over the 2014 level, to between 20% and 25%.

Maintenance capex from continuing operations of $6.4 million in the 2014 fourth quarter was relatively unchanged from $6.5 million incurred in the 2013 fourth quarter, and was higher from the 2014 third quarter level of $3.4 million, representing 3.0%, 3.2% and 1.6% of revenue from continuing operations, respectively. For the year, maintenance capex from continuing operations was $12.8 million compared to $10.3 million in 2013, representing 1.6% and 1.3% of revenue from continuing operations, respectively. These costs fluctuate on a quarterly basis with the timing of projects and seasonality. It is our intention to spend between 1.5% and 2.0% of revenue annually, which is consistent with our objective to maintain and upgrade our centres. In 2015, we are expecting to spend in the range of $13 million to $16 million in maintenance capex from continuing operations.

Reconciliation of Net Cash from Operating Activities to AFFO

The following table provides a reconciliation of the net cash from operating activities to AFFO.

	Three months ended December 31		Years ended December 31	
(thousands of dollars)	**2014**	2013	**2014**	2013
Net cash from operating activities	**16,893**	24,424	**85,607**	97,916
Add (Deduct):				
Net change in operating assets and liabilities, including interest and taxes	**21,621**	14,374	**(7,043)**	9,699
Current income tax on items excluded from AFFO (1)	**(4,232)**	977	**(17,828)**	(174)
Net expense and payments for self-insured liabilities	**(3,281)**	(15,523)	**(5,919)**	(11,762)
Depreciation for FFEC (maintenance capex) (2)	**(6,370)**	(5,407)	**(22,895)**	(22,018)
Principal portion of government capital funding payments	**1,006**	940	**4,033**	3,389
Additional maintenance capex (2)	**(3,529)**	(6,847)	**(4,546)**	(6,220)
Provision for U.S. government investigations	**–**	–	**42,240**	–
Property taxes under IFRIC 21	**(2,734)**	(2,529)	**–**	(51)
Other	**43**	2	**43**	335
AFFO	**19,417**	10,411	**73,692**	71,114

(1) Represents current income tax with respect to the provision for U.S. government investigations, property taxes accounted for under IFRIC 21, gains or losses on foreign exchange, financial instruments, asset impairment, disposal and other items that are excluded from the computation of AFFO.

(2) These two line items combined represent the total of our maintenance capex incurred in the period. An amount equivalent to our depreciation for FFEC, or furniture, fixtures, equipment and computers, is deducted in determining FFO, and the difference in total maintenance capex incurred is adjusted for in determining AFFO.

2014 FOURTH QUARTER FINANCIAL REVIEW

The following provides a breakdown of our consolidated statement of earnings (loss) between our Canadian and U.S. operations.

	Three months ended December 31						
			2014			2013	Total
(thousands of dollars)	**Canada**	**U.S.**	**Total**	Canada	U.S.	Total	Change
Revenue	**203,027**	**9,809**	**212,836**	197,052	8,348	205,400	7,436
Operating expenses	**177,303**	**6,220**	**183,523**	170,839	5,371	176,210	7,313
Net operating income	**25,724**	**3,589**	**29,313**	26,213	2,977	29,190	123
Administrative costs	**5,062**	**(41)**	**5,021**	5,628	2,551	8,179	(3,158)
Lease costs	**1,094**	**175**	**1,269**	1,136	168	1,304	(35)
Adjusted EBITDA	**19,568**	**3,455**	**23,023**	19,449	258	19,707	3,316
Depreciation and amortization	**5,797**	**883**	**6,680**	4,789	801	5,590	1,090
Loss from asset impairment, disposals and other items	**7,151**	**–**	**7,151**	1,048	–	1,048	6,103
Earnings (loss) before net finance costs and income taxes	**6,620**	**2,572**	**9,192**	13,612	(543)	13,069	(3,877)
Interest expense	**7,496**	**16**	**7,512**	8,890	15	8,905	(1,393)
Interest income	**(906)**	**–**	**(906)**	(1,204)	–	(1,204)	298
Accretion	**273**	**284**	**557**	261	227	488	69
Fair value adjustments	**–**	**–**	**–**	(103)	–	(103)	103
Loss on foreign exchange and financial instruments	**–**	**–**	**–**	1	–	1	(1)
Net finance costs	**6,863**	**300**	**7,163**	7,845	242	8,087	(924)
Earnings (loss) from continuing operations before income taxes	**(243)**	**2,272**	**2,029**	5,767	(785)	4,982	(2,953)
Income tax expense (recovery)							
Current	**880**	**(46)**	**834**	(192)	(50)	(242)	1,076
Deferred	**84**	**(115)**	**(31)**	1,731	17	1,748	(1,779)
Total income tax expense (recovery)	**964**	**(161)**	**803**	1,539	(33)	1,506	(703)
Earnings (loss) from continuing operations	**(1,207)**	**2,433**	**1,226**	4,228	(752)	3,476	(2,250)
Earnings (loss) from discontinued operations	**–**	**7,982**	**7,982**	–	(9,745)	(9,745)	17,727
Net earnings (loss)	**(1,207)**	**10,415**	**9,208**	4,228	(10,497)	(6,269)	15,477
Earnings (loss) from continuing operations	**(1,207)**	**2,433**	**1,226**	4,228	(752)	3,476	(2,250)
Add (Deduct) [(1)]**:**							
Fair value adjustment on convertible debentures	**–**	**–**	**–**	(103)	–	(103)	103
Loss on foreign exchange and financial instruments	**–**	**–**	**–**	1	–	1	(1)
Loss from asset impairment, disposals and other items	**6,199**	**–**	**6,199**	932	–	932	5,267
Earnings (loss) from continuing operations before separately reported gains/losses, net of taxes	**4,992**	**2,433**	**7,425**	5,058	(752)	4,306	3,119

(1) The separately reported items being added to or deducted from earnings (loss) from continuing operations are net of income taxes, and are non-GAAP measures. Refer to the discussion of non-GAAP measures.

The following provides a reconciliation of "earnings (loss) from continuing operations before income taxes" to "Adjusted EBITDA" and "net operating income".

	Three months ended December 31						
			2014			2013	Total
(thousands of dollars)	**Canada**	**U.S.**	**Total**	Canada	U.S.	Total	Change
Earnings (loss) from continuing operations before income taxes	**(243)**	**2,272**	**2,029**	5,767	(785)	4,982	(2,953)
Add (Deduct):							
Depreciation and amortization	**5,797**	**883**	**6,680**	4,789	801	5,590	1,090
Net finance costs	**6,863**	**300**	**7,163**	7,845	242	8,087	(924)
Loss from asset impairment, disposals and other items	**7,151**	**–**	**7,151**	1,048	–	1,048	6,103
Adjusted EBITDA	**19,568**	**3,455**	**23,023**	19,449	258	19,707	3,316
Add (Deduct):							
Administrative costs	**5,062**	**(41)**	**5,021**	5,628	2,551	8,179	(3,158)
Lease costs	**1,094**	**175**	**1,269**	1,136	168	1,304	(35)
Net operating income	**25,724**	**3,589**	**29,313**	26,213	2,977	29,190	123

The following provides our segmented "revenue", "operating expenses" and "net operating income".

Three months ended December 31 *(thousands of dollars)*	Long-term Care	Home Health Care	Other Canadian Operations	Corporate Canada	Total Canada	Total U.S.	Total
2014							
Revenue	**152,066**	**47,477**	**3,479**	**5**	**203,027**	**9,809**	**212,836**
Operating expenses	**134,363**	**41,110**	**1,830**	**–**	**177,303**	**6,220**	**183,523**
Net operating income	**17,703**	**6,367**	**1,649**	**5**	**25,724**	**3,589**	**29,313**
Net operating income margin (%)	***11.6%***	***13.4%***	***47.4%***	***100.0%***	***12.7%***	***36.6%***	***13.8%***
2013							
Revenue	149,676	44,717	2,636	23	197,052	8,348	205,400
Operating expenses	131,477	38,385	977	–	170,839	5,371	176,210
Net operating income	18,199	6,332	1,659	23	26,213	2,977	29,190
Net operating income margin (%)	*12.2%*	*14.2%*	*62.9%*	*100.0%*	*13.3%*	*35.7%*	*14.2%*
Change							
Revenue	2,390	2,760	843	(18)	5,975	1,461	7,436
Operating expenses	2,886	2,725	853	–	6,464	849	7,313
Net operating income	(496)	35	(10)	(18)	(489)	612	123

Consolidated Net Operating Income

Consolidated continuing operations – net operating income was relatively flat at $29.3 million in the 2014 fourth quarter compared to $29.2 million in the same 2013 period, representing 13.8% and 14.2% of revenue, respectively. Net operating income of our U.S. operations improved by $0.6 million, and was partially offset by a decline in net operating income of $0.5 million from Canadian operations, which was due to prior period revenue of $1.2 million recorded in 2013 in our long-term care operations.

Long-term care operations – net operating income declined by $0.5 million, representing an increase in revenue of $2.4 million, or 1.6%, offset by higher costs of $2.9 million. The revenue improvement of $2.4 million included approximately $2.2 million in the Ontario flow-through envelopes, other funding enhancements of $1.4 million, partially offset by lower prior period revenue of $1.2 million. Operating expenses increased by $2.9 million costs, of which $2.5 million was due to a 2.3% increase in labour costs.

Home health care operations – net operating income of $6.4 million this quarter was unchanged with revenue increases of $2.7 million offset by higher costs. Revenue improvements included an increase for government funded wage increases of approximately $2.1 million this quarter and a 2.3% increase in volumes, partially offset by lower rates due to changes in mix in services provided. Cost increases were primarily labour related and included an unfavourable year-end accrual adjustment of approximately $0.4 million.

Other Canadian operations – net operating income of $1.6 million this quarter from our management and group purchasing services was unchanged from the 2013 fourth quarter, with revenue improvements of $0.8 million due to growth in business offset by cost increases, which were negatively impacted by approximately $0.1 million of year-end accrual adjustments.

U.S. operations – net operating income improved by $0.6 million, which included a $0.3 million positive effect of the weaker Canadian dollar, and higher investment income from the Captive of $0.5 million, partially offset by a decline in health technology services provided by VCPI of $0.2 million primarily due to a decline in external clients.

Administrative Costs

Administrative costs of $5.0 million this quarter related to our Canadian operations. In comparison, the administrative costs in the 2013 fourth quarter of $8.2 million represented $5.6 million from our Canadian operations and $2.6 million from our U.S. operations. This quarter's costs were favourably impacted by the receipt of a prior period reinsurance premium refund of $2.8 million (US$2.6 million), and by lower professional fees.

Consolidated Adjusted EBITDA

Consolidated Adjusted EBITDA increased by $3.3 million to $23.0 million in the 2014 fourth quarter from $19.7 million in the same 2013 period, representing 10.8% and 9.6% of revenue, respectively. This improvement was primarily due to the decline in administrative costs of $3.2 million. Both periods were favourably impacted by prior period items, being the receipt this quarter of the reinsurance premium refund of $2.8 million, and the receipt in the 2013 fourth quarter of prior period revenue of $1.2 million. Excluding these items, Adjusted EBITDA would have been $20.1 million this quarter compared to $18.5 million in the 2013 fourth quarter, representing 9.5% and 9.1% of revenue, respectively.

Depreciation and Amortization

Depreciation and amortization costs increased by $1.1 million to $6.7 million in the 2014 fourth quarter, and included approximately $0.8 million due to the accelerated depreciation of replaced assets.

Loss (Gain) from Asset Impairment, Disposals and Other Items

Extendicare recorded a pre-tax loss of $7.2 million in the 2014 fourth quarter related to transaction costs in connection with the U.S. Sale Transaction of $6.5 million, and transaction costs in connection with the Home Health Acquisition of $0.7 million. In comparison, a pre-tax loss of $1.0 million was incurred in the 2013 fourth quarter related to: advisor fees of $1.3 million in connection with the Board's Strategic Review; and an asset impairment charge of $0.8 million; partially offset by a $1.0 million gain on the sale of two closed LTC centres; and a favourable adjustment of $0.1 million to the Alberta home health care closing costs.

Net Finance Costs

Net finance costs of $7.2 million in the 2014 fourth quarter were $0.9 million lower than the 2013 fourth quarter level of $8.1 million. This was primarily due to lower interest expense resulting from the settlement of the 2014 Debentures in June 2014, partially offset by the financing of the new northern Ontario centres completed in 2013.

Income Taxes

The income tax provision was $0.8 million on a pre-tax earnings of $2.0 million in the 2014 fourth quarter compared to a provision of $1.5 million on pre-tax earnings of $5.0 million in the 2013 fourth quarter, representing effective tax rates of 39.6% and 30.2%, respectively. The effective tax rates for each period were distorted by, among other things, fair value adjustments, gains and losses from financial instruments, foreign exchange, asset impairment, disposals, and other items. The effective tax rate on earnings before separately reported items was 19.1% this quarter compared to 27.4% in the 2013 fourth quarter. This change in rates was primarily due to the change in proportion of income among our taxable and non-taxable entities, in particular the non-taxable reinsurance premium refund of $2.8 million received this quarter.

Discontinued Operations

Earnings from discontinued operations were $8.0 million in the 2014 fourth quarter compared to a loss of $9.7 million in the 2013 fourth quarter. The 2014 fourth quarter results were favourably impacted by a reduction in depreciation and amortization expense of pre-tax $8.4 million, primarily as a result of the reclassification of these operations to assets held for sale this quarter. The 2013 fourth quarter results were unfavourably impacted by an increase in expense for self-insured liabilities of pre-tax $11.6 million ($9.5 million this quarter compared to $21.1 million in the 2013 fourth quarter) and by a pre-tax impairment charge of $7.3 million related to 11 nursing centres designated as held for sale in the 2013 fourth quarter.

2014 FINANCIAL REVIEW

The following provides a breakdown of our consolidated statement of earnings (loss) between our Canadian and U.S. operations.

	Years ended December 31						
	2014			2013			
(thousands of dollars)	**Canada**	**U.S.**	**Total**	Canada	U.S.	Total	Total Change
Revenue	**782,012**	**34,107**	**816,119**	752,961	30,848	783,809	32,310
Operating expenses	**683,655**	**24,441**	**708,096**	655,748	21,964	677,712	30,384
Net operating income	**98,357**	**9,666**	**108,023**	97,213	8,884	106,097	1,926
Administrative costs	**20,630**	**7,663**	**28,293**	20,758	10,626	31,384	(3,091)
Lease costs	**4,384**	**680**	**5,064**	4,497	663	5,160	(96)
Adjusted EBITDA	**73,343**	**1,323**	**74,666**	71,958	(2,405)	69,553	5,113
Depreciation and amortization	**20,413**	**3,431**	**23,844**	18,534	3,105	21,639	2,205
Loss from asset impairment, disposals and other items	**11,031**	**–**	**11,031**	1,963	–	1,963	9,068
Earnings (loss) before net finance costs and income taxes	**41,899**	**(2,108)**	**39,791**	51,461	(5,510)	45,951	(6,160)
Interest expense	**32,846**	**59**	**32,905**	34,412	89	34,501	(1,596)
Interest income	**(3,835)**	**–**	**(3,835)**	(4,171)	–	(4,171)	336
Accretion	**1,071**	**1,105**	**2,176**	1,023	883	1,906	270
Fair value adjustments	**(296)**	**–**	**(296)**	(3,099)	–	(3,099)	2,803
Loss on foreign exchange and financial instruments	**–**	**–**	**–**	519	–	519	(519)
Net finance costs	**29,786**	**1,164**	**30,950**	28,684	972	29,656	1,294
Earnings (loss) from continuing operations before income taxes	**12,113**	**(3,272)**	**8,841**	22,777	(6,482)	16,295	(7,454)
Income tax expense (recovery)							
Current	**4,248**	**(185)**	**4,063**	1,252	(179)	1,073	2,990
Deferred	**713**	**(257)**	**456**	5,107	(50)	5,057	(4,601)
Total income tax expense (recovery)	**4,961**	**(442)**	**4,519**	6,359	(229)	6,130	(1,611)
Earnings (loss) from continuing operations	**7,152**	**(2,830)**	**4,322**	16,418	(6,253)	10,165	(5,843)
Earnings (loss) from discontinued operations	**–**	**(23,075)**	**(23,075)**	–	(4,882)	(4,882)	(18,193)
Net earnings (loss)	**7,152**	**(25,905)**	**(18,753)**	16,418	(11,135)	5,283	(24,036)
Earnings (loss) from continuing operations	**7,152**	**(2,830)**	**4,322**	16,418	(6,253)	10,165	(5,843)
Add (Deduct) [(1)]**:**							
Fair value adjustment on convertible debentures	**(296)**	**–**	**(296)**	(3,099)	–	(3,099)	2,803
Loss on foreign exchange and financial instruments	**–**	**–**	**–**	519	–	519	(519)
Loss from asset impairment, disposals and other items	**9,162**	**–**	**9,162**	1,556	–	1,556	7,606
Earnings (loss) from continuing operations before separately reported gains/losses, net of taxes	**16,018**	**(2,830)**	**13,188**	15,394	(6,253)	9,141	4,047

(1) The separately reported items being added to or deducted from earnings (loss) from continuing operations are net of income taxes, and are non-GAAP measures. Refer to the discussion of non-GAAP measures.

The following provides a reconciliation of "earnings (loss) from continuing operations before income taxes" to "Adjusted EBITDA" and "net operating income".

	Years ended December 31						
	2014			2013			Total
(thousands of dollars)	**Canada**	**U.S.**	**Total**	Canada	U.S.	Total	Change
Earnings (loss) from continuing operations before income taxes	**12,113**	**(3,272)**	**8,841**	22,777	(6,482)	16,295	(7,454)
Add (Deduct):							
Depreciation and amortization	**20,413**	**3,431**	**23,844**	18,534	3,105	21,639	2,205
Net finance costs	**29,786**	**1,164**	**30,950**	28,684	972	29,656	1,294
Loss from asset impairment, disposals and other items	**11,031**	**–**	**11,031**	1,963	–	1,963	9,068
Adjusted EBITDA	**73,343**	**1,323**	**74,666**	71,958	(2,405)	69,553	5,113
Add (Deduct):							
Administrative costs	**20,630**	**7,663**	**28,293**	20,758	10,626	31,384	(3,091)
Lease costs	**4,384**	**680**	**5,064**	4,497	663	5,160	(96)
Net operating income	**98,357**	**9,666**	**108,023**	97,213	8,884	106,097	1,926

The following provides our segmented "revenue", "operating expenses" and "net operating income".

Years ended December 31 *(thousands of dollars)*	Long-term Care	Home Health Care	Other Canadian Operations	Corporate Canada	Total Canada	Total U.S.	Total
2014							
Revenue	**583,678**	**185,491**	**12,800**	**43**	**782,012**	**34,107**	**816,119**
Operating expenses	**515,128**	**161,750**	**6,777**	**–**	**683,655**	**24,441**	**708,096**
Net operating income	**68,550**	**23,741**	**6,023**	**43**	**98,357**	**9,666**	**108,023**
Net operating income margin (%)	***11.7%***	***12.8%***	***47.1%***	***100.0%***	***12.6%***	***28.3%***	***13.2%***
2013							
Revenue	568,870	174,087	9,858	146	752,961	30,848	783,809
Operating expenses	498,750	152,105	4,893	–	655,748	21,964	677,712
Net operating income	70,120	21,982	4,965	146	97,213	8,884	106,097
Net operating income margin (%)	*12.3%*	*12.6%*	*50.4%*	*100.0%*	*12.9%*	*28.8%*	*13.5%*
Change							
Revenue	14,808	11,404	2,942	(103)	29,051	3,259	32,310
Operating expenses	16,378	9,645	1,884	–	27,907	2,477	30,384
Net operating income	(1,570)	1,759	1,058	(103)	1,144	782	1,926

Consolidated Revenue

Consolidated continuing operations – revenue grew by $32.3 million to $816.1 million in 2014 from $783.8 million in 2013, substantially all of which was from same-facility operations. Revenue from our non same-facility operations, relating to our new LTC centres in northern Ontario and closed Alberta home health care operations, declined by $0.1 million (contributed $37.6 million in 2014 and $37.7 million in 2013). Refer to the glossary under the heading "Key Performance Indicators" for a description of what has been included in non same-facility operations.

Long-term care operations – revenue improved by $14.8 million to $583.7 million in 2014, with approximately $10.7 million of the increase realized from same-facility operations. Revenue from non same-facility operations contributed $4.1 million to the improvement ($37.6 million in 2014 and $33.5 million in 2013), reflecting the full year of operation of the new northern Ontario centres, which added 54 beds to our resident capacity and an improved mix of preferred accommodation. Revenue from same-facility operations improved by $10.7 million, or 2.0%, primarily due to funding enhancements of approximately $11.9 million, of which approximately $7.0 million related to our Ontario flow-through envelopes that were directly offset by increased costs of resident care, partially offset by lower prior period revenue of approximately $1.2 million. Average occupancy from same-facility operations remained relatively unchanged at 97.9% this year compared to 97.8% in 2013. Average daily revenue rates from same-facility operations improved by 1.9% over 2013.

Home health care operations – revenue improved by $11.4 million to $185.5 million, and was impacted by a decline of $4.2 million due to the closing of the Alberta operations in 2013. The increase in revenue from the Ontario home health care operations of $15.6 million included approximately $5.7 million of enhanced funding to support an increase in government-mandated wage increases, and the balance was largely due to a 6.5% increase in daily hours of service provided to 13,925 in 2014 from 13,074 in 2013.

Other Canadian operations – revenue from our management and group purchasing services increased by $2.9 million to $12.8 million in 2014, primarily due to the addition of approximately 1,100 beds to the managed portfolio during 2014.

U.S. operations – revenue increased by $3.3 million to $34.1 million, and included a $2.3 million positive effect of a weaker Canadian dollar. The balance of the improvement of $1.0 million included a $0.4 million increase in investment income, and a $0.6 million increase in revenue from our health technology services, provided through VCPI. VCPI generated total revenue of US$29.1 million in 2014 compared to US$28.5 million in 2013 that included services provided to EHSI of US$8.4 million and US$6.8 million in 2014 and 2013, respectively. Revenue from VCPI's external contracts declined by approximately US$1.0 million between periods primarily due to a reduction in clients served, from 2,356 centres at the beginning of the year to 2,130 centres at the end of 2014.

Consolidated Operating Expenses

Consolidated continuing operations – operating expenses increased by $30.4 million to $708.1 million in 2014 from $677.7 million in 2013, of which same-facility operations contributed an increase in expenses of $31.6 million that was partially offset by a decline in expenses from non same-facility operations. Operating expenses from non same-facility operations declined by $1.2 million ($33.6 million in 2014 compared to $34.8 million in 2013), of which $3.7 million related to the Alberta operations that closed in 2013, and was partially offset by an increase of $2.5 million in operating expenses of our new northern Ontario operations completed in 2013. The majority of our operating expenses are labour related, with labour costs representing 83.3% and 83.4% of operating expenses in 2014 and 2013, respectively, and as a percentage of revenue were 72.2% and 72.1%, respectively.

Long-term care operations – operating expenses increased by $16.4 million to $515.1 million in 2014, of which approximately $13.9 million was from same-facility operations. Operating expenses from non same-facility operations increased by $2.5 million ($33.6 million in 2014 and $31.1 million in 2013), reflecting the full year of operation of the new centres completed in 2013. The $13.9 million increase in operating expenses from same-facility operations was primarily due to higher labour costs, which increased by approximately $11.2 million, or 2.9% over 2013, and the balance included increases in repairs and maintenance of $1.0 million, food and supplies of $1.1 million, and utilities of $0.3 million. Labour costs of our long-term care operations represented 82.8% and 82.9% of operating expenses in 2014 and 2013, respectively.

Home health care operations – operating expenses increased by $9.6 million to $161.8 million, and included a decline of $3.7 million from the closed Alberta operations. The $13.3 million increase in operating expenses from our Ontario operations was due to a $13.3 million, or 10.0%, increase in labour costs, of which approximately $5.7 million, or 4.3%, related to the government funded wage increases, and the balance primarily due to growth in volumes. Labour costs of our home health care operations represented 89.7% and 88.9% of its operating expenses in 2014 and 2013, respectively.

Other Canadian operations – operating expenses from our management and group purchasing services increased by $1.9 million to $6.8 million in 2014, primarily related to increased staffing to support the growth in managed contacts and clients served.

U.S. operations – operating expenses of $24.4 million related to our health technologies services provided through VCPI, and increased by $2.5 million over 2013, of which $1.7 million was due to the negative effect of a weaker Canadian dollar. The balance of the increase in operating expenses of $0.8 million (US$0.8 million) included higher costs of US$1.6 million for services provided to EHSI, primarily associated with procurement and production services, partially offset by lower operating costs of US$0.8 million due to a reduction in external clients served.

Consolidated Net Operating Income

Consolidated net operating income from continuing operations improved by $1.9 million to $108.0 million in 2014 from $106.1 million in 2013, representing 13.2% and 13.5% of revenue, respectively. As discussed above, revenue increased by $32.3 million and was partially offset by higher operating expenses of $30.4 million. Improvements in net operating income were realized in our home health care and other Canadian operations largely due to increased volumes of business. The increase in net operating income from our U.S. operations of $0.8 million was due to a $0.6 million positive effect of the weaker Canadian dollar and higher investment income of $0.4 million from the Captive, partially offset by a decline in health technology services of $0.2 million. Net operating income of our long-term care operations declined by $1.6 million and included lower prior period revenue of $1.2 million, partially offset by a $1.6 million improvement from our non same-facility northern Ontario centres. The balance of the decline of $2.0 million in net operating income from long-term care operations reflected cost increases in excess of the funding enhancements, with average daily revenue rates increasing by approximately 1.9% compared to higher labour costs of approximately 2.9%.

Administrative Costs

Administrative costs of $28.3 million for the year included $20.6 million from our Canadian operations and $7.7 million from our U.S. operations. In comparison, the administrative costs in 2013 of $31.4 million represented $20.8 million from our Canadian operations and $10.6 million from our U.S. operations. The decline of $3.1 million in 2014, was primarily due to a prior period reinsurance premium refund of $2.8 million (US$2.6 million) recognized by the Captive this year. The balance of the decline of $0.3 million was largely due to a decline in professional fees, partially offset by an increase in our expense for share appreciation rights of $0.3 million.

Lease Costs

Lease costs declined by $0.1 million to $5.1 million in 2014, primarily due to the closing of our home health care operations in Alberta in 2013. The lease costs of our Canadian operations, totalling $4.4 million in 2014, related primarily to the 21 home health care branches across Ontario, and the corporate head office in Markham.

Consolidated Adjusted EBITDA

Consolidated Adjusted EBITDA increased by $5.1 million to $74.6 million in 2014 from $69.5 million in 2013, representing 9.1% and 8.9% of revenue, respectively. The improvement was realized from the increase in net operating income of $1.9 million and the reduction in administrative and lease costs of $3.2 million. Both years were favourably impacted by prior period items, being the receipt this year of the reinsurance premium refund of $2.8 million, and the receipt last year of prior period revenue of $1.2 million. Excluding these items, Adjusted EBITDA would have been $71.8 million this year compared to $68.3 million in 2013, and would have represented 8.8% and 8.7% of revenue, respectively.

Depreciation and Amortization

Depreciation and amortization costs increased by $2.2 million to $23.8 million in 2014, and included an increase of approximately $0.9 million related to the new northern Ontario properties in 2013, and approximately $0.8 million due to the accelerated depreciation of replaced assets.

Loss from Asset Impairment, Disposals and Other Items

Extendicare recorded a pre-tax loss of $11.0 million in 2014 related to: transaction costs in connection with the U.S. Sale Transaction of $7.8 million; transaction costs in connection with the Home Health Acquisition of $0.7 million; an asset impairment charge of $1.2 million; the settlement of the 2014 Debentures of $0.9 million; and advisor fees in connection with the Board's Strategic Review of $0.4 million. In comparison, a pre-tax loss of $1.9 million was incurred in 2013 related to: advisor fees of $2.1 million in connection with the Board's Strategic Review; an asset impairment charge of $0.8 million; a $0.2 million charge on the early retirement of debt; a $0.2 million charge on the closing of the Alberta home health care operations; partially offset by a $1.4 million gain on the sale of three closed LTC centres in Canada. For further information, refer to *note 19* of the audited consolidated financial statements.

Net Finance Costs

Net finance costs increased by $1.3 million to $31.0 million in 2014 and included an unfavourable change in fair value adjustments on convertible debentures of $2.8 million, partially offset by a favourable change in foreign exchange gains or losses of $0.5 million. Interest expense declined by $1.6 million between periods primarily due to the settlement of the 2014 Debentures in June 2014, partially offset by the financing of the new northern Ontario centres completed in 2013. Accretion costs of $2.1 million in 2014 were composed of the accretion of our discounted provision for self-insured liabilities by $1.1 million, the accretion of our 2019 Debentures by $0.7 million, and the accretion of our decommissioning provision by $0.3 million. The increase in accretion costs by $0.3 million over 2013, related to the provision for self-insured liabilities.

Income Taxes

The income tax provision from continuing operations was $4.5 million on pre-tax earnings of $8.8 million in 2014 compared to $6.1 million on pre-tax earnings of $16.3 million in 2013, representing effective tax rates of 51.1% and 37.6%, respectively. The effective tax rates for each period were distorted by, among other things, fair value adjustments, gains and losses from financial instruments, foreign exchange, asset impairment, disposals, and other items. The effective tax rate on earnings before separately reported items was 32.6% this year compared to 41.7% in 2013. This change in rates was primarily due to the change in proportion of income among our taxable and non-taxable entities.

Discontinued Operations

The loss from discontinued operations was $23.1 million in 2014 compared to $4.9 million in 2013 and was impacted by the provision for U.S. government investigations of pre-tax $42.2 million recorded in the 2014 second quarter, partially offset by a reduction in self-insured liabilities expense of pre-tax $10.5 million between years, and depreciation and amortization expense of pre-tax $12.0 million. For further information, refer to *note 22* of the audited consolidated financial statements.

OTHER SIGNIFICANT DEVELOPMENTS

The discussion under the heading "Overview – Significant 2014 Events and Developments", summarizes the 2010 U.S. Government Investigations, the Pennsylvania lease transaction, and significant financing activity. This section provides a summary of other developments that have impacted the financial results or operations of Extendicare for 2014 in comparison to 2013.

Development Projects

Under an initiative by the Ministry of Health and Long-Term Care (MOHLTC) to redevelop older long-term care centres in Ontario, ECI completed construction of two new LTC centres (436 beds) in northern Ontario during 2013. In 2009, ECI received approval to redevelop 382 LTC beds in the cities of Timmins and Sault Ste. Marie and to add an additional 54 LTC beds to its portfolio. Prior to completion of the new projects, ECI operated three LTC centres with 387 class "C" beds and leased one LTC centre with 95 interim beds in these communities. The new 256-bed LTC centre in Sault Ste. Marie was completed in March 2013 and opened to residents in April 2013, following which we closed two existing centres (263 beds). The new 180-bed LTC centre in Timmins was completed and opened to residents in October 2013, following which we closed an existing centre (119 beds). With the completion of these projects in Sault Ste. Marie and Timmins, ECI now owns and operates three LTC centres in these communities, consisting of 436 beds in two new LTC centres and 100 class "C" beds in an existing LTC centre to be considered for redevelopment at a later date. For further information on the MOHLTC redevelopment program, refer to the discussion under the heading "Update of Regulatory and Reimbursement Changes Affecting Results – Canadian Operations – Ontario Redevelopment Program".

The cost of the two northern Ontario projects was approximately $80 million, of which approximately 88% was financed through conventional financing secured in 2011. In addition, we are receiving a capital funding subsidy from the MOHLTC of approximately $2.0 million annually over a 25-year period. The combined annual Adjusted EBITDA of our four existing centres (482 beds) was approximately $3.0 million in 2012. It is anticipated that once the new centres are fully operational the incremental Adjusted EBITDA of our three centres (536 beds) will be approximately $1.8 million, excluding the capital funding for the two new centres (436 beds).

Financing Activity

CANADA

Royal Bank of Canada Credit Facility

Extendicare has a demand credit facility with the Royal Bank of Canada (the "RBC Credit Facility") that is secured by 13 class "C" LTC centres in Ontario and is guaranteed by certain Canadian subsidiaries of Extendicare. In February 2015, the RBC Credit Facility was amended to reduce the amount available to $44.8 million from $64.0 million as a result of changes in valuations. Under the terms of the new agreement, up to $39.8 million of the $44.8 million would be available for operating purposes, and the full $44.8 million would be available for letters of credit.

As at December 31, 2014, Extendicare had a letter of credit for $39.8 million issued under the RBC Credit Facility to secure executive pension obligations. This letter of credit renews annually based on an actuarial valuation of the pension obligations, and will increase to $42.8 million effective May 1, 2015, primarily due to lower discount rates and a weaker Canadian dollar. The RBC Credit Facility has no financial covenants, but does contain normal and customary terms including annual re-appraisals of the centres that could limit the maximum amount available.

2013/2014 Canadian Mortgage Refinancings

Effective August 1, 2013, ECI renewed its existing $15.4 million Canada Mortgage and Housing Corporation (CMHC) mortgage on three Ontario LTC centres for a term of five years at a fixed rate of 3.08%.

Effective September 5, 2013, ECI refinanced three Manitoba LTC centres with conventional mortgages totalling $26.0 million at a fixed rate of 4.14% for a term of seven years. The existing mortgages had a balance of $15.3 million at June 30, 2013, maturing in November 2013. A loss of $0.2 million in connection with the early retirement of this debt was recorded in the 2013 third quarter.

In January 2014, ECI committed to the renewal of 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%, effective March 1, 2014.

UNITED STATES

2013 U.S. Privatebank Loan Refinancing

In April 2013, EHSI closed on six mortgages insured with the U.S. Department of Housing and Urban Development Program (HUD) totalling US$37.7 million with a weighted average interest rate of 3.66%, inclusive of mortgage insurance premiums (MIP) of 0.65%, and a weighted average term to maturity of approximately 32 years. The proceeds were used to repay PrivateBank loans of US$33.8 million due to mature in November 2013. A loss of $0.4 million (US$0.4 million) in connection with the early retirement of this debt was recorded in the 2013 second quarter.

For further information on the U.S. and Canadian refinancings, refer to *note 13* of the audited consolidated financial statements.

Divestitures and Disposal Group Held for Sale

Assets to be disposed of are recorded at the lower of the carrying value or estimated fair value net of disposal costs. For further information, refer to *note 7* of the audited consolidated financial statements.

2014 ACTIVITY

As at December 31, 2014, Extendicare had assets held for sale of $1,254.5 million, and liabilities held for sale of $1,130.8 million, for a net book value of $123.7 million, representing the operations of EHSI, which included 166 senior care centres (16,094 beds) owned/leased by EHSI, located in 12 states.

As previously noted, the operations conducted through EHSI, representing substantially all of Extendicare's U.S. operations, have been classified as held for sale, and the sale transactions are anticipated to close in the 2015 second quarter (see discussion under the heading "Overview – Strategic Review – Sale of U.S. Business").

In March 2014, EHSI sold a closed nursing centre in Washington State for proceeds of US$0.2 million, and reported a nominal gain.

In September 2014, EHSI sold a skilled nursing centre (74 beds) in Washington State, for proceeds of US$1.9 million, resulting in a pre-tax gain on sale of $0.4 million (US$0.3 million).

2013 ACTIVITY

As at December 31, 2013, Extendicare had assets held for sale, net of liabilities, of $20.1 million consisting of 11 U.S. skilled nursing centres (980 beds) held for sale in various states and one closed nursing centre in Washington.

In December 2013, EHSI decided to sell 11 skilled nursing centres (980 beds) located in various states due to poor operational performance and the need for future capital expenditures. The assets and liabilities of these nursing centres, totalling $36.2 million (US$34.0 million) and $16.3 million (US$15.4 million), respectively, were classified as held for sale. In December 2013, we recorded an impairment charge of $7.3 million (US$6.8 million) to reduce the net book value of the properties to their estimated fair value net of disposal costs.

During 2013, we sold three Canadian properties (one in Alberta and two in Ontario) for proceeds of $3.7 million that had been closed following the completion of three new centres that we built in the same communities, resulting in a pre-tax gain on sale of $1.4 million.

Legal Proceedings and Regulatory Actions

The provision of health care services is subject to complex federal, state and provincial laws and regulations, including laws and regulations that are intended to prevent health care fraud and abuse. Extendicare and its consolidated subsidiaries are defendants in various actions and proceedings that are brought against them from time to time in connection with their operations. Recently adopted U.S. health care reform legislation has resulted in an increase in government oversight of the long-term care industry and, as a result, long-term care providers, including Extendicare, are experiencing an increase in government surveys, investigations, audits and scrutiny of their operations. In such circumstances, Extendicare cooperates in responding to information requests and takes the necessary corrective actions. Every effort is made by the Company to avoid or mitigate deficiencies in the quality of patient care through quality assurance strategies and to remedy any such deficiencies cited by government inspections within any applicable prescribed time period. Extendicare accrues for costs that may result from investigations (or any possible related litigation) to the extent that an outflow of funds is probable and a reliable estimate of the amount of the associated costs can be made.

As a result of any determination that Extendicare has violated the U.S. Social Security Act or other applicable laws and regulations in connection with a government investigation or otherwise, or in connection with any settlement of an allegation of the same, Extendicare may incur significant costs, fines, civil monetary penalties, recoupments and administrative penalties (including suspension or exclusion from participation in Medicare, Medicaid and other provider programs) and suffer other sanctions. Among other things, as part of the settlement of any investigation or as a result of litigation relating to an investigation, the Company may be required to assume specific procedural and financial obligations under a corporate integrity agreement, which would typically require the Company to retain a third-party monitor and to implement various new reporting and employee training requirements, and/or other arrangement with the government. Any of these outcomes could have a material adverse effect on the business, results of operations and consolidated financial position of Extendicare.

In October 2014, EHSI completed and executed a settlement agreement with the OIG and DOJ related to the settlement of the 2010 U.S. Government Investigations, which resulted in a payment of US$39.0 million that had been fully accrued for in the 2014 second quarter. As is standard practice in settlements of OIG and DOJ investigations, EHSI has entered into a corporate integrity agreement with the OIG for a five-year period effective October 3, 2014. For further information relating to the 2010 U.S. Government Investigations, refer to the discussion under the heading "Overview –Significant 2014 Events and Developments – 2010 U.S. Government Investigations", and *note 22* of the audited consolidated financial statements.

UPDATE OF REGULATORY AND REIMBURSEMENT CHANGES AFFECTING RESULTS

We operate in a competitive marketplace and depend substantially on revenue derived from government sources. Ongoing pressures from government programs, along with other health care payors seeking to control costs and/or limit reimbursement rates for medical services, are a risk to us. Government agencies have steadily increased their enforcement activity over the past several years. As a result, in addition to increasing resources to improve the quality of services provided to our residents, we are continually allocating increased resources to ensure compliance with applicable laws and regulations and to respond to inspections, investigations and/or enforcement actions. The costs incurred by our U.S. operations to respond to and/or defend surveys, inspections, audits and investigations are significant and are likely to increase in the current environment.

Non-compliance with applicable laws and licensure requirements governing long-term care could result in adverse consequences, including severe penalties, which may include criminal sanctions and fines, civil monetary penalties and fines, administrative and other sanctions, including exclusion from participation in government programs, or one or more third-party payor networks. We may be required to refund amounts that have been paid to us by government funding programs. These penalties could have a material adverse effect on the business, results of operations and financial condition of the Company. For information on the 2010 U.S. Government Investigations, refer to the discussion under the heading "Overview – Significant 2014 Events and Developments – 2010 U.S. Government Investigations", and *note 22* of the audited consolidated financial statements.

Canadian Operations

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. 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 most provinces, a license must be obtained from the applicable provincial ministry of health in order to operate an LTC centre. Currently, there is almost a universal restriction upon the issuance of new licenses across the country because of the funding implications for governments. In addition to the license procedure, or in some cases in place of, operators in Alberta, Manitoba, Ontario and Saskatchewan are required to sign service contracts that incorporate service expectations with the provincial government or regional health authority. In Ontario, the *Long-Term Care Homes Act, 2007* (the "LTC Act 2007"), that was proclaimed into force on July 1, 2010, 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.

ONTARIO REDEVELOPMENT PROGRAM

In Ontario, the MOHLTC announced plans in 2007 to redevelop 35,000 older long-term care beds in five phases over 15 years. The first phase of the renewal strategy was launched in April 2009, with eligible participants to receive a per diem construction funding subsidy over 25 years that started at $13.30 per bed for large centres of 100 beds or more. Existing centres to be renovated were eligible for relaxed retrofit standards at a reduced construction funding subsidy. Leadership in Energy and Environmental Design (LEED) construction standards were required to be met, and a per diem premium of $1.00 per bed was provided to those centres achieving LEED Silver status. The rate of redevelopments undertaken in phase one of the program was lower than anticipated. Therefore, following consultations with the sector, the MOHLTC announced in the fall of 2014 that an enhanced renewal strategy would be implemented in 2015, with a goal to completing the redevelopment of LTC centres by December 31, 2024. On February 27, 2015, the MOHLTC released a new construction funding subsidy policy and a new LTC centre design manual. The new per diem construction funding subsidy includes: an increase to the base rate from $13.30 to $16.65 per bed for large centres of 161 beds or more; an incremental per diem of $1.50 per bed for small centres with up to 96 beds; an incremental per diem of $0.75 per bed for medium centres with 97 – 160 beds; and a per diem of $0.38 per bed for those centres eligible for enhanced transition support. In addition, LTC centres are no longer required to meet LEED construction standards; however, those that achieve LEED Silver status will continue to receive a per diem premium of $1.00 per bed. As a first step towards scheduling redevelopment projects, all operators are to complete a survey to assist the MOHLTC with gauging interest and readiness, following which projects will be prioritized and scheduled. It is anticipated that late in 2015, operators will receive approval to proceed with the next phase of redevelopments. 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.

Under the first phase of the MOHLTC's redevelopment program launched in 2009, Extendicare completed the redevelopment of 382 class "C" beds through the construction of two new LTC centres (refer to "Other Significant Developments –Development Projects"). Extendicare owns 21 LTC centres with 3,287 class "C" beds in Ontario, which would be eligible for redevelopment under the government's enhanced redevelopment program. Should Extendicare decide to rebuild or renovate all of its remaining class "C" beds, management estimates that the total capital outlay will be in excess of $375 million, with the actual amount dependent on a number of factors, including the cost of construction and prescribed design standards. Management estimates that approximately 20% to 25% of the total cost will be required to be funded by equity.

ONTARIO LONG-TERM CARE FUNDING

Ontario is Extendicare's largest market for its senior care services. Funding for Ontario long-term care centres is based on reimbursement for the level of care assessed to be required by the residents, in accordance with scheduled rates. The 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 food). The funding for the nursing and personal care 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. Overall funding is occupancy-based, but once the average occupancy level of 97% or higher is achieved, operators receive 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%. Extendicare's LTC centres in Ontario averaged 98% occupancy in total during 2014, with only one of its centres averaging slightly below 97%.

All Ontario long-term care centres have implemented a new resident assessment instrument – minimum data set, or RAI-MDS. In April 2010, the MOHLTC began using the RAI-MDS 2.0 version to drive a new case-mix classification methodology using 34 categories based on a Resource Utilization Group (RUGs) funding model. This RUGs model will tie resident needs to costs of care in a more impartial and transparent way. In order to facilitate funding stability and prevent unsustainable funding swings during the implementation process of the new funding model, the MOHLTC implemented a 5% CMI corridor in 2012 and will continue with this funding scheme for all centres during fiscal 2014/2015.

On April 1st each year, the MOHLTC generally provides flow-through funding adjustments on the government funded portion of the fees. As a result of delays in passing the 2014 budget, details of the April 1, 2014 funding changes were not provided until September 2014, resulting in retroactive funding adjustments recorded in the 2014 third quarter. The April 1, 2014, funding increases to the NPC and PSS flow-through envelopes were 2%. These enhancements, along with our CMI adjustments, are estimated to provide additional revenue to Extendicare of approximately $4.8 million to offset additional costs for resident care and services within the NPC and PSS flow-through envelopes (April 2013 – $3.6 million).

On July 1st each year, the MOHLTC generally implements annual accommodation funding increases to the per diem rates provided to long-term care providers. The July 1, 2014 funding enhancements increased the daily rates for food costs by $0.07 (0.9%) and the non flow-through component of the accommodation envelope by $0.36 (0.7%). Extendicare estimates that this enhanced funding will increase its annual revenue by approximately $0.8 million (July 2013 – $1.3 million).

In addition, the MOHLTC introduced modest annual increases to the preferred accommodation premiums beginning in 2012, of $1.00 per day for semi-private accommodation and $1.75 per day for private accommodation. The increases in 2012 and 2013 were effective July 1st and the latest increase is effective September 1, 2014. The maximum preferred accommodation premiums increased on September 1, 2014, to $11.00 per day for semi-private and $23.25 per day for private. These annual increases are only applicable to newly admitted residents to beds that are classified as "New" or "A" beds. Residents of "B" and "C" beds will continue to pay the lower daily preferred accommodation premiums of $8.00 for semi-private accommodation and $18.00 for private accommodation. As at December 31, 2014, Extendicare had 13 "New" LTC centres (1,847 beds) in Ontario of which 1,099 beds offered preferred accommodation in the form of private rooms. We will benefit from this premium increase for preferred accommodation over time as new residents are admitted.

In October 2012, the MOHLTC announced changes that will improve the funding and related managerial flexibilities to all long-term care providers. Prior to this change, long-term care providers refunded to the MOHLTC any underspent amounts, or conversely absorbed the loss of any overspent amounts, for each of the flow-through envelopes separately. Effective January 1, 2013, long-term care operators are able to use underspent funds in the nursing or program envelopes to offset pressures in any other flow-through envelope. Extendicare has successfully managed to control its spending under the flow-through envelopes in the past; however, we welcome these changes. In addition, the MOHLTC implemented changes with respect to funding for high-intensity needs, which was previously provided on an application and cost reimbursement basis, and has provided additional funding to cover increased costs of care. Effective January 1, 2013, the daily rates to the flow-through envelopes increased by $1.03, which Extendicare estimates increased its annual revenue and operating costs by approximately $1.9 million.

ALBERTA LONG-TERM CARE LEGISLATION AND FUNDING

Alberta is Extendicare's second largest market for its senior care services. In Alberta, a new activity-based funding system for continuing care centres commenced on April 1, 2010. However, AHS continues to adjust the formulas and the accountabilities. The funding model includes a separate pool for quality incentives funding (QIF) that represents a "quality bonus" awarded to centres meeting or exceeding a set of pre-determined quality criteria. The QIF program was implemented on April 1, 2011, and was used to determine an operator's eligibility for 0.2% of its government funding, based on four pre-determined quality indicators. However, the QIF program has been placed on hold since fiscal 2013, pending further development. The Alberta Continuing Care Association is actively engaged in discussions with the Alberta Government and AHS to further increase care funding to accommodate expenses within continuing care, and to revise the existing funding model used within continuing care. Discussions between the parties resumed in the fall of 2014, following the selection of a new premier and the appointment of a new minister of health and a new minister of seniors. It is anticipated that a revised care funding model will be implemented for fiscal 2015.

Effective April 1, 2014, the Alberta government provided funding increases to long-term care providers that included an inflationary funding increase of approximately 2%, together with adjustments for CMI, occupancy and other factors. Extendicare estimates that its funding has improved by an average of 0.9% representing annual revenue of approximately $0.7 million (April 2013 – $1.6 million).

Effective July 1, 2014, the Alberta government provided a 3% increase in the long-term care and designated supportive living accommodation fees (the portion paid directly by the residents), to recognize the rising costs of delivering accommodation and related services. In addition, these fees are scheduled to rise again on July 1, 2015, and July 1, 2016, by the greater of 3%, or the annual increase in the Alberta Consumer Price Index (CPI). Beginning on July 1, 2017, annual accommodation charge adjustments will be based solely on inflation as reflected by Alberta's CPI. Accommodation fees previously increased in January 2013 at a rate of 5%, and in February 2011 at a rate of 3%. Extendicare estimates that the 3% increase in 2014 will contribute additional annual revenue of approximately $0.7 million (January 2013 – $1.3 million).

ONTARIO HOME HEALTH CARE LEGISLATION AND FUNDING

Through ParaMed, Extendicare is the largest provider of publicly funded home health care in Ontario. In October 2012, the MOHLTC implemented a new model for home health care that does not involve a competitive bidding process. All CCAC home health care contracts within the province concluded on September 30, 2012, and new open-ended, flexible CCAC home health care contracts commenced on October 1, 2012. ParaMed signed new open-ended contracts for all of its existing CCAC contracts. The agreements provide for six months' notice to providers for termination of a contract, and providers are to provide the CCAC with twelve months' notice of intention to give up a contract. The new service delivery model will place 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.

Under the new model, funding will be outcome-based and designed to promote consolidated care for clients in order to address needs and realize improved outcomes. Integrated care for defined population groups (such as hip and knee replacement and wound care) commenced in 2012 with a small number of clients, and will gradually expand as the service model is improved upon. This is a change from the current fee-for-service delivery model that is based on client referrals for a single service, with a set number of visits and reimbursement based on each completed visit.

A small number of CCACs are currently participating in a proof-of-concept period to test the model with select providers, including ParaMed. The government has not indicated when the new funding model will be implemented.

ParaMed is evaluating the anticipated effect of these changes to its current operations, and is actively engaged in determining the necessary changes to internal operational processes and external opportunities required to prepare for the introduction of consolidated service client care. Specific strategies for growth in this evolving market remain unknown at the present time. However, in order to minimize disruption to the sector, and thus client care, an effort to maintain current market share of existing service providers throughout the transition to outcome-based care for defined population groups is anticipated. We expect that superior quality service delivery will ensure retention of our current volumes and will also drive opportunities for future growth.

2014 Ontario Budget – Home Health Care

In July 2014, the Ontario government passed its 2014 budget (the "2014 Ontario Budget"), and as it relates to the home health care sector, the Ontario government made some significant and important investments to ensure more health care services are available in the home and in the community. The 2014 Ontario Budget assures Ontarians of the continued goal to support care at home through an increase in investments by over $750 million by fiscal 2016. This includes increasing the minimum wage for personal support workers, or PSWs, in the publicly funded home and community care sector by $4.00 per hour over three years to a minimum of $16.50 per hour. In September 2014, PSWs received an hourly wage increase of $1.50 retroactive to April 1, 2014, and are expected to receive an additional $1.50 on April 1, 2015, with a further $1.00 increase on April 1, 2016. It is anticipated that this investment will improve an operator's ability to recruit and retain PSWs in order to deliver high quality care and services in the community. The government had initially provided increased funding for the base wage increase plus an additional 16% to cover incremental benefit costs. However, the incremental benefit costs for providers in the industry were greater than 16%. Extendicare had estimated a shortfall in funding for the incremental benefit costs of approximately $1.0 million per annum by year three, of which $0.4 million per annum would be incurred in the first year. In response to the concerns raised by the industry, the government has agreed to increase the funding for the incremental benefit costs to 22.7% from 16% for the 2014/2015 fiscal year. While this addresses the shortfall for the first year, the government has not confirmed whether funding for incremental benefit costs will continue at these levels beyond March 31, 2015. Extendicare estimates that this government-funded wage increase has increased its revenue and labour costs by approximately $5.7 million for the nine months ended December 31, 2014. Based on current volumes, Extendicare estimates that the impact on its labour costs, once the full increase is implemented in year three, will be approximately $20.3 million per annum. Extendicare, along with others in the industry, applaud the government's recognition of the need to improve wages for PSWs in home health care. However, we continue to share our concerns with the government over the adequacy of funding for associated incremental costs beyond the 2014/2015 fiscal year.

U.S. Discontinued Operations

The following provides a summary of the regulatory and reimbursement changes affecting the results of our senior care operations in the United States. EHSI receives payment for its services and products from the federal (Medicare) and state (Medicaid) medical assistance programs, Managed Care organizations (including health maintenance organizations (HMOs) and preferred provider organizations), commercial insurers, the Department of Veterans Affairs, as well as from private payors. During 2014, approximately 48% of our U.S. resident admissions were Medicare funded and approximately 36% were Managed Care funded.

MEDICARE FUNDING

Market Basket Annual Increases

Changes in Medicare funding levels typically occur on October 1st of each year to coincide with the federal government's fiscal year. Medicare funding changes generally represent an inflationary increase for the Medicare Part A funding, otherwise referred to as a "market basket" increase. In addition, Medicare increases are also periodically adjusted for "forecasting errors" that are identified by the U.S. Centers for Medicare and Medicaid Services (CMS) based upon filed cost reports.

The net market basket increase implemented on October 1, 2014, was 2.0% (2013 – 1.3%), consisting of a market basket increase of 2.4% minus a productivity adjustment of 0.4%. We estimate that the impact of this funding increase will provide us with additional Medicare Part A and Managed Care revenue of approximately US$7.0 million per annum (2013 – US$5.1 million).

The CMS rule implementing the market basket increase on October 1, 2014, also includes transitioning to a new wage index system which utilizes the most recent definitions issued by the Office of Management and Budget (OMB) to delineate metropolitan statistical areas as well as urban versus rural designation. In an effort to mitigate the potential negative wage index impacts for some providers of this proposed adoption of the revised OMB delineations, CMS is phasing in these changes over two years. For the October 1, 2014 rates, the wage index for each provider consists of a blend of 50% of the current OMB delineations and 50% of the new OMB delineations. Though intended to be budget-neutral on a nationwide basis, it is estimated to increase our annual revenue by US$0.8 million beginning October 1, 2014.

Sequestration – 2% Medicare Funding Reduction, April 2013

The *Budget Control Act of 2011* requires, among other things, mandatory across-the-board reductions in U.S. Federal spending, also known as sequestration. These cuts were delayed until April 1, 2013, by the signing into law of the *American Taxpayer Relief Act of 2012* (the "ATRA") in January 2013. The impact to the long-term care industry is a 2% funding reduction effective April 1, 2013, which is estimated to reduce our Medicare and Managed Care revenue by approximately US$6.3 million per annum. Sequestration will remain in effect through to 2023, unless there are future legislative changes.

Medicare Part B – Multiple Procedure Payment Reduction, April 2013

Effective April 1, 2013, the ATRA implemented a reduction in the reimbursement for Medicare Part B services due to an increase in the multiple procedure payment reduction percentage from 25% to 50%. EHSI estimates that the impact of this is reducing its annual therapy revenue by approximately US$3.6 million. CMS had previously implemented a 25% reduction for residents receiving multiple therapies in the same day.

Reduction in Medicare Reimbursable Bad Debts, January 2013

The *Middle Class Tax Relief and Job Creation Act of 2012* was signed into law on February 22, 2012, and includes a 35% phased-in reduction to reimbursable bad debts for dually eligible beneficiaries (Medicare and Medicaid eligible) from 100% to 88% in calendar year 2013, 76% in calendar year 2014 and ultimately to 65% in calendar year 2015. Reimbursable bad debt consists primarily of Part A co-insurance claims for dually eligible residents in states whose Medicaid programs limit co-insurance coverage. These Medicaid programs limit payment when the net amount received from Medicare exceeds what the Medicaid program would have paid. The Medicaid programs in the majority of the states in which EHSI operates follow this policy. Federal law prohibits collection of this uncovered co-insurance directly from Medicaid beneficiaries. Therefore, it is only recoverable through the Medicare cost reporting process. EHSI files for reimbursement of approximately US$16 million per annum in reimbursable bad debts. Co-insurance is deducted from the Medicare rate after day 20 of a resident's stay. Therefore, this reduction in reimbursable bad debts has the effect of reducing the Medicare rates upon commencement of the co-insurance period. The reduction in reimbursement for bad debts reduced EHSI's revenue by US$1.3 million in 2012 (for transitional adjustments), US$2.7 million in 2013, and by US$4.6 million in 2014. Separately, EHSI obtains reimbursable bad debts for non-dually eligible Part A co-insurance bad debts of approximately US$0.6 million, which was reduced from 70% in 2012 to 65% in 2013.

Therapy Caps and Manual Medical Review Pre-approval Process, October 2012

In 2006, CMS implemented a cap on Part B therapy services for physical and speech therapy, which for 2014 was capped at US$1,920 and another cap for occupational therapy, which was also capped at US$1,920 for 2014. However, lobbying efforts have been successful in preventing the full implementation of the CMS caps through U.S. Congressional action that established exceptions for individuals who were able to prove medical necessity for the therapy. This exception process continues to be extended each year, the most recent of which was through the *Protecting Access to Medicare Act of 2014* (the "PAM Act"), that was signed into law in April 2014. The PAM Act extends the automatic exception process through to March 2015.

Effective October 1, 2012, CMS established a new medical review process for annual claims over US$3,700 for physical and speech therapy and a second medical review process for annual claims over US$3,700 for occupational therapy. The PAM Act has extended this review process through March 2015. Since its implementation in October 2012, EHSI has recorded negative revenue adjustments for denials of therapy services provided in excess of these caps of US$1.0 million in the 2012 fourth quarter, and US$2.3 million for the 2013 year. For 2014, EHSI recorded a credit to revenue of US$1.7 million due to improvements in settling these claims and due to changes in estimates for future collection of these amounts. In December 2014, EHSI submitted approximately 700 Medicare B claims (approximately US$1.3 million of denied claims) to the Office of Medicare Hearing and Appeals (OMHA) for participation in the CMS Settlement Conference Facilitation (SCF) pilot program. If approved by CMS, EHSI will undergo a mediation process for claims settlement with OMHA and CMS that is anticipated to occur in early 2015. This pilot program would bypass the traditional Medicare Administrative Law Judge Hearing process which currently has a significant backlog.

Proposed Cuts to Medicare Part B Rates

In November 2011, CMS issued a final payment rule for the 2012 Medicare Physician Fee Schedules that included proposed cuts of 27% to Medicare Part B rates (therapy services) effective January 1, 2012. If implemented, this proposed reduction to Medicare Part B rates is estimated to decrease EHSI's revenue by US$11 million per annum. These proposed cuts have been delayed each year by what is often referred to as the "Doc Fix". The latest such deferral was implemented on April 1, 2014, by the PAM Act, which postpones the cuts until April 1, 2015, and instead implements a 0.5% increase to December 31, 2014, with no further increase from January 1, 2014 to March 31, 2015. The industry continues to lobby for a more permanent solution.

2010 Health Care Reform Legislation Remains a Significant Factor

In March 2010, historic health care reform legislation, the *Patient Protection and Affordable Care Act* (H.R. 3590) (PPACA), was enacted into law at a cost of US$940 billion over 10 years. Amendments to the PPACA were enacted into law on March 30, 2010, with the passage of the *Health Care Education Affordability Act* (HCEAA). In June 2012, the U.S. Supreme Court upheld the constitutionality of most of the provisions of the PPACA and the re-election of the U.S. President in November 2012 eliminated the possibility of the PPACA being repealed. On July 2, 2013, the U.S. Department of Treasury announced that the effective dates of various provisions of the PPACA will be delayed from 2014 to 2015 to give the government and industry additional time to effectively implement these provisions due to their complexity. The U.S. Congress is considering various proposals to confirm the delay of these provisions and to also make other changes. At this point in time, U.S. organizations are not able to predict the final form of the health care reform changes; therefore, management is not able to clearly quantify the impact of such on the business, results of operations and financial condition of the Company.

The requirement by the PPACA that all employers with more than 50 employees provide health care insurance to all full-time employees, or pay an employer tax, came into effect for EHSI on January 1, 2015. To date, there has not been any material impact from the legislation on EHSI's health plan costs as a result of certain plan changes that EHSI implemented. At the present time, EHSI plans to continue to offer its health plan coverage to all of its full-time employees. However, it is difficult to quantify whether more employees will enrol in the plan; therefore, EHSI cannot determine the future financial impact of the legislation.

MEDICAID FUNDING

The decline in state tax revenue and increased demand for unemployment and Medicaid services, as a result of the economic downturn, has put state Medicaid budgets under considerable strain. Many states have implemented or expanded their provider tax programs (a tax imposed on providers of long-term care) as a means to increase the levels of funding contributed by the federal government to their Medicaid programs. However, these additional federal funds have only partially mitigated funding cuts of some of the states. Our respective federal and state health care associations have lobbied vigorously for continuation of consistent funding in the sector.

Annual Medicaid Rate Changes

With respect to the 11 states in which EHSI operates skilled nursing centres, annual Medicaid rate changes are effective on July 1st in seven of the states (Idaho, Indiana, Ohio, Oregon, Pennsylvania, Washington and Wisconsin); on October 1st in three of the states (Michigan, Minnesota and West Virginia); and on June 1st in Delaware.

The average net Medicaid funding changes effective in 2014, as of the respective dates for all 11 states in which EHSI operates, are estimated to be an increase of approximately 1.3%, or US$6.8 million on an annualized basis (2013 – net increase of 0.8%, or US$4.4 million). This estimate could be impacted by future changes in laws and regulations, CMI and occupancy, along with other factors.

LIQUIDITY AND CAPITAL RESOURCES

The following table summarizes the sources and uses of cash between our continuing and discontinued operations for each of 2014 and 2013.

			2014			2013
(thousands of dollars unless otherwise noted)	**Continuing**	**Discontinued**	**Total**	Continuing	Discontinued	Total
Cash provided by operating activities, before working capital changes and interest and income taxes	**73,806**	**67,370**	**141,176**	72,314	93,675	165,989
Net change in operating assets and liabilities						
Accounts receivable	**1,922**	**14,508**	**16,430**	(436)	6,682	6,246
Other current assets	**(548)**	**10,674**	**10,126**	2,245	2,296	4,541
Accounts payable and accrued liabilities	**(5,450)**	**(14,229)**	**(19,679)**	4,023	(19,956)	(15,933)
	(4,076)	**10,953**	**6,877**	5,832	(10,978)	(5,146)
Interest and taxes paid						
Interest paid	**(31,494)**	**(30,112)**	**(61,606)**	(33,044)	(26,541)	(59,585)
Interest received	**3,816**	**599**	**4,415**	4,190	467	4,657
Income taxes paid	**(676)**	**(4,579)**	**(5,255)**	1,461	(9,460)	(7,999)
	(28,354)	**(34,092)**	**(62,446)**	(27,393)	(35,534)	(62,927)
Net cash from operating activities	**41,376**	**44,231**	**85,607**	50,753	47,163	97,916
Net cash used in investing activities	**(30,373)**	**(19,349)**	**(49,722)**	(16,453)	(27,075)	(43,528)
Net cash used in financing activities	**(31,705)**	**(5,995)**	**(37,700)**	(12,944)	(19,428)	(32,372)
Foreign exchange gain on U.S. cash held	**49**	**4,566**	**4,615**	33	2,552	2,585
Increase (decrease) in cash and short-term investments	**(20,653)**	**23,453**	**2,800**	21,389	3,212	24,601
Cash and short-term investments at beginning of year	**56,148**	**39,851**	**95,999**	34,759	36,639	71,398
Cash and short-term investments at end of year	**35,495**	**63,304**	**98,799**	56,148	39,851	95,999
Average U.S./Canadian dollar exchange rate			**1.1045**			1.0299

As at December 31, 2014, Extendicare had cash and short-term investments of $98.8 million from continuing and discontinued operations, compared with $96.0 million at the beginning of the year, with cash from discontinued operations higher by $23.4 million, partially offset by a $20.6 million decline in cash from continuing operations.

Net cash from operating activities was a source of $85.6 million in 2014 compared to $97.9 million in 2013, representing a decrease of $12.3 million, primarily due to the decline in net earnings, which included the payment for the U.S. government investigations, partially offset by a favourable net change in operating assets and liabilities, primarily due to a reduction in accounts receivable and other current assets during the year, partially offset by an increase in accounts payable due to timing of payments.

With respect to our continuing operations, net cash from operating activities declined by $9.3 million to $41.4 million this year from $50.7 million in 2013, primarily due to an unfavourable net change in operating assets and liabilities, largely due to the impact of timing of the payroll cycle on accounts payable and accrued liabilities.

With respect to our discontinued operations, net cash from operating activities declined by $3.0 million to $44.2 million this year from $47.2 million in 2013, primarily due to the decline in net earnings, which included the payment for the U.S. government investigations, partially offset by a favourable net change in operating assets and liabilities, largely due to a reduction in accounts receivable and other current assets.

Net cash used in investing activities was $49.7 million in 2014 compared to $43.5 million in 2013. The activity for 2014 related primarily to expenditures for property, equipment and software of $30.2 million, an increase in investments held for self-insured liabilities of $20.4 million, and the exercise of a purchase option on a leased nursing centre for $6.9 million, partially offset by proceeds on sale of assets and collections on notes receivables. In comparison, the activity for 2013 primarily reflected expenditures for property, equipment and software of $55.8 million, partially offset by a decrease in investments held for self-insured liabilities of $6.9 million and proceeds on sale of assets and collections on notes receivable.

With respect to our continuing operations, net cash used in investing activities increased by $13.9 million to $30.4 million this year from $16.5 million in 2013, reflecting an increase in investments held for self-insured liabilities that was funded with intercompany payments from EHSI that are included under financing activities, partially offset by a reduction in growth capex due to the completion of the northern Ontario projects in 2013.

With respect to our discontinued operations, net cash used in investing activities declined by $7.7 million to $19.3 million this year from $27.0 million in 2013, primarily due to a decline in growth and maintenance capex, partially offset by the exercise of a purchase option on a leased nursing centre.

The following table summarizes the components of our property, equipment and software expenditures between our continuing and discontinued operations for each of 2014 and 2013.

			2014			2013
(thousands of dollars)	**Continuing**	**Discontinued**	**Total**	Continuing	Discontinued	Total
Growth capex						
Canadian operations	**608**	**–**	**608**	20,419	–	20,419
U.S. operations	**578**	**1,596**	**2,174**	498	7,830	8,328
Growth capex	**1,186**	**1,596**	**2,782**	20,917	7,830	28,747
Deduct capitalized interest	**–**	**–**	**–**	(1,232)	–	(1,232)
	1,186	**1,596**	**2,782**	19,685	7,830	27,515
Maintenance capex						
Canadian operations	**10,438**	**–**	**10,438**	8,081	–	8,081
U.S. operations	**2,323**	**14,680**	**17,003**	2,181	17,976	20,157
Maintenance capex	**12,761**	**14,680**	**27,441**	10,262	17,976	28,238
	13,947	**16,276**	**30,223**	29,947	25,806	55,753

Purchases of property, equipment and software, excluding acquisitions, were $30.2 million in 2014 compared to $55.8 million in 2013. Growth capex was $2.8 million in 2014 compared to $28.7 million in 2013, and related to the construction of new beds, building improvements or capital costs aimed at earnings growth. Maintenance capex, representing costs to sustain and upgrade existing property and equipment assets, was $27.4 million in 2014 compared to $28.2 million in 2013.

Maintenance capex from continuing operations of $12.8 million in 2014 and $10.3 million in 2013, represented 1.6% and 1.3% of revenue from continuing operations, respectively. It is our intention to spend between 1.5% and 2.0% of revenue annually on maintenance capex, which is consistent with our objective to maintain and upgrade our centres. We are projecting to spend in the range of $13 million to $16 million in maintenance capex from our continuing operations in 2015.

Net cash used in financing activities was $37.7 million in 2014 compared to $32.4 million in 2013. The activity for 2014 related primarily to cash dividends paid of $35.6 million and financing costs of $4.8 million, partially offset by a release of restricted cash of $2.7 million. The maturity of the 2014 Debentures in June 2014, totalling $113.9 million, was funded with proceeds from the issuance of the US$100.0 million under the 2014 PrivateBank Kentucky Loan. In addition, EHSI issued US$30.0 million under the 2014 PrivateBank Pennsylvania Loan, which was used to pay the 2014 U.S. Government Investigations in October. In comparison, the activity for 2013 related primarily to the payment of cash dividends of $45.5 million and financing costs of $2.1 million, partially offset by debt issuances in excess of repayments of $5.4 million, and a release of restricted cash of $9.8 million. For information on the change in long-term debt, refer to "Liquidity and Capital Resources – Long-term Debt".

With respect to our continuing operations, net cash used in financing activities was $31.7 million this year compared to $12.9 million in 2013. The increase in cash used in financing activities this year was primarily due to a decline in the amount of debt issued, as 2013 included new mortgages to finance the northern Ontario projects. The settlement of the 2014 Debentures this year was substantially funded through dividends received from EHSI on the issuance of U.S. debt.

With respect to our discontinued operations, net cash used in financing activities was $6.0 million this year compared to $19.4 million in 2013. This year's activities included an inflow of cash from debt issued in excess of repayments of $126.7 million, offset by intercompany payments of $133.4 million to Extendicare's continuing operations, largely to fund the settlement of the 2014 Debentures and the increase in the Captive's investments held for self-insured liabilities. The financing activities in 2013 related primarily to debt repayments in excess of issuances of $17.1 million.

Capital Structure

The following table summarizes the continuity of our capital structure for each of 2014 and 2013.

(thousands of dollars unless otherwise noted)	**2014**	2013
Shareholders' Equity (Deficiency)		
Common Shares	**482,950**	476,480
Equity portion of convertible debentures	**5,573**	5,573
Contributed surplus	**48**	48
	488,571	482,101
Accumulated deficit at beginning of year, as previously reported	**(442,251)**	(395,024)
Adoption of new standard on levies, applied retrospectively	**–**	(488)
Net earnings (loss) for the year	**(18,753)**	5,283
Dividends declared	**(42,131)**	(52,022)
Other	**(8)**	–
Accumulated deficit at end of year	**(503,143)**	(442,251)
Accumulated other comprehensive income (loss)	**12,068**	(2,471)
Shareholders' equity (deficiency)	**(2,504)**	37,379
U.S./Canadian dollar exchange rate at end of year	**1.1601**	1.0636

Share Information *(thousands)*	**February 28, 2015**	**December 31, 2014**	December 31, 2013
Common Shares (TSX symbol: EXE)[(1)]	**88,063.4**	**88,195.1**	87,266.5

(1) Closing market value per the TSX on February 28, 2015, was $6.93.

The closing rates used to translate assets and liabilities of the U.S. operations were 1.1601 at December 31, 2014, and 1.0636 at December 31, 2013. As a result of the weaker Canadian dollar at December 31, 2014, the assets of Extendicare's U.S. operations increased by approximately $117.8 million, partially offset by an increase in the liabilities of approximately $103.0 million, with the net change in foreign currency translation of $14.8 million included in accumulated other comprehensive income. Every one-cent increase (decrease) in the Canadian dollar against the U.S. dollar would impact the net assets of our U.S. operations by approximately $1.4 million ($0.3 million on net assets of our continuing U.S. operations), and would be reflected as a change in foreign currency translation adjustments in accumulated other comprehensive income (loss).

DISTRIBUTIONS

In 2014, we generated AFFO of $73.7 million and declared monthly dividends of $0.04 per share, totalling $42.1 million, which were paid out from February 18, 2014 to January 15, 2015. The portion distributed in cash was $35.7 million, and $6.4 million was by way of shares issued under a distribution reinvestment plan. A total of 928,565 Common Shares were issued in 2014 through the distribution reinvestment plan.

In 2013, we generated AFFO of $71.1 million and declared dividends totalling $52.0 million that were paid out from February 15, 2013 to January 15, 2014. The portion distributed in cash was $43.7 million, and $8.3 million was by way of shares issued under a dividend reinvestment plan. A total of 1,277,135 Common Shares were issued in 2013 through the dividend reinvestment plan.

There are a number of factors that affect the quarterly funds generated for distribution that our Board takes into consideration in determining the monthly distributions for the year. Factors affecting quarterly trends in earnings are discussed under the headings "2014 Selected Quarterly Information", "Adjusted Funds from Operations", "2014 Fourth Quarter Financial Review" and "2014 Financial Review".

The declaration and payment of future distributions is at the discretion of our Board as to the amount and timing of dividends to be declared and paid, after consideration of a number of factors including results of operations, requirements for capital expenditures and working capital, future financial prospects of Extendicare, debt covenants and obligations, and any other factors deemed relevant by the Board. If our Board determines that it would be in Extendicare's best interests, it may reduce, for any period, the amount and frequency of dividends to be distributed to holders of Common Shares.

NORMAL COURSE ISSUER BID

On December 24, 2014, Extendicare received the approval of the TSX to make a normal course issuer bid (the "Bid") to purchase for cancellation up to 8,630,000 Common Shares (approximately 10% of the public float) through the facilities of the TSX, and on alternative Canadian trading platforms. The Bid commenced on December 31, 2014, and provides Extendicare with flexibility to repurchase Common Shares for cancellation until December 30, 2015. Subject to the TSX's block purchase exception, on any trading day, purchases under the Bid will not exceed 68,410 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. The Company did not acquire any shares for cancellation under the Bid during 2014. As at March 16, 2015, the Company had acquired 708,000 Common Shares at an average price of $7.05 per share, for a total cost of $5.0 million.

ACCRUAL FOR SELF-INSURED LIABILITIES

As a result of the pending sale of our U.S. senior care operations, our expense for self-insured liabilities has been reclassified to discontinued operations. However, the obligation to settle any claims incurred prior to the closing of the sale transactions, including claims incurred but yet to be reported, remains with Extendicare and the Captive. Consequently, the balance of the accrual for self-insured liabilities and the related investments held for self-insured liabilities remain on the consolidated statement of financial position as part of the Company's continuing operations.

The accrual for self-insured liabilities is based on management's best estimate of the ultimate cost to resolve general and professional liability claims, including both known claims and claims that have been incurred but not yet reported by the end of the reporting period. General and professional liability claims are the most volatile and significant of the risks for which Extendicare self-insures. Actual results can differ materially from the estimates made due to a number of factors including the assumptions used by management and other market factors.

As at December 31, 2014, the accrual for self-insured general and professional liabilities increased by $18.1 million (US$6.6 million) to $133.4 million (US$115.0 million) from $115.3 million (US$108.4 million) at the beginning of the year. The current period expense, net of claim payments, increased the accrual by $5.9 million, and was further impacted by the weaker Canadian dollar and accretion of the discount.

In 2014, payments for self-insured liabilities were $38.1 million (US$34.5 million), and our expense for potential general and professional liability claims was $44.0 million (US$39.8 million). For the first, second, third and fourth quarters of 2014, our expense was: US$6.7 million, US$10.7 million, US$14.1 million and US$8.3 million, respectively. We conducted independent actuarial reviews three times during the year, in the second and third quarters and again at year end. The results of the reviews conducted in the second and third quarters necessitated the strengthening of reserves primarily due to adverse development of our Pennsylvania-based claims.

In 2013, payments for self-insured liabilities were $42.7 million (US$41.5 million) and the expense for potential general and professional liability claims was $54.5 million (US$52.9 million). The results of our three independent actuarial reviews completed during 2013, necessitated the continued strengthening of our reserves. Our quarterly expense for 2013 was US$9.4 million, US$9.2 million, US$14.0 million, and US$20.3 million, respectively. Approximately US$22.2 million of the total US$52.9 million recorded in 2013 related to our former Kentucky operations, as we continue to process the settlement of those claims. We estimate that approximately US$18.7 million of the expense recorded in 2013 related to our Pennsylvania operations, with the balance of US$12.0 million related to other states.

Management regularly evaluates and periodically engages an independent third-party actuary to provide a report to determine the appropriateness of the carrying value of this liability. We conduct an independent actuarial review three times during the calendar year, in the second and third quarters, and at year end. Assumptions underlying the determination of the liability are limited by the uncertainty of predicting future events and assessments regarding expectations of several factors. Such factors include, but are not limited to: the frequency and severity of claims, which can differ materially by jurisdiction; trends in claims along with unique and identifiable settlements; coverage limits of third-party reinsurance; the effectiveness of the claims management process; and the outcome of litigation. Therefore, management's estimate of the accrual for general and professional liability claims is significantly influenced by assumptions that are subject to judgement by management and the actuary, which may cause the expense to fluctuate significantly from one reporting period to another. Differences between the ultimate claims costs and our historical expense for loss and actuarial assumptions and estimates could have a material adverse effect on our business, operating results and financial condition.

Most of the risks that Extendicare self-insures are long-term in nature, and accordingly, claim payments for any particular policy year occur over a long period of time. However, management estimates and allocates a current portion of the accrual for self-insured liabilities on the statement of financial position. As at December 31, 2014, management estimated that $26.0 million of the accrual for self-insured general and professional liabilities will be paid within the next year. The timing of payments is not directly within management's control; therefore, estimates could change in the future.

Within our Bermuda-based captive insurance company, we hold investments sufficient to support the accrual for self-insured liabilities and to meet the required statutory solvency and liquidity ratios. These invested funds are reported in other assets and totalled $154.2 million (US$132.9 million) at December 31, 2014, compared to $118.8 million (US$111.7 million) at December 31, 2013. Management believes there are sufficient cash resources to meet estimated current claims payment obligations.

LONG-TERM DEBT

Continuity of Long-term Debt

The following summarizes the changes in the carrying amounts of long-term debt for each of 2014 and 2013, broken out between continuing and discontinued operations as identified at December 31, 2014. However, for 2013, the $10.3 million of long-term debt classified as liabilities of disposal group held for sale related solely to the 11 U.S. skilled nursing centres that had been classified as held for sale at December 31, 2013.

		2014			2013	
(millions of dollars)	**Continuing**	**Discontinued**	**Total**	Continuing	Discontinued	Total
Long-term debt at beginning of year, prior to financing costs	**614.2**	**590.8**	**1,205.0**	594.0	569.0	1,163.0
Issue of long-term debt						
Mortgages	**–**	**142.2**	**142.2**	26.0	38.3	64.3
Construction loans	**–**	**–**	**–**	30.3	–	30.3
Notes payable/other	**7.3**	**–**	**7.3**	1.1	–	1.1
Net repayment of EHSI Credit Facility	**–**	**(2.3)**	**(2.3)**	–	(6.2)	(6.2)
Repayment of long-term debt	**(20.0)**	**(13.3)**	**(33.3)**	(34.9)	(49.2)	(84.1)
Settlement of 2014 Debentures at face value	**(113.9)**	**–**	**(113.9)**	–	–	–
Revaluation of convertible debentures carried at fair value and accretion	**0.4**	**–**	**0.4**	(2.4)	–	(2.4)
Change due to year-end foreign exchange rate	**0.1**	**61.3**	**61.4**	0.1	38.9	39.0
	488.1	**778.7**	**1,266.8**	614.2	590.8	1,205.0
Financing costs at end of year	**(9.1)**	**(22.0)**	**(31.1)**	(10.5)	(19.3)	(29.8)
Long-term debt at end of year	**479.0**	**756.7**	**1,235.7**	603.7	571.5	1,175.2
Less: portion classified as liabilities of disposal group held for sale	**–**	**(756.7)**	**(756.7)**	–	(10.3)	(10.3)
Less: current portion	**(25.8)**		**(25.8)**	(138.5)	(9.6)	(148.1)
	453.2	**–**	**453.2**	465.2	551.6	1,016.8

Long-term debt of the combined continuing and discontinued operations, including current portion and net of financing costs, was $1,235.7 million at December 31, 2014, compared with $1,175.2 million at December 31, 2013. Long-term debt of the continuing operations totalled $479.0 million as at December 31, 2014, compared to $603.7 million at December 31, 2013, representing a decline of $124.7 million primarily due to the settlement of the 2014 Debentures. Long-term debt of the U.S. discontinued operations totalled $756.7 million as at December 31, 2014, compared to $571.5 million as at December 31, 2013, representing an increase of $185.2 million. This increase was primarily due to the issuance of $142.2 million of new mortgage debt, of which a portion of the proceeds was used to fund a US$110.5 million cross-border dividend to finance the settlement of the 2014 Debentures.

Details of the components, terms and conditions of long-term debt are provided in *note 13* of the audited consolidated financial statements. Extendicare and its subsidiaries are in compliance with all of their respective financial covenants as at December 31, 2014.

Long-term Debt Maturities and Weighted Average Interest Rates

The table below presents the principal, or notional, amounts and related weighted average interest rates by year of maturity of the Company's long-term debt obligations as at December 31, 2014, including those of its U.S. discontinued operations whose liabilities have been classified as liabilities of disposal group held for sale.

(millions of dollars unless otherwise noted)	2015	2016	2017	2018	2019	After 2019	**Total**	Fair Value
Canadian Operations								
Convertible debentures (at face value)								
Fixed rate	–	–	–	–	126.5	–	**126.5**	127.9
Average interest rate	–	–	–	–	6.00%	–	**6.00%**	
Long-term debt								
Fixed rate	14.5	21.0	31.8	18.6	9.7	161.8	**257.4**	273.3
Average interest rate	4.47%	4.48%	4.48%	4.65%	4.84%	4.95%	**4.52%**	
Note payable								
Fixed rate	7.0	–	–	–	–	–	**7.0**	7.0
Average interest rate	2.00%	–	–	–	–	–	**2.00%**	
Finance lease obligations								
Fixed rate	5.3	5.7	6.1	6.5	7.0	70.1	**100.7**	119.8
Average interest rate	7.00%	7.00%	7.00%	7.00%	7.00%	6.99%	**6.99%**	
U.S. Continuing Operations (1)								
Finance lease obligations								
Fixed rate	0.4	0.1	0.1	–	–	–	**0.6**	0.6
Average interest rate	8.34%	10.59%	10.23%	–	–	–	**7.74%**	
U.S. Discontinued Operations (1) (2)								
Long-term debt								
Fixed rate	12.4	12.8	13.3	13.9	14.4	562.0	**628.8**	637.1
Average interest rate	4.28%	4.28%	4.28%	4.28%	4.28%	4.30%	**4.30%**	
Variable rate	2.8	3.0	3.2	3.3	137.3	–	**149.6**	149.6
Average interest rate	4.85%	4.85%	4.85%	4.85%	4.85%	–	**4.85%**	
Finance lease obligations								
Fixed rate	0.4	–	–	–	–	–	**0.4**	0.4
Average interest rate	5.87%	–	–	–	–	–	**5.87%**	

(1) U.S. dollar denominated debt is translated to Canadian dollars at a rate of 1.1601.

(2) The debt obligations of the U.S. discontinued operations have been included in liabilities held for sale.

Management has limited the amount of debt that may be subject to changes in interest rates. All of the long-term debt of the Company's continuing operations is at fixed rates, and all but $149.6 million (US$129.0 million) of the debt outstanding of our discontinued operations at December 31, 2014, was at fixed rates.

With respect to our continuing operations, the weighted average interest rate of our long-term debt as at December 31, 2014, was unchanged from last year at approximately 5.4%. The weighted average term to maturity of our long-term debt, including finance lease obligations, was 9.9 years at the end of 2014, compared to 8.9 years at the end of 2013. Excluding our finance lease obligations, the weighted average term to maturity of our long-term debt was 9.2 years at the end of 2014, compared to 7.9 years at the end of 2013.

In addition, the consolidated interest coverage ratio with respect to our continuing operations was 2.6 times for 2014, compared to 2.3 times in 2013. Interest coverage is defined as Adjusted EBITDA divided by net interest, which represents interest expense net of interest revenue.

OTHER CONTRACTUAL OBLIGATIONS

The table below provides summary information about the contractual obligations, other than long-term debt, as at December 31, 2014. Due to the uncertainty as to the timing of payments to be made with respect to certain obligations, the table excludes our accrual for self-insured liabilities of $133.4 million and our decommissioning provisions totalling $33.5 million, of which $7.5 million are continuing and $26.0 million have been classified as liabilities of disposal group held for sale. In addition, the table excludes our defined benefit pension plan obligations, which are described more fully below.

(millions of dollars)	**Total**	2015	2016	2017	2018	2019	After 2019
Continuing Operations							
Operating lease obligations	**7.6**	2.1	1.8	1.6	1.2	0.9	–
Purchase obligations	**–**	–	–	–	–	–	–
Discontinued Operations (1)							
Operating lease obligations	**26.0**	6.1	5.4	4.9	4.0	3.8	1.8
Purchase obligations	**1.3**	1.3	–	–	–	–	–
	34.9	9.5	7.2	6.5	5.2	4.7	1.8

(1) Obligations denominated in U.S. dollars are translated to Canadian dollars at a rate of 1.1601.

Defined Benefit Pension Plan Obligations

The contractual obligations table excludes our defined benefit pension plan obligations. The accrued benefit liability on our statement of financial position as at December 31, 2014, was $38.8 million (2013 – $35.2 million). We currently have defined benefit registered and supplementary plans covering certain executives, both of which have been closed to new entrants since 2000. The registered defined benefit plan was in an actuarial deficit of $2.2 million with plan assets of $5.7 million and accrued benefit obligations of $7.9 million as at December 31, 2014 (2013 – an actuarial deficit of $1.6 million with plan assets of $5.7 million and accrued benefit obligations of $7.3 million). The accrued benefit obligations of the supplementary plan were $36.6 million as at December 31, 2014 (2013 – $33.6 million). We do not set aside assets in connection with the supplementary plan and the benefit payments will be paid from cash from operations. The benefit obligations under the supplementary plan are secured by a letter of credit totalling $39.8 million as at December 31, 2014 (2013 – $42.0 million). This letter of credit renews annually based on an actuarial valuation of the pension obligations, and will increase to $42.8 million effective May 1, 2015, primarily due to lower discount rates and a weaker Canadian dollar. The expected annual benefit payments under the supplementary pension plan that will be funded from cash from operations over the next five years range between $2.2 million and $2.4 million, and the annual contributions to the registered pension plan over the next five years are expected to be less than $0.1 million. Since the majority of our accrued benefit obligations represent our obligation under our non-registered supplementary plan, which is not required to be funded, changes in future market conditions are not expected to have a material adverse effect on our cash flow requirements with respect to our pension obligations, or on our pension expense. For further information on the defined benefit pension plan obligations, refer to *note 25* of the audited consolidated financial statements.

Future Liquidity and Capital Resources

As at December 31, 2014, Extendicare's consolidated cash on hand from continuing operations totalled $35.5 million, of which $34.8 million was held by our Canadian operations, and $0.7 million was held by our U.S. operations. In addition, cash on hand excluded restricted cash of $1.1 million related to future capital expenditures and $154.2 million of investments held by our Captive to support the accrual for self-insured liabilities. Our continuing operations are currently projected to spend in the range of $13 million to $16 million in maintenance capex in 2015.

As at December 31, 2014, our U.S. discontinued operations had cash on hand of $63.3 million (US$54.6 million) and restricted cash of $14.8 million (US$12.8 million), related primarily to obligations under the HUD mortgages. The Company will benefit from any excess cash generated by the U.S. operations to the time of closing of the U.S. Sale Transaction. Any excess cash on hand at the time of closing (including restricted cash under the HUD mortgage loans), net of certain specified payments, will be taken into account as a purchase price adjustment for the shares of EHI, which is the holding company of EHSI.

The Company estimates the net after-tax cash proceeds from the U.S. Sale Transaction to be in the range of US$230 million to US$250 million, which includes a deduction of pre-tax US$9.0 million for advisor fees and other transaction costs. The estimate of after-tax proceeds is subject to change at the time of closing, which is anticipated to occur in the 2015 second quarter.

In addition, in connection with the U.S. Sale Transaction, the Company expects to receive additional value ascribed to an ongoing cash stream, the estimated net benefit of which is anticipated to average US$5 million per annum (pre-tax) over 15 years, and proceeds from the sale of 10 U.S. skilled nursing centres that are not part of the U.S. Sale Transaction, of approximately US$19 million (pre-tax).

The Company intends to use the proceeds from the sale of the U.S. operations to expand and grow its Canadian operations, and the Home Health Acquisition is a first and important step toward this re-investment. The Home Health Acquisition is anticipated to close in the 2015 second quarter, for $83.0 million in cash, before working capital adjustments. The Company has the $80.0 million Bridge Loan available to temporarily finance this acquisition, and is considering securing a partial term loan. Any Bridge Loan, if utilized, will be repaid by the Company from proceeds of the U.S. Sale Transaction.

Management is confident that cash from operating activities, draw downs under debt financings, and proceeds from the U.S. Sale Transaction, will be available and sufficient to support Extendicare's ongoing business operations, the Home Health Acquisition, maintenance capex, debt repayment obligations, growth capex and to fund strategic acquisitions.

RELATED PARTY TRANSACTIONS

Tim Lukenda, Extendicare's President and Chief Executive Officer, and members of his family have a company that owns long-term care centres (the "Lukenda Company"), in which Mr. Lukenda has an approximate 7.1% direct and indirect interest, and with which Extendicare has an ongoing relationship. Mr. Lukenda's employment contract provides a mechanism and process that effectively removes him from the decision-making process in situations where a conflict of interest may arise on any matter between the two companies. The following summarizes transactions between the two companies in the past two years.

In July 2013, ECI sold one of its closed LTC centres for $1.2 million to the Lukenda Company.

In addition, Extendicare had operating lease arrangements with the Lukenda Company and continues to provide ongoing management services. ECI provides certain management services to an LTC centre in Ontario, Canada, and prior to April 2013, ECI operated under lease arrangements, a second LTC centre in Ontario. In the United States, EHSI operates under lease arrangements, a skilled nursing centre in Michigan, and until August 2013, EHSI provided certain management services to an assisted living centre in Michigan.

RISKS AND UNCERTAINTIES

General Business Risks

Extendicare is subject to general business risks inherent in the long-term care industry, including: increased government regulation and oversight; changing consumer preferences; fluctuations in occupancy levels; 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.

Risks Related to Completion of the U.S. Sale Transaction

As previously noted, the Company is in the process of selling substantially all its U.S. business. The U.S. Sale Transaction is expected to close in the second quarter of 2015. The respective obligations of the Purchaser and the Vendor to complete the U.S. Sale Transaction are subject to the satisfaction or waiver of a number of conditions of closing, which are described in the Company's related material change report dated November 17, 2014, filed on SEDAR at www.sedar.com. There can be no assurance that the conditions of closing of the U.S. Sale Transaction will be satisfied within the time frame contemplated or at all. If the U.S. Sale Transaction does not proceed, the Company's business, results of operations, financial condition, and share price may be materially and adversely affected. Further information on the U.S. Sale Transaction can be found under "Overview – Strategic Review – Sale of U.S. Business".

Risks Related to Growth Activities

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

In Canada, the provinces restrict the number of licensed nursing centre 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 activities of the Company will be determined by numerous factors, including the ability of the Company to identify suitable acquisition targets, competition for acquisition opportunities, purchase price, ability to obtain adequate financing on reasonable terms, financial performance of the businesses or centres after acquisition, and the ability of the Company to effectively integrate and operate the acquired businesses or centres. Acquired businesses or centres may not meet financial or operational expectations due to unexpected costs associated with their acquisition, as well as the general investment risks inherent in any real estate investment or business acquisition. Moreover, new acquisitions may require significant management attention or capital expenditures that would otherwise be allocated by the Company in a different manner to existing businesses. Any failure by the Company to identify suitable candidates for acquisition or operate the acquired businesses effectively may have an adverse effect on the business, results of operations and financial condition of the Company.

COMPLETION OF THE HOME HEALTH ACQUISITION

The anticipated closing of the Home Health Acquisition in the second quarter of 2015 could be delayed or not completed at all if the necessary regulatory approvals and the other conditions of closing are not satisfied, or waived and the Company may fail to realize the anticipated benefits of the acquisition, any of which may have an adverse effect on the business, results of operations and financial condition of the Company. Further information on the Home Health Acquisition can be found under "Overview – Home Health Acquisition".

Risks Related to Government Funding and Regulatory Changes

Extendicare's earnings are highly reliant on government funding and reimbursement programs, and the effective management of staffing and other costs of operations, which are strictly monitored by government regulatory authorities. Given that we operate in a labour-intensive industry, where labour costs account for a significant portion of our continuing operating costs (approximately 83% in 2014), government funding constraints could have a significant adverse effect on our results from operations and cash flows. 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.

Further information on funding and legislative changes affecting the industry can be found under "Update of Regulatory and Reimbursement Changes Affecting Results".

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

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

In the United States, as at December 31, 2014, we had certain centres under plans of correction, but no centres had been decertified. While it is not possible to estimate the final outcome of the required corrective actions, the Company has accrued for known remedial costs. For information on the 2010 U.S. Government Investigations, refer to the discussion under the heading "Overview –Significant 2014 Events and Developments – 2010 U.S. Government Investigations", and *note 22* of the audited consolidated financial statements.

Non-compliance with applicable laws and licensure requirements governing long-term care could result in adverse consequences, including severe penalties, which may include criminal sanctions and fines, civil monetary penalties and fines, administrative and other sanctions, including exclusion from participation in government funded programs, or one or more third-party payor networks. We may be required to refund amounts that have been paid to us by 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

Operators within the long-term care industry, including the Company, face lawsuits alleging negligence, malpractice, or other related claims and, as a result, incur significant costs in connection with defending general and professional liability claims, workers' compensation claims, and property based claims. In addition to large compensatory claims, plaintiffs' attorneys also seek significant punitive damages and attorneys' fees. The Company maintains insurance coverage for the significant majority of risk associated with claims in respect to general and professional liability, directors' and officers' liability, employers' liability, auto liability, health and dental benefits, business income and property. General and professional liability policies currently offered in the long-term care industry are generally only offered on a "claims made" basis, as opposed to "occurrence based" coverage. "Claims made" policies are subject to possible rate increases upon renewal due to a step-up factor used by the insurer.

The Company maintains general and professional liability and property insurance policies through third-party insurers, along with retaining a portion of risk within the Captive, its Bermuda-based captive insurance structure, in amounts and with the coverage and deductibles it believes are adequate based on the nature and risks of its business, historical experience and industry standards, as well as the type of insurance coverage commercially available in the marketplace. Provisions for loss for our professional liability risks are based upon management's best available information including actuarial estimates. The Captive is currently appropriately capitalized, but there can be no assurance that it will remain appropriately capitalized in the future should claims against the Company increase significantly.

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, operating results and financial condition of the Company. In many states, state law prohibits or limits insurance coverage for the risk of punitive damages arising from general and professional liability claims and/or litigation. 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. Under these circumstances, the Company may be liable for such losses. Also, in order to obtain liability insurance at a more reasonable cost or in some instances to obtain coverage at all, the Company is required to assume self-insurance retention levels for its general and professional liability claims. The Company estimates the value of losses that may occur within its self-insured retention levels based on historical claims, actuarial valuations, third-party administrator estimates, industry data and advice from consultants and legal counsel and endeavours to reserve for such liabilities. If the estimates of the Company are inaccurate or if there are an unexpectedly large number of successful claims that result in liabilities in excess of the reserves of the Company for losses, the operating results of the Company could be negatively affected. Claims against the Company, regardless of their merit or eventual outcome, also may have a material adverse effect on the ability of the Company to attract residents and patients, expand the business of the Company or maintain favourable standings with regulatory authorities. These claims also require management to devote time to matters unrelated to the operation of the business.

The Company has to renew its insurance policies each year or on a periodic basis and negotiate acceptable terms for coverage, exposing it to the volatility of the insurance markets, including the possibility of rate increases resulting from the claims experience of the Company or the aggregate claims experience of the long-term care industry. There can be no assurance that the Company will be able to obtain insurance in the future or, if available, that such coverage will be available on acceptable terms and provide coverage for perils inherent to the senior care industry.

Risks Related to Tax Rules and Regulations

Extendicare is subject to audits from federal, state and provincial tax jurisdictions and; therefore, is 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 Financing

DEBT FINANCING

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

Extendicare's 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 provides a line of up to $39.8 million for operating purposes, including letters of credit, and an additional $5.0 million (for a maximum of $44.8 million) for letters of credit. As at December 31, 2014, Extendicare had a letter of credit for $39.8 million issued under the RBC Credit Facility to secure pension obligations, which amount will increase to $42.8 million upon renewal in May 2015.

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, operating results and financial condition of the Company.

DEBT COVENANTS

The Company is in compliance with all of its financial covenants as at December 31, 2014. 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 long-term debt of the Company's continuing operations is at fixed rates, and all but $149.6 million (US$129.0 million) of the debt outstanding of our discontinued operations at December 31, 2014, was at fixed rates. The Company primarily finances its senior care centres through fixed-rate mortgages and considers securing interest rate swap agreements for any variable-rate debt. The Company maintains risk management control systems to monitor interest rate risk attributable to its outstanding or forecasted debt obligations as well as any offsetting hedge positions. The Company does not enter into financial instruments for trading or speculative purposes.

Risks Related to Foreign Currency Rate Fluctuations

Currently, the majority of the Company's operations are conducted in the United States and the financial position and results of the U.S. operations are denominated in U.S. dollars. The U.S. operations accounted for approximately 52% of our AFFO in 2014 and 75% of our consolidated assets as at December 31, 2014. Excluding the U.S. operations held for sale, the continuing U.S. operations accounted for approximately 2% of our AFFO in 2014, 2% of Adjusted EBITDA, and 27% of our consolidated assets as at December 31, 2014. The revenues and expenses of the self-sustaining U.S. operations are translated at average rates of exchange in effect during the period. Assets and liabilities are translated at the exchange rates in effect at the balance sheet date. As a result, the Company's consolidated financial position is subject to foreign currency fluctuation risk, which could adversely impact its operating results and its cash flows. Management may enter into hedging arrangements to mitigate a portion of this risk; however, there can be no assurance that such hedging arrangements, if any, would be sufficient to protect the Company against currency exchange rate losses.

Risks 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, operating results and financial condition of the Company.

In Canada, Extendicare owns, or operates under finance lease arrangements whereby ownership transfers at the end of the lease term, 100% of its senior care centres, excluding those operated under management contracts. Senior care centres are limited in terms of alternative uses; therefore, their values are directly driven by the cash flow from operations. The value of real property depends, in part, on government funding and reimbursement programs. The Company's income and funds available for distribution would be adversely affected if governments reduced their funding or reimbursement programs. In addition, overbuilding in any of the market areas of the Company could cause its properties and centres to experience decreased occupancy or depressed margins, which could adversely affect the business, operating results 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 promptly in response to changed economic or investment conditions. There is a risk that the Company would not be able to sell its assets or that it may realize sale proceeds of less than the current book value of its properties.

CAPITAL INTENSIVE INDUSTRY

The Company must commit a substantial portion of its funds to maintain and enhance its senior care centres and equipment to meet regulatory standards, operate efficiently and remain competitive in its markets. The Company estimates that its annual maintenance capex requirements to sustain and upgrade its existing centres range between 1.5% and 2% of revenue. In addition, the Company invests in enhancements at existing centres aimed at earnings growth. In Ontario, Extendicare owns 21 LTC centres with 3,287 class "C" beds, which may require redevelopment under the government's re-initiation of its program to redevelop older long-term care beds in the province (see "Ontario Redevelopment Program" under the heading "Update of Regulatory and Reimbursement Changes Affecting Results – Canadian Operations"). These as well as other future capital requirements could have a material adverse effect on the business, operating results and financial condition of the Company.

ACCOUNTING POLICIES AND ESTIMATES

Critical Accounting Policies and Estimates

A full discussion of Extendicare's critical accounting policies and estimates is provided in *note 3* of the audited consolidated financial statements for the year ended December 31, 2014, and under the heading "Future Changes in Accounting Policies" that follows this section.

Management considers an understanding of Extendicare's accounting policies to be essential to an understanding of its financial statements because their application requires significant judgement and reliance on estimations of matters that are inherently uncertain. There is measurement uncertainty relating to the accounting policies applied to: revenue recognition and the valuation of accounts receivable; the determination of the recoverable amount of cash generating units (CGU) subject to an impairment test; the valuation of decommissioning provisions; the valuation of self-insured liabilities; the assessment of contingencies; the valuation of financial assets and liabilities; the valuation of share appreciation rights liabilities; and the accounting for tax uncertainties and the tax rates used for valuation of deferred tax assets. The recorded amounts for such items are based on management's best available information and are subject to assumptions and judgement, which may change as time progresses; accordingly, actual results could differ from those estimated.

REVENUE RECOGNITION AND ACCOUNTS RECEIVABLE

In Canada, the fees charged by ECI for its LTC centres and home health care services are regulated by provincial authorities (rather than federal authorities), and provincial programs fund a substantial portion of these fees, with the balance paid for by the residents or customers. Each province has a different system for managing the services provided. As a result, there can be significant variability from location to location with respect to the regulations for providing care and how centres are reimbursed. Revenue from provincial programs represented approximately 70% of ECI's LTC operations, and approximately 98% of its home health care services in 2014 (2013 – 69% and 98%, respectively).

In the United States, Extendicare offers information technology services to smaller long-term and post-acute health care providers through VCPI. This revenue source is primarily derived from application hosting, customer support, telecommunications, equipment sales and consulting services, and is recognized as these services are provided and equipment is delivered to our customers.

In the United States, our discontinued skilled nursing centre operations drive revenue from services provided under various federal or state medical assistance programs (77% in 2014 and 2013), and from private-pay residents directly or through their insurer, Managed Care providers, or other third-party providers. EHSI records its skilled nursing centre revenue in the period in which the services and products are provided at established rates less contractual adjustments for government supported programs. Contractual adjustments include differences between established billing rates and amounts estimated by management as reimbursable under various reimbursement formulas or contracts in effect. Differences between final settlements and amounts recorded in previous periods are reported as adjustments to revenue in the period such settlements are determined. Due to the complexity of laws and regulations governing the federal and state reimbursement programs, there is the possibility that recorded estimates may change by a material amount.

In addition, EHSI derives outpatient therapy revenue in the U.S. by providing rehabilitation therapy services to outside third parties at its clinics. This revenue source is primarily from Managed Care, workers' compensation, self-pay clients and partly from Medicare and Medicaid. Revenue is recognized in the period in which services are provided.

Accounts receivable are recorded at amounts expected from federal, state and provincial reimbursement programs, other third-party payors or from individual residents. Receivables from government agencies represent the only concentrated group of accounts receivable for the Company. Management does not believe that there is significant credit risk associated with these government agencies other than possible funding delays. Receivables, other than those from government agencies, consist of receivables from various payors and do not represent any concentrated credit risks to the Company, as there is no significant exposure to any single party. Management continuously monitors reports from trade associations or notes from provincial, state or federal agencies that announce possible delays that are rare to occur and usually associated with changes of fiscal intermediaries or changes in information technology or forms.

With respect to our continuing Canadian operations, receivables from government agencies, which are included in accounts receivable, notes, mortgages and amounts receivable, represented approximately 78% of the receivables of the Canadian operations as at December 31, 2014.

With respect to our discontinued U.S. operations, whose assets and liabilities are classified as held for sale, approximately 55% of EHSI's accounts receivable as at December 31, 2014, excluding Medicare and Medicaid settlement receivables discussed below, were derived from various government agencies or programs.

In addition, EHSI had $11.4 million (US$9.8 million) in Medicare and Medicaid settlement receivables as at December 31, 2014, compared to $13.3 million (US$12.5 million) at the end of 2013. There was no allowance on these receivable balances. Medicare settlement receivables are recoveries of Medicare participants' non-payment of Part A co-insurance receivables. Medicaid settlement receivables pertain to cost-based reimbursement programs. Differences between the final settlement and amounts previously recorded are reported as adjustments to revenue in the period of determination.

Management estimates which receivables may be collected within one year and reflects those not expected to be collected within one year as non-current assets. Management periodically evaluates the adequacy of its provision for receivable impairment by conducting a specific account review of amounts in excess of predefined target amounts and aging thresholds, which vary by payor type. Allowances for uncollectibility are considered based upon the evaluation of the circumstances for each of these specific accounts. In addition, management has established percentages for provision for receivable impairment that are based upon historical collection trends for each payor type and age of these receivables. Accounts receivable that are specifically estimated to be uncollectible, based upon the above process, are fully reserved for in the provision for receivable impairment until they are written off or collected. If circumstances change, for instance due to an economic downturn, resulting in higher than expected defaults or denials, management's estimates of the recoverability of receivables could be reduced by a material amount.

Due to differences in the government funding structures for the services provided, the Canadian operations are not subject to the same risks associated with the collection of accounts receivable as are the U.S. operations, resulting in the majority of our allowance for doubtful accounts being associated with our U.S. operations.

As at December 31, 2014, ECI had trade receivables totalling $17.6 million (2013 – $17.5 million), which were net of an allowance for doubtful accounts of $0.9 million (2013 – $1.0 million). The continuing U.S. operations (pertaining to VCPI) had trade receivables of $4.7 million as at December 31, 2014 (2013 – $4.6 million), which were net of an allowance for doubtful accounts of $0.4 million (2013 – $0.3 million).

The discontinued U.S. operations had trade receivables totalling $165.0 million (2013 – $159.2 million), which were net of an allowance for doubtful accounts of $20.2 million (2013 – $19.8 million).

VALUATION OF CASH GENERATING UNITS AND IMPAIRMENT

Non-financial assets consist of property and equipment, intangible assets with finite lives, intangible assets with indefinite lives and goodwill. A CGU is defined to be the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets. The Company has identified each individual centre as a CGU.

The carrying amounts of non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated annually at the same time or more frequently if warranted. An impairment loss is recognized in net earnings if the carrying amount of an asset or its related CGU, or group of assets on the same basis as evaluated by management, exceeds its estimated recoverable amount.

The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. Goodwill and indefinite life intangible assets are allocated to their respective CGUs for the purpose of impairment testing. Indefinite life intangible assets and corporate assets that do not generate separate cash flows and are utilized by more than one CGU, are allocated to each CGU for the purpose of impairment testing and are not tested for impairment separately.

Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amounts of the assets in the CGU on a pro rata basis. Impairment losses on goodwill cannot be reversed. In respect of other non-financial assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

In 2014, we performed the impairment assessment of our Canadian operations and recognized a net pre-tax impairment of $1.2 million on certain properties (2013 – $0.8 million). There was no impairment of goodwill in either year.

In 2014, we performed the impairment assessment of our U.S. operations and recognized a net pre-tax impairment of $11.4 million (US$10.4 million), consisting of goodwill impairment of $5.3 million (US$4.8 million), a $14.9 million (US$13.6 million) impairment on certain properties and an $8.8 million (US$8.0 million) reversal of a previously recorded impairment loss on property and equipment.

In 2013, the impairment assessment of our U.S. operations resulted in a net pre-tax impairment of $7.2 million (US$6.7 million), consisting of a goodwill impairment of $3.7 million (US$3.6 million), a $19.2 million (US$18.3 million) impairment on certain properties and a $15.7 million (US$15.2 million) reversal of a previously recorded impairment loss on property and equipment.

The determination of recoverable amounts can be significantly impacted by estimates related to current market valuations, current and future economic conditions in the geographical markets of each CGU, and management's strategic plans within each of its markets. Estimates and assumptions used in the determination of any impairment loss are based upon information that is known at the time, along with future outlook.

In performing the 2014 impairment test on the U.S. operations, the key assumptions used to determine the recoverable amounts were as follows: capitalization rates of 12.5% for nursing centres and 8.4% for assisted living centres; annual maintenance capital expenditures per bed of US$388; and management fees of 5% of revenue. The recoverable amount calculations used discounted pre-tax cash flow projections determined from financial projections based upon both historical and forecasted amounts on which capitalization rates were applied. The calculation was based on the following key assumptions: cash flows were projected based upon historical financial performance along with the forecast impact of revenue rate changes in the coming year and past experience on average daily census, factoring in the historical maintenance capex and management fees; and capitalization rates were based on industry standards on recent transactions.

According to the impairment assessment performed in 2014, a 10-basis point increase in the capitalization rate would cause a $0.2 million increase in goodwill impairment of our U.S. operations, assuming all other variables remained constant.

DECOMMISSIONING PROVISIONS

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.

The Company's decommissioning provision, all of which related to asbestos remediation, was $33.5 million at December 31, 2014, of which $7.5 million related to our continuing Canadian operations, and $26.0 million has been classified as liabilities of disposal group held for sale. 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.

The following assumptions were used in calculating the decommissioning provision: for our Canadian centres – discount rates of 6.75% over an estimated timing of the settlement of the provision of 10 years for an estimated undiscounted cash flow amount to settle the decommissioning provision of approximately $10 million; and for our U.S. centres – discount rates of 7.10% over an estimated timing of the settlement of the provision of 20 years for an estimated undiscounted cash flow amount to settle the decommissioning provision of approximately US$37 million. There were no changes to the initial timing and estimates of undiscounted cash flow amounts in 2013.

SELF-INSURED LIABILITIES

The Company self-insures for certain risks related to comprehensive general and professional liability (including malpractice insurance), and to a limited degree, workers' compensation (for certain periods), auto liability and health benefits. The Company maintains liability insurance policies through third-party insurers as well as retaining a portion of the risk within the Captive, its Bermuda-based captive insurance company, at a level which the Company believes to be adequate based upon the nature and risks of its business, historical experience and industry standards, along with the type of insurance coverage commercially available in the marketplace. The employee related self-insured risks are primarily due within twelve months; therefore, they are included within accrued liabilities as a current liability on an undiscounted basis. The accrual for self-insured liabilities is discounted based upon the projected timing of future payment obligations.

General and professional liability claims are the most volatile and significant type of risks for which the Company self-insures. Furthermore, claim payments for any particular policy year can occur over a period of several years that are limited by state or provincial regulations. The accrual for self-insured liabilities is based on management's best estimate of the ultimate cost to resolve general and professional liability claims, including both known claims and claims that have been incurred but not yet reported by the end of the reporting period. The Company estimates the value of losses that may occur within its self-insured retention levels, based upon individual assessment of the settlement, using historical information and industry data, supported by actuarial projections, advice from legal counsel, consultants and external risk management. Actual results can differ materially from the estimates made due to a number of factors including the assumptions used by management and other market forces.

Management regularly evaluates and periodically engages an independent third-party actuary to provide a report to determine the appropriateness of the carrying value of this liability. Assumptions underlying the determination of the liability are limited by the uncertainty of predicting future events and assessments regarding expectations of several factors. Such factors include, but are not limited to: the frequency and severity of claims, which can differ materially by jurisdiction; trends in claims along with unique and identifiable settlements; coverage limits of third-party reinsurance; the effectiveness of the claims management process; and the outcome of litigation. Therefore, management's estimate of the accrual for general and professional liability claims is significantly influenced by assumptions that are subject to judgement by management and the actuary, which may cause the provision to fluctuate significantly from one reporting period to another.

At December 31, 2014, the accrual for self-insured general and professional liabilities was $133.4 million compared to $115.3 million at the beginning of the year. Changes in the level of retained risk and other significant assumptions that underlie management's estimates could have a material effect on the future carrying value of the self-insured liabilities. For example a 1% variance in the accrual for self-insured liabilities at December 31, 2014, would have impacted our net earnings by approximately $1.3 million. For further information refer to the discussion under the heading "Liquidity and Capital Resources – Accrual for Self-Insured Liabilities".

TAX UNCERTAINTIES

Tax uncertainties are evaluated on the basis of whether it is more likely than not that a tax position will ultimately be sustained upon examination by the relevant taxing authorities. Tax uncertainties are measured using a probability adjusted or expected value model whereby amounts are recorded if there is any uncertainty about a filing position, determined by multiplying the amount of the exposure by the probability that the entity's filing position will not be sustained. The assessment of tax uncertainties relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Company to change its judgement regarding the adequacy of existing tax liabilities. Such changes to tax liabilities will impact tax expense in the period that such a determination is made.

DEFERRED TAX ASSETS AND LIABILITIES

The Company uses the asset and liability method of accounting for deferred income taxes, which takes into account the differences between financial statement treatment and tax treatment of certain transactions, assets and liabilities. Deferred tax assets and liabilities are recognized to reflect the expected future tax consequences attributed to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and operating loss and tax credit carryforwards. With respect to the Company's investment in its foreign subsidiaries, the Company uses the tax rate applicable to dividend distributions, which is based on management's judgement on when the temporary difference will reverse. Deferred tax assets and liabilities are measured using the substantively enacted tax rates anticipated to apply in the periods that the temporary differences are expected to be recovered or settled. In assessing whether the deferred tax assets are realizable, management considers whether it is probable (which the Company has defined as "more likely than not") that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. At December 31, 2014, there were capital losses available for Canadian income tax purposes of $7.7 million (2013 – $20.3 million) that can be carried forward indefinitely to apply against future capital gains. We have not recognized deferred tax assets of $1.0 million (2013 – $2.7 million) for the future tax benefit of these capital losses.

New Accounting Policies Adopted

Effective January 1, 2014, Extendicare adopted a new accounting amendment issued by the International Accounting Standards Board (IASB): IAS 32 "Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities", and an interpretation issued by IFRIC: IFRIC 21 "Levies". These accounting standards are summarized below, and are more fully described in *note 4* of the audited consolidated financial statements.

FINANCIAL INSTRUMENTS: PRESENTATION – OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Amendments to IAS 32 establish disclosure requirements that are intended to help clarify for financial statement users the effect or potential effect of offsetting arrangements on an entity's financial position. These amendments are effective for the annual period beginning on January 1, 2014. The adoption of these amendments did not have a material impact on our audited consolidated financial statements.

LEVIES

IFRIC 21 "Levies" clarifies that an entity recognizes the full amount of a liability for a levy during the period in which the activity that triggers the obligation occurs, as identified by the relevant legislation, instead of amortizing the cost over a period of time. This standard does not apply to income taxes or fines and penalties from governments. IFRIC 21 is effective for the annual period beginning on January 1, 2014, and is to be applied retrospectively.

Upon the adoption of IFRIC 21, the Company has reassessed the timing of when to accrue property taxes imposed by specific legislation in the jurisdictions where it owns property. The Company previously accrued for Canadian and U.S. property taxes evenly throughout the year. In accordance with IFRIC 21, the Company has determined that the liability to pay the property taxes for its U.S. properties should be recognized in full at a single point in time when the obligating event occurs, which event has been determined to be January 1st, as stated in the legislation. The Company's recognition of property taxes for its Canadian properties remains unchanged. The Company has retrospectively applied this change in accounting policy to January 1, 2013, and has restated its comparative interim periods for 2013 to reflect the recognition of the full amount of the annual U.S. property tax expense in the first quarter, which operations have now been classified as discontinued. The impact of applying IFRIC 21 has resulted in the following adjustments to the operating expenses of the Company's U.S. discontinued operations: an increase in expense of $8.2 million in the 2014 first quarter; a decrease in expense of $2.7 million in each of the 2014 second, third and fourth quarters; an increase in expense of $7.3 million in the 2013 first quarter; and a decrease in expense of $2.3 million, $2.5 million, and $2.5 million in the 2013 second, third and fourth quarters, respectively.

Future Changes in Accounting Policies

The following new standards, amendments to standards and interpretations, are effective for annual periods beginning on or after January 1, 2015, and have not been applied in preparing the financial results for the year ended December 31, 2014. These accounting standards are summarized below, and are more fully described in *note 5* of the audited consolidated financial statements.

FINANCIAL INSTRUMENTS

In July 2014, the IASB issued IFRS 9 "Financial Instruments" (IFRS 9 (2014), which replaces IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 (2014) introduces new requirements for the classification and measurement of financial assets, and changes to financial liabilities, amends the impairment model for 'expected credit loss', and introduces a new general hedge accounting standard that aligns hedge accounting more closely with risk management. This standard will be effective for annual periods beginning on or after January 1, 2018, and will be applied retrospectively with some exemptions. Early adoption is permitted, and restatement of prior periods is not required. The Company is currently assessing the potential impact of this standard on its consolidated financial statements.

REVENUE RECOGNITION

In May 2014, the IASB issued IFRS 15 "Revenue from Contracts with Customers". The new standard provides a comprehensive framework for recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the standard on leases, insurance contracts and financial instruments. IFRS 15 becomes effective for annual periods beginning on or after January 1, 2017, and is to be applied retrospectively. Early adoption is permitted. The Company is currently assessing the potential impact of the new standard on its consolidated financial statements.

Disclosure Controls and Procedures

Disclosure Controls and Procedures (DC&P) are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO), on a timely basis so that appropriate decisions can be made regarding public disclosure.

An evaluation of the effectiveness of the DC&P was conducted as at December 31, 2014, by management under the supervision of the Company's CEO and CFO. Based on this evaluation, the CEO and CFO have concluded that as at December 31, 2014, our disclosure controls and procedures, as defined by National Instrument 52-109, *Certification of Disclosures in Issuers' Annual and Interim Filings*, are effective.

Internal Control over Financial Reporting

Internal Control over Financial Reporting (ICFR) is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian GAAP. Management, under the supervision of the Company's CEO and CFO, has evaluated the effectiveness of our ICFR using the 2013 Integrated Control framework as published by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management has concluded that our ICFR was effective and that there were no material weaknesses in our ICFR as at December 31, 2014.

ADDITIONAL INFORMATION

Additional information about Extendicare, including its latest Annual Information Form, may be found on the SEDAR website at www.sedar.com and on Extendicare's website at www.extendicare.com. A copy of this and other public documents of Extendicare are available upon request to the Corporate Secretary of Extendicare.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Extendicare Inc. ("Extendicare" or the "Company") and other financial information contained in this Annual Report are the responsibility of management. The consolidated financial statements have been prepared in conformity with International Financial Reporting Standards, using management's best estimates and judgements, where appropriate. In the opinion of management, these consolidated financial statements reflect fairly the financial position, results of operations and cash flows of Extendicare within reasonable limits of materiality. The financial information contained elsewhere in this Annual Report has been reviewed to ensure consistency with that in the consolidated financial statements.

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

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

The consolidated financial statements have been audited by KPMG LLP, Chartered Accountants, which has full and unrestricted access to the Audit Committee. KPMG's report on the consolidated financial statements follows.

Timothy L. Lukenda
President and Chief Executive Officer

Dylan T. Mann
Senior Vice President and
Chief Financial Officer

March 16, 2015

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Extendicare Inc.

We have audited the accompanying consolidated financial statements of Extendicare Inc. ("Extendicare" or the "Company"), which comprise the consolidated statements of financial position as at December 31, 2014, and December 31, 2013, and the consolidated statements of earnings (loss), comprehensive income (loss), changes in equity (deficiency), and cash flows for the years ended December 31, 2014 and 2013, and a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Extendicare as at December 31, 2014, and December 31, 2013, and the financial performance and its cash flows for the years ended December 31, 2014 and 2013, in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Accountants,
Licensed Public Accountants

Toronto, Canada
March 16, 2015

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at December 31

(in thousands of Canadian dollars)	*notes*	**2014**	2013
Assets			
Current assets			
Cash and short-term investments		**35,495**	95,999
Restricted cash	13	**1,085**	18,668
Accounts receivable	6	**41,036**	210,795
Income taxes recoverable		**65**	9,395
Assets held for sale	7	**1,254,535**	36,418
Other current assets		**10,409**	25,475
Total current assets		**1,342,625**	396,750
Non-current assets			
Property and equipment	8	**331,134**	1,152,007
Goodwill and other intangible assets	9	**16,227**	79,229
Other assets	10	**217,365**	213,571
Deferred tax assets	23	**7,935**	7,531
Total non-current assets		**572,661**	1,452,338
Total Assets	29	**1,915,286**	1,849,088
Liabilities and Equity (Deficiency)			
Current liabilities			
Accounts payable and accrued liabilities	11	**108,905**	230,196
Income taxes payable		**4,043**	10,111
Long-term debt	13	**25,789**	148,051
Liabilities held for sale	7	**1,130,813**	16,356
Provisions	12	**25,984**	28,052
Total current liabilities		**1,295,534**	432,766
Non-current liabilities			
Long-term debt	13	**453,200**	1,016,785
Provisions	12	**114,995**	116,058
Other long-term liabilities	14	**38,014**	46,147
Deferred tax liabilities	23	**16,047**	199,953
Total non-current liabilities		**622,256**	1,378,943
Total liabilities	29	**1,917,790**	1,811,709
Share capital	15	**482,950**	476,480
Equity portion of convertible debentures	13	**5,573**	5,573
Contributed surplus		**48**	48
Accumulated deficit		**(503,143)**	(442,251)
Accumulated other comprehensive income (loss)		**12,068**	(2,471)
Shareholders' equity (deficiency)		**(2,504)**	37,379
Total Liabilities and Equity (Deficiency)		**1,915,286**	1,849,088

See accompanying notes to consolidated financial statements.

Commitments and contingencies *(note 24).*
Subsequent events *(note 31).*

Approved by the Board

Benjamin J. Hutzel
Chairman

Timothy L. Lukenda
President and Chief Executive Officer

CONSOLIDATED STATEMENTS OF EARNINGS (LOSS)

Years ended December 31

(in thousands of Canadian dollars except for per share amounts)	*notes*	**2014**	2013
CONTINUING OPERATIONS			
Revenue			
Nursing and assisted living centres		**583,678**	568,870
Home health care		**185,491**	174,087
Health technology services		**32,165**	29,363
Management, consulting and other		**14,785**	11,489
Total revenue	*17*	**816,119**	783,809
Operating expenses		**708,096**	677,712
Administrative costs		**28,293**	31,384
Lease costs		**5,064**	5,160
Total expenses	*18*	**741,453**	714,256
Earnings before depreciation, amortization, loss from asset impairment, disposals and other items		**74,666**	69,553
Depreciation and amortization		**23,844**	21,639
Loss from asset impairment, disposals and other items	*19*	**11,031**	1,963
Earnings before net finance costs and income taxes		**39,791**	45,951
Interest expense		**32,905**	34,501
Accretion of decommissioning provisions		**349**	349
Other accretion		**1,827**	1,557
Loss on foreign exchange and financial instruments	*20*	**–**	519
Finance costs		**35,081**	36,926
Interest revenue		**3,835**	4,171
Fair value adjustments	*20*	**296**	3,099
Finance income		**4,131**	7,270
Net finance costs		**30,950**	29,656
Earnings before income taxes		**8,841**	16,295
Income tax expense			
Current		**4,063**	1,073
Deferred		**456**	5,057
Total income tax expense	*23*	**4,519**	6,130
Earnings from continuing operations		**4,322**	10,165
DISCONTINUED OPERATIONS			
Loss from discontinued operations, net of income taxes	*22*	**(23,075)**	(4,882)
Net earnings (loss)		**(18,753)**	5,283
Basic Earnings (Loss) per Share			
Earnings from continuing operations	*21*	**0.05**	0.12
Net earnings (loss)	*21*	**(0.21)**	0.06
Diluted Earnings (Loss) per Share			
Earnings from continuing operations	*21*	**0.05**	0.12
Net earnings (loss)	*21*	**(0.21)**	0.06

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

Years ended December 31

(in thousands of Canadian dollars)	*notes*	**2014**	2013
Net earnings (loss)		**(18,753)**	5,283
Other comprehensive income, net of income taxes			
Items that will not be reclassified to profit or loss:			
Defined benefit plan actuarial loss, net of tax	*25*	**(3,116)**	(168)
Total items that will not be reclassified to profit or loss		**(3,116)**	(168)
Items that are or may be reclassified subsequently to profit or loss:			
Unrealized gain on available-for-sale securities, net of tax	*16*	**3,085**	2,882
Reclassification of realized gain on available-for-sale securities to earnings, net of tax	*16*	**(194)**	(335)
Adoption of new standard on levies, applied retrospectively		**–**	(30)
Net change in foreign currency translation adjustment	*16*	**14,764**	18,580
Total items that are or may be reclassified subsequently to profit or loss		**17,655**	21,097
Other comprehensive income, net of taxes		**14,539**	20,929
Total comprehensive income (loss)		**(4,214)**	26,212

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIENCY)

Years ended December 31

(in thousands of Canadian dollars)	**2014** Number of Shares	**2014** Amount	2013 Number of Shares	2013 Amount
Share capital				
Balance at January 1	*87,266,511*	**476,480**	*85,989,376*	467,463
DRIP	*928,565*	**6,470**	*1,277,135*	9,017
Balance at end of year	*88,195,076*	**482,950**	*87,266,511*	476,480
Equity portion of convertible debentures				
Balance at January 1		**5,573**		5,573
Balance at end of year		**5,573**		5,573
Contributed surplus				
Balance at January 1		**48**		48
Balance at end of year		**48**		48
Accumulated deficit				
Balance at January 1, previously reported		**(442,251)**		(395,024)
Adoption of new standard on levies, applied retrospectively		**–**		(488)
Net earnings (loss)		**(18,753)**		5,283
Dividends declared		**(42,131)**		(52,022)
Other		**(8)**		–
Balance at end of year		**(503,143)**		(442,251)
Accumulated other comprehensive income (loss)				
Other comprehensive income:				
Foreign currency translation differences for foreign operations				
Balance at January 1		**49**		(18,501)
Adoption of new standard on levies, applied retrospectively		**–**		(30)
Change in the year		**14,764**		18,580
Balance at end of year		**14,813**		49
Net change in fair value of available-for-sale financial assets, net of tax				
Balance at January 1		**5,519**		2,637
Change in the year		**3,085**		2,882
Balance at end of year		**8,604**		5,519
Net change in fair value of available-for-sale financial assets transferred to profit or loss, net of tax				
Balance at January 1		**(1,409)**		(1,074)
Change in the year		**(194)**		(335)
Balance at end of year		**(1,603)**		(1,409)
Defined benefit plan actuarial losses, net of tax				
Balance at January 1		**(6,630)**		(6,462)
Change in the year		**(3,116)**		(168)
Balance at end of year		**(9,746)**		(6,630)
Total other comprehensive income (loss)		**12,068**		(2,471)
Shareholders' equity (deficiency)		**(2,504)**		37,379

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31

(in thousands of Canadian dollars)	**2014**	2013
Operating Activities		
Net earnings (loss)	**(18,753)**	5,283
Adjustments for:		
Depreciation and amortization	**68,142**	77,929
Expense for self-insured liabilities	**44,010**	54,482
Payments for self-insured liabilities	**(38,091)**	(42,720)
Deferred taxes	**(6,745)**	(1,204)
Current taxes	**5,316**	4,567
Loss from asset impairment, disposals and other items from continuing operations	**11,031**	1,963
Loss from asset impairment, disposals and other items from discontinued operations	**12,187**	7,678
Gain on derivative financial instruments and foreign exchange	**(296)**	(2,580)
Net finance costs	**64,418**	62,158
Interest capitalized	**–**	(1,232)
Other	**(43)**	(335)
	141,176	165,989
Net change in operating assets and liabilities		
Accounts receivable	**16,430**	6,246
Other current assets	**10,126**	4,541
Accounts payable and accrued liabilities	**(19,679)**	(15,933)
	148,053	160,843
Interest paid	**(61,606)**	(59,585)
Interest received	**4,415**	4,657
Income taxes paid	**(5,255)**	(7,999)
Net cash from operating activities	**85,607**	97,916
Investing Activities		
Purchase of property, equipment and software	**(30,223)**	(55,753)
Purchase of nursing centre, net of cash acquired	**(6,946)**	–
Net proceeds from dispositions	**1,912**	3,671
Decrease (increase) in investments held for self-insured liabilities	**(20,458)**	6,908
Decrease in other assets	**5,993**	1,646
Net cash from investing activities	**(49,722)**	(43,528)
Financing Activities		
Issue of long-term debt, excluding line of credit	**149,538**	95,703
Repayment of long-term debt, excluding line of credit	**(147,215)**	(84,101)
Repayment on line of credit	**(2,303)**	(6,179)
Decrease in restricted cash	**2,731**	9,799
Dividends paid	**(35,624)**	(45,534)
Financing costs	**(4,827)**	(2,065)
Other	**–**	5
Net cash from financing activities	**(37,700)**	(32,372)
Increase (decrease) in cash and short-term investments	**(1,815)**	22,016
Cash and short-term investments at beginning of year	**95,999**	71,398
Foreign exchange gain on cash held in foreign currency	**4,615**	2,585
Cash and short-term investments at end of year	**98,799**	95,999
Less: cash from discontinued operations	**(63,304)**	–
Cash and short-term investments at end of year, continuing operations	**35,495**	95,999

See accompanying notes to consolidated financial statements.

Cash distributions for Extendicare are at the discretion of the Board.

Years ended December 31, 2014 and 2013

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(Tabular amounts in thousands of Canadian dollars, unless otherwise noted)

1. GENERAL INFORMATION AND NATURE OF THE BUSINESS

Extendicare Inc. ("Extendicare" or the "Company") is a Canadian public company whose common shares (the "Common Shares") trade on the Toronto Stock Exchange (TSX) under the symbol "EXE". Extendicare and its predecessors have been operating since 1968, providing care and services to seniors throughout North America. As previously announced, the Company is in the process of selling substantially all of its U.S. business and senior care operations (the "U.S. Sale Transaction") as part of the Company's strategic objective to be a leading provider of care and services for seniors focused solely in Canada.

The Company does not carry on business directly, but does so indirectly through its subsidiaries. Extendicare's Canadian operations are conducted through its wholly owned Canadian subsidiary, Extendicare (Canada) Inc. and its subsidiaries (collectively "ECI"). As previously noted, the Company is in the process of selling substantially all of its U.S. business, which business is conducted through its wholly owned U.S. subsidiary, Extendicare Health Services, Inc. and its subsidiaries (collectively "EHSI") *(note 7)*. As a result of the pending sale of the U.S. business, financial information has been restated for the classification of EHSI's operations as discontinued operations. Ten of the U.S. skilled nursing centres, which are not part of the U.S. Sale Transaction, will continue to be held for sale, and have also been classified as discontinued operations. The prior year consolidated statement of earnings (loss) has been restated on a comparative basis.

The Company will retain, as part of its continuing operations, its U.S. subsidiary, Virtual Care Provider, Inc. (VCPI), which provides a range of information technology solutions to long-term and post-acute health care providers, and its wholly owned Bermuda-based captive insurance company, Laurier Indemnity Company, Ltd. (the "Captive"), which, along with third-party insurers, insures Extendicare's U.S. general and professional liability risks.

References to "Extendicare", the "Company", "we", "us" and "our" or similar terms refer to Extendicare Inc., either alone, or together with its subsidiaries. The registered office of Extendicare is located at 3000 Steeles Avenue East, Markham, Ontario, Canada, L3R 9W2.

2. BASIS OF PREPARATION

a) Statement of Compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). These consolidated financial statements were approved by the board of directors of Extendicare Inc. (the "Board") on March 16, 2015.

b) Basis of Measurement

The consolidated financial statements have been prepared on the historical cost basis except for financial assets and liabilities classified or designated at fair value through profit or loss (FVTPL) or designated as available for sale (AFS) that have been measured at fair value. Refer to *note 3* for the classification of financial assets and liabilities.

Extendicare's consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency. All financial information presented in dollars has been rounded to the nearest thousand, unless otherwise noted.

c) Use of Estimates and Judgement

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The more subjective of such estimates and judgement are:

- revenue recognition *(note 17)*;
- valuation of accounts receivable *(notes 6 and 26(a))*;
- determination of the recoverable amount of cash generating units (CGUs) subject to an impairment test *(notes 9, 19 and 22)*;
- valuation of decommissioning provisions *(note 12)*;
- valuation of self-insured liabilities *(note 12)*;
- assessment of contingencies *(note 24)*;
- valuation of financial assets and liabilities *(note 26(b))*;
- valuation of share appreciation rights liabilities *(note 14)*; and
- accounting for tax uncertainties and the tax rates used for valuation of deferred taxes *(note 23)*.

The recorded amounts for such items are based on management's best available information and are subject to assumptions and judgement, which may change as time progresses; accordingly, actual results could differ from estimates.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

a) Basis of Consolidation

The consolidated financial statements include the accounts of Extendicare and its subsidiaries. All material intercompany transactions and balances have been eliminated. The financial statements of Extendicare's subsidiaries are included within the Company's consolidated financial statements from the date that control commences until the date that control ceases, and are prepared for the same reporting period as Extendicare, using consistent accounting policies.

The acquisition method of accounting is used to account for the acquisition of subsidiaries. Consideration transferred on the acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed on the date of the acquisition and transaction costs are expensed as incurred. Identified assets acquired and liabilities assumed are generally measured at their fair value on the acquisition date. In determining the fair value of identifiable intangible assets acquired, values are assigned to resident relationships as described in *note 3(h)*. The excess of fair value of consideration given over the fair value of the identifiable net assets acquired is recorded as goodwill, with any negative goodwill being recognized in net earnings on the acquisition date.

b) Foreign Currency

FOREIGN OPERATIONS

The assets and liabilities of foreign operations are translated at exchange rates at the reporting date. The income and expenses of foreign operations are translated at average rates of exchange for the period. The resulting translation adjustments are included in accumulated other comprehensive income (AOCI) in shareholders' equity. When a foreign operation is disposed of, the relevant amount in the cumulative amount of foreign currency translation differences is transferred to net earnings as part of the profit or loss on disposal. When only part of the interest in a subsidiary that includes a foreign operation is disposed of, the relevant proportion of such cumulative amount is reattributed to non-controlling interest. Foreign exchange gains and losses related to intercompany loans that are, in substance, part of the net investment in a foreign operation are included in AOCI. Foreign exchange gains and losses on intercompany loans with planned or foreseeable settlement are included in net finance costs within net earnings.

FOREIGN CURRENCY TRANSACTIONS

Transactions in foreign currencies are translated at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognized in net earnings, except for differences arising on the retranslation of available-for-sale equity instruments, which are recognized in other comprehensive income (OCI). Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign exchange gains and losses are included in net finance costs within net earnings.

c) Cash and Short-term Investments

Cash and cash equivalents include unrestricted cash and short-term investments less bank overdraft and outstanding cheques. Short-term investments, comprised of money market instruments, have a maturity of 90 days or less from their date of purchase.

d) Accounts Receivable

Receivables from government agencies represent the only concentrated group of accounts receivable for EHSI and ECI. In the United States, EHSI has receivables from federal and state medical assistance programs, other third-party payors and from individuals. In Canada, ECI has receivables primarily from provincial government agencies. Management does not believe there is any credit risk associated with these government agencies other than possible funding delays. Accounts receivable other than from government agencies consist of receivables from Managed Care providers (for residents with health maintenance and commercial insurance programs) and private individuals that are subject to different economic conditions, none of which represents any concentrated credit risk to the Company.

Extendicare periodically evaluates the adequacy of its provision for receivable impairment by conducting a specific account review of amounts in excess of predefined target amounts and aging thresholds, which vary by payor type. Allowances for uncollectibility are considered based upon the evaluation of the circumstances for each of these specific accounts. In addition, the Company has established percentages for provision for receivable impairment that are based upon historical collection trends for each payor type and age of the receivables. Accounts receivable that are specifically estimated to be uncollectible, based upon the above process, are fully reserved for in the provision for receivable impairment until they are written off or collected.

e) Property and Equipment

Property and equipment is stated at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition or development of the asset. Property and equipment acquired as a result of a business combination are valued as outlined in *note 3(a)*. Centres that are constructed or that are in progress include all incurred expenditures for the development and other direct costs related to the acquisition of land, development and construction of the centres, including borrowing costs of assets meeting certain criteria that are capitalized until the centre is completed for its intended use.

Refer to *note 3(i)* for the accounting policy for the determination of impairment losses.

Property and equipment are classified into components when parts of an item have different useful lives. The cost of replacing a component of an item is recognized in the carrying amount of the item if there is a future economic benefit and its cost can be measured reliably. Any undepreciated carrying value of the assets being replaced will be derecognized and charged to net earnings upon replacement. The costs of the day-to-day maintenance of property and equipment are recognized in net earnings as incurred.

Depreciation and amortization are computed on a straight-line basis based on the useful lives of each component of property and equipment. Depreciation of nursing centres under construction commences in the month after the centre is available for its intended use based upon the useful life of the asset, as outlined in the following table. The depreciation methods, useful lives and residual values are reviewed at least annually, and adjusted if appropriate.

Land improvements	10 to 25 years
Buildings:	
Building components:	
Structure and sprinklers systems	50 years
Roof, windows and elevators	25 years
HVAC and building systems	15 to 25 years
Flooring and interior upgrades	5 to 15 years
Building improvements and extensions	5 to 30 years
Furniture and equipment:	
Furniture and equipment	5 to 15 years
Computer equipment	3 to 5 years
Leasehold improvements	Term of the lease and renewal that is reasonably certain to be exercised

f) Government Grants

Government grants are recognized depending on the purpose and form of the payment from the government.

Forgivable loans issued by the government are accounted for as government grants if there is reasonable assurance the Company will meet the terms for forgiveness of the loan. Forgivable loans granted by a provincial or health authority body for the construction of a senior care centre, where the grants are received throughout the duration of the construction project, are netted with the cost of property and equipment to which they relate when such payments are received.

Capital funding payments for the development of a senior care centre that are received from a provincial body subsequent to construction over extended periods of time are present valued and are recorded as notes, mortgages and amounts receivable included in other assets, with an offset to the cost of property and equipment upon inception; as these grants are received over time, the accretion of the receivables are recognized in interest revenue as part of net finance costs within net earnings.

g) Leases

Leases are classified as either finance or operating leases. Leases that substantially transfer all of the benefits and risks of ownership of property to the lessee, or otherwise meet the criteria for capitalizing a lease under IFRS, are accounted for as a finance lease; all other leases are classified as operating leases.

WHEN THE COMPANY IS THE LESSEE

Leased assets that are classified as finance leases are presented according to their nature and are measured at amounts equal to the lower of their fair value and the present value of the minimum lease payments. The corresponding liability due to the lessor is presented as a finance lease obligation as part of the long-term debt. Property and equipment recognized as finance leases are depreciated on a consistent basis with owned property and equipment.

Rental payments under operating leases are expensed as incurred. Operating leases with defined scheduled rent increases are recognized on a straight-line basis over the lease term. Lease incentives received as an inducement to enter into operating leases are initially recognized as a liability, and are recorded as a reduction of rental expense on a straight-line basis over the term of the lease.

WHEN THE COMPANY IS THE LESSOR

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Company's net investment in the leases. The interest element of the lease payment is recognized over the term of the lease based on the effective interest method and is included in financing costs. The Company is not currently the lessor under any finance leases.

Assets under operating leases are included in property and equipment. Rental income from operating leases is recognized on a straight-line basis over the term of the lease and is included in revenue from management, consulting and other services.

h) Goodwill and Other Intangible Assets

GOODWILL

Goodwill represents the excess amount of consideration given over the fair value of the underlying net assets acquired in a business combination, and is measured at cost less accumulated impairment losses. Goodwill is not amortized, but is tested for impairment on an annual basis or more frequently if there are indicators that goodwill may be impaired, see *note 3(i)*.

OTHER INTANGIBLE ASSETS

Other intangible assets that are acquired and have finite useful lives are measured at cost less accumulated amortization and accumulated impairment losses (refer to *note 3(i))*. Intangible assets with finite lives are amortized based on cost. Subsequent expenditures are capitalized only if a future benefit exists. All other expenditures, including expenditures on internally generated goodwill, are recognized in net earnings as incurred.

Intangible assets with indefinite useful lives are measured at cost without amortization, and are subject to impairment tests (refer to *note 3(i))*.

Purchased licenses for resident relationships acquired through the acquisition of senior care centres are intangible assets. Acquiring resident relationships for existing residents of acquired centres represent the cost of having to obtain new residents. These intangible assets include a value of lost net resident revenue over the estimated lease-up period of the property, and are amortized on a straight-line basis, based upon a review of the residents' average length of stay. Resident relationships are generally amortized over a 16-month period for senior care centres. Amortization of the resident relationships asset is included within amortization expense in net earnings.

Non-compete agreements acquired through acquisitions are amortized on a straight-line basis over the period until the agreement expires.

Computer software is amortized over five to seven years and internally developed software over a three-year period.

Amortization methods and useful lives are reviewed at least annually, and are adjusted when appropriate.

i) Impairment

Impairment of financial and non-financial assets is assessed on a regular basis. All impairment losses are charged to loss (gain) from asset impairment, disposals and other items as part of earnings before net finance costs and income taxes.

NON-FINANCIAL ASSETS

Non-financial assets consist of property and equipment, intangible assets with finite lives, intangible assets with indefinite lives and goodwill.

The carrying amounts of non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or those that are not yet available for use, the recoverable amount is estimated annually at the same time or more frequently if warranted. An impairment loss is recognized in net earnings if the carrying amount of an asset or its related CGU, or group of assets on the same basis as evaluated by management, exceeds its estimated recoverable amount. A CGU is defined to be the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets. The Company has identified each individual centre as a CGU.

The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. Goodwill and indefinite life intangible assets are allocated to their respective CGUs for the purpose of impairment testing. Indefinite life intangible assets and corporate assets that do not generate separate cash flows and are utilized by more than one CGU, are allocated to each CGU for the purpose of impairment testing and are not tested for impairment separately.

Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amounts of the assets in the CGU on a pro rata basis. Impairment losses on goodwill cannot be reversed. In respect of other non-financial assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

FINANCIAL ASSETS

A financial asset is any asset that consists of: cash; a contractual right to receive cash or another financial asset, or exchange financial assets or financial liabilities under potentially favourable conditions; an equity instrument of another entity; or certain contracts that will or may be settled in the Company's own equity instruments.

Financial assets are reviewed at each reporting date and are deemed to be impaired when objective evidence resulting from one or more events subsequent to the initial recognition of the asset indicates the estimated future cash flows of the asset has been negatively impacted. For assets carried at amortized cost or cost and debt securities, the criteria of this assessment includes significant financial difficulty of the issuer or obligor, the disappearance of an active market for that financial asset because of financial difficulties, or observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets. For equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also objective evidence that the assets are impaired.

For assets carried at amortized cost or cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate, and will be recognized in net earnings. Impairment losses can be reversed to the extent it was previously recognized in net earnings.

For assets classified as available for sale, the cumulative impairment loss is the difference between the asset's carrying amount and the fair value plus any losses accumulated in the OCI. Impairment losses on equity instruments cannot be reversed, whereas impairment losses on debt instruments can be reversed to the extent they were previously recognized in net earnings.

j) Investments Held for Self-insured Liabilities

Extendicare, through its wholly owned Bermuda-based captive insurance subsidiary, the Captive, holds investments as security for self-insured liabilities. The majority of these investments are investment grade. These investments are classified as available for sale. Investments held for sale are designated as available for sale and are valued at fair market value through OCI, and held-to-maturity investments are valued at amortized cost. (Refer to *note 3(o))*.

k) Employee Benefits

DEFINED BENEFIT PLANS

Defined benefit plans are post-employment plans with a defined obligation to employees in return for the services rendered during the term of their employment with the Company. The net obligation of these plans is calculated separately for each plan by estimating the present value of future benefit that employees have earned in return for their service in the current and prior periods. Any unrecognized past service costs and the fair value of any plan assets are deducted. The discount rate used in deriving the present value is the yield at the reporting date on AA credit-rated corporate bonds that have maturity dates approximating the Company's obligations and are denominated in the same currency in which the benefits are expected to be paid.

The calculation of the future benefit of the plan is performed annually by a qualified actuary using the project unit credit method. When the calculation results in a benefit to the plan, the recognized asset is limited to the total of any unrecognized past service costs and the present value of economic benefits available in the form of reductions in future contributions to the plan.

All actuarial gains and losses arising from defined benefit plans are recognized in OCI during the period in which they are incurred.

DEFINED CONTRIBUTION PLANS

The Company has corporate specific and multi-employer defined benefit pension plans, as well as deferred compensation plans. Multi-employer defined benefit pension plans are accounted for as defined contribution plans as the liability per employer is not available. Deferred compensation plans are also accounted for as defined contribution plans. Defined contribution plans are post-employment plans where the costs are fixed and there are no legal or constructive obligations to pay further amounts. Obligations for such contributions are recognized as employee benefit expense in net earnings during the periods in which services are rendered by employees.

SHORT-TERM EMPLOYEE BENEFITS

The Company has vacation, paid sick leave and short-term disability plans along with other health, drug and welfare plans for its employees. These employee benefit obligations are measured on an undiscounted basis and are expensed as the related services are rendered.

OTHER EMPLOYEE BENEFITS

The Company self-insures, to a limited degree, certain risks in EHSI including workers' compensation (for certain periods), auto liability and health benefits. These employee related self-insured risks are primarily due within twelve months and therefore are not discounted and are included within accounts payable and accrued liabilities as a current liability, which was part of liabilities held for sale as at December 31, 2014 *(note 7)*.

l) Share Appreciation Rights Plan

Awards under the Company's share appreciation rights plan (the "SARP") have a three-year vesting period. Until the liability is settled, the Company reports the liability on a pro rata basis at fair value at each reporting date. The fair value of the share appreciation right (SAR) is determined by using an option pricing model based on the remaining vesting term and the amount by which the "Fair Market Value" of a Common Share of Extendicare exceeds the grant price, plus "Accrued Distributions". "Fair Market Value" of a Common Share, on any particular date, means the volume-weighted average trading price of the Common Share on the TSX for the 10 trading days immediately preceding such date. "Accrued Distributions" means the product of the aggregate amount of cash distributions per Common Share declared payable to holders of record during the term of the SAR and the probability of the award being in the money at the end of the vesting period. Changes in fair value are recognized in net earnings in the period during which these are incurred.

m) Provisions

A provision is recognized when there is a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and that obligation can be measured reliably. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as accretion and recognized as part of net finance costs. Provisions are reviewed on a regular basis and adjusted to reflect management's best current estimates. Due to the judgemental nature of these items, future settlements may differ from amounts recognized. Provisions comprise estimated self-insured liabilities, decommissioning provisions and other legal claims and obligations.

SELF-INSURED LIABILITIES

Extendicare self-insures certain risks related to general and professional liability. The accrual for self-insured liabilities includes the estimated costs of both reported claims and claims incurred but not yet reported. The provision for self-insured liabilities is based on estimates of loss based upon assumptions made by management supported by actuarial projections and the advice of external risk management and legal counsel. The accrual for self-insured liabilities is discounted based on the projected timing of future payment obligations.

DECOMMISSIONING PROVISIONS

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.

The fair value of the decommissioning provision related to asbestos remediation 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.

The following assumptions were used in calculating the decommissioning provision: Canadian centres – discount rates of 6.75% over an estimated timing of the settlement of the provision of 10 years for an estimated undiscounted cash flow amount to settle the decommissioning provision of approximately $10 million; and U.S. centres – discount rates of 7.10% over an estimated timing of the settlement of the provision of 20 years for an estimated undiscounted cash flow amount to settle the decommissioning provision of approximately US$37 million.

OTHER PROVISIONS

Other provisions include legal claims that meet the above definition of a provision, along with lease restructuring and employee termination payments. Provisions are not recognized for future operating losses.

n) Fair Value Measurement

Extendicare measures financial instruments at fair value at each balance sheet date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either: in the principal market for the asset or liability; or in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability assuming that market participants act in their economic best interests.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the following fair value hierarchy:

Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted market prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); or

Level 3 – unobservable inputs such as inputs for the asset or liability that are not based on observable market data.

Each type of fair value is categorized based on the lowest level input that is significant to the fair value measurement in its entirety, categorization of which is re-assessed at the end of each reporting period. For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

o) Financial Instruments

FINANCIAL ASSETS AND LIABILITIES

Extendicare classifies financial assets and liabilities according to their characteristics and the related management's intention for use on an ongoing basis. Financial assets and liabilities are classified into one of the following five classifications: held-to-maturity financial assets, loans and receivables, financial assets at FVTPL, AFS and financial liabilities. Below is a description of the valuation methodology.

Held-to-maturity Financial Assets

Held-to-maturity financial assets are those that the Company has the positive intent and ability to hold to maturity. Held-to-maturity financial assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, held-to-maturity financial assets are measured at amortized cost using the effective interest method, less any impairment losses. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale investments, and prevent the Company from classifying investment securities as held to maturity for the current and the following two financial years. We currently do not have any financial assets designated as held to maturity.

Loans and Receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Financial Assets at FVTPL

Assets classified as FVTPL are financial assets that are acquired for the purpose of selling in the short term. These assets are initially recognized and subsequently carried at fair value with changes recorded in net earnings and all transaction costs are expensed as incurred. We currently do not have any financial assets classified as FVTPL.

AFS

AFS financial assets are assets that are not classified in any of the previous categories or are designated as such by management. These assets are initially recognized at fair value plus transaction costs, and subsequently carried at fair value with changes, except for impairment losses, recorded in OCI until the assets are derecognized through sale or impairment, at which time the cumulative gain or loss previously recognized in AOCI is recognized in net earnings. Interest calculated using the effective interest method on available-for-sale financial assets is recognized in net earnings. Dividends on available-for-sale equity instruments are recognized in net earnings when Extendicare's right to receive payment is established.

Financial Liabilities

Financial liabilities include FVTPL and other financial liabilities, which are liabilities incurred or assumed in the conduct of business or specific transactions. Financial liabilities are initially measured at fair value and subsequently measured at either amortized cost or fair value. Financial liabilities that are designated as FVTPL are subsequently measured at fair value with changes recognized in net earnings as part of finance costs, whereas those that are designated as other financial liabilities are subsequently measured at amortized cost.

The Company had convertible debentures that could be converted to Common Shares at the option of the holder and the number of Common Shares to be issued did not vary with changes in fair value. Those convertible debentures that were issued prior to the Company being converted from an income trust effective July 1, 2012 (the "2012 Conversion") were designated as financial liabilities valued at FVTPL, whereas those issued subsequent to the 2012 Conversion were classified as other financial liabilities. We currently do not have any financial liabilities valued at FVTPL.

Summary of Financial Instruments and Classification

All of the Company's financial instruments are classified as loans and receivables, AFS, other financial liabilities or financial liabilities valued at FVTPL.

Below is a classification summary of the Company's financial instruments:

	Classification	Measurement
Cash and short-term investments	Loans and receivables	Amortized cost
Total receivables	Loans and receivables	Amortized cost
Notes, mortgages and amounts receivable	Loans and receivables	Amortized cost
Investments held for self-insured liabilities	AFS	Fair value
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Long-term debt excluding convertible debentures issued prior to 2012 Conversion	Other financial liabilities	Amortized cost
Convertible debentures issued prior to 2012 Conversion	FVTPL	Fair value

Other items on the statement of financial position including, but not limited to, prepaid expenses within other current assets, property and equipment, goodwill and intangible assets, deferred income taxes, provisions and employee benefit obligations are not financial assets or liabilities.

Derivative financial instruments

From time to time, the Company uses derivative financial instruments to manage risks from fluctuations in exchange rates and interest rates. All derivative instruments, including embedded derivatives that must be separately accounted for, are valued at their respective fair values in the consolidated financial statements unless they are effective cash-flow hedging instruments.

On the date a derivative contract is entered into, the Company assesses whether or not to designate the derivative (or non-derivative) as either a hedge of the fair value of a recognized asset or liability (a "fair-value hedge") or a hedge of the variability of cash flows to be received or paid related to a recognized asset or liability or a forecasted transaction (a "cash-flow hedge") or as a hedge of a net investment in a foreign operation. At the inception of any hedge and on an ongoing basis, we assess whether the derivatives that are used in the hedging transactions are highly effective in offsetting changes in fair values or cash flows of the hedged items. We currently do not have any fair-value, cash-flow or net investment hedges.

Management uses foreign currency forward contracts (FCFCs) to limit the exposure of converting U.S. cash flow into Canadian dollars. These are not designated as fair-value or cash-flow hedges for accounting purposes; therefore, gains or losses arising from the change in fair values are recognized in net earnings during the year.

The Company does not enter into financial instruments for trading or speculative purposes.

p) Revenue

In Canada, fees charged by ECI for its nursing centres and home health care services are regulated by provincial authorities, and provincial programs fund a substantial portion of these fees. Revenue is recorded in the period in which services and products are provided.

In the United States, Extendicare offers information technology services to smaller long-term and post-acute health care providers through its wholly owned U.S. subsidiary, VCPI. This revenue source is primarily derived from application hosting, customer support, telecommunications, equipment sales and consulting services, and is recognized as these services are provided and equipment is delivered to our customers.

Revenue from our discontinued skilled nursing centre operations in the U.S. is derived from various federal and state medical assistance programs, Managed Care providers, as well as privately from the residents. Revenue is recorded in the period in which services and products are provided at established rates less contractual adjustments. Contractual adjustments include differences between established billing rates and amounts estimated by management as reimbursable under various reimbursement formulas or contracts in effect. Differences between final settlements and amounts recorded in previous years are reported as adjustments to revenue in the period such settlements are determined.

In addition, EHSI derives outpatient therapy revenue in the U.S. by providing rehabilitation therapy services to outside third parties at its clinics. This revenue source is primarily from Managed Care, workers' compensation, self-pay clients and partly from Medicare and Medicaid. Revenue is recognized in the period in which services are provided.

Assisted living centre revenue in Canada and the U.S. is primarily derived from private-pay residents and is recognized in the period in which the services are provided and at rates established by the Company based upon the services provided and market conditions in the area of operation.

Extendicare also offers management, consulting, group purchasing, accounting and administrative services to third parties in both Canada and the United States. Revenue is recorded in the period in which services are provided.

q) Finance Costs and Finance Income

Finance costs include: interest expense on long-term debt; accretion of the discount on provisions, decommissioning provisions and the convertible debentures issued subsequent to the 2012 Conversion; losses on the change in fair value of financial liabilities designated as FVTPL (refer to *note 3(o))*; and losses in foreign exchange on non-Canadian based financial assets. Finance income includes interest income on funds invested, gains on the change in fair value of financial liabilities designated as FVTPL, and gains in foreign exchange on non-Canadian based financial assets.

r) Income Taxes

Extendicare and its subsidiaries are subject to income taxes as imposed by the jurisdictions in which they operate, in accordance with the relevant tax laws of such jurisdictions. The provision for income taxes for the period comprises current and deferred income tax.

Current income tax is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the jurisdictions in which we operate. Deferred income tax is calculated using tax rates anticipated to apply in the periods that the temporary differences are expected to reverse. With respect to the Company's investment in its foreign subsidiaries, the Company uses the tax rate applicable to dividend distributions, which is based on management's judgement on when the temporary difference will reverse.

The income tax rates used to measure deferred tax assets and liabilities are those rates enacted or substantially enacted at the reporting date, and are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. For the convertible debentures that were designated as financial liabilities valued at FVTPL *(note 3(o))*, a deferred tax asset was not recorded should the fair value of the convertible debentures be in excess of the principal balance of the convertible debentures.

Current and deferred income tax assets and liabilities are offset when there is a legally enforceable right of offset; and the income taxes are levied by the same taxation authority on either the same taxable entity or different taxable entities, which intend either to settle current tax liabilities and assets on a net basis or to realize the assets and settle the liabilities simultaneously, for each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

In assessing whether the deferred tax assets are realizable, management considers whether it is probable (which the Company has defined as "more likely than not") that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment.

Tax uncertainties are evaluated on the basis of whether it is more likely than not that a tax position will ultimately be sustained upon examination by the relevant taxing authorities. Tax uncertainties are measured using a probability adjusted or expected value model whereby amounts are recorded if there is any uncertainty about a filing position, determined by multiplying the amount of the exposure by the probability that the entity's filing position will not be sustained. The assessment of tax uncertainties relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Company to change its judgement regarding the adequacy of existing tax liabilities. Such changes to tax liabilities will impact tax expense in the period that such a determination is made.

s) Discontinued Operations

A discontinued operation is a component of the Company's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale. Classification as a discontinued operation occurs upon disposal or earlier, if the operation meets the criteria to be classified as held for sale. When an operation is classified as a discontinued operation, the comparative statement of earnings and cash flow information is re-presented as if the operation had been discontinued from the start of the comparative period.

4. NEW ACCOUNTING POLICIES ADOPTED

Effective January 1, 2014, Extendicare adopted a new accounting amendment issued by the IASB: IAS 32 "Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities", and an interpretation issued by the IFRS Interpretations Committee: IFRIC 21"Levies", both of which are discussed below.

Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities

Amendments to IAS 32 establish disclosure requirements that are intended to help clarify for financial statement users the effect or potential effect of offsetting arrangements on an entity's financial position. These amendments are effective for the annual period beginning on January 1, 2014. The adoption of these amendments did not have a material impact on our consolidated financial statements.

Levies

IFRIC 21 "Levies" clarifies that an entity recognizes the full amount of a liability for a levy during the period in which the activity that triggers the obligation occurs, as identified by the relevant legislation, instead of amortizing the cost over a period of time. This standard does not apply to income taxes or fines and penalties from governments. It is effective for the annual period beginning on January 1, 2014, and is to be applied retrospectively.

Upon the adoption of IFRIC 21 "Levies", the Company has reassessed the timing of when to accrue property taxes imposed by specific legislation in the jurisdictions where it owns property. The Company previously accrued for Canadian and U.S. property taxes evenly throughout the year. In accordance with IFRIC 21, the Company has determined that the liability to pay the U.S. property taxes should be recognized in full at a single point in time when the obligating event occurs. The obligating event for the U.S. properties has been determined to be January 1, as stated in the legislation. The Company's recognition of property taxes for its Canadian properties remains unchanged. The Company has retrospectively applied this change in accounting policy to January 1, 2013, and has restated its comparative for 2013 to reflect, as of January 1st, the recognition of the full amount of the annual property tax expenses of the U.S. operations, which have now been classified as discontinued.

The adoption of IFRIC 21 has resulted in adjustments to discontinued operations on the consolidated statements of earnings (loss) for the 2013 year, related to a $0.1 million decrease in operating expense, and a nominal increase in current tax expense, resulting in a nominal increase in net earnings. In addition, there was a nominal increase in both the total comprehensive income on the consolidated statements of comprehensive income (loss), and in shareholders' equity for the 2013 year, on the consolidated statement of changes in equity (deficiency). The impact as at December 31, 2013, was a $0.8 million increase in accounts payable and accrued liabilities, and a $0.3 million decrease in income taxes payable, resulting in a $0.5 million decrease in shareholders' equity on the consolidated statements of financial position.

5. FUTURE CHANGES IN ACCOUNTING POLICIES

The following new standards, amendments to standards and interpretations are effective for annual periods beginning on or after January 1, 2015, and have not been applied in preparing the financial results for the year ended December 31, 2014.

Financial Instruments

On July 24, 2014, IFRS 9 "Financial Instruments" was issued (IFRS 9 (2014)), which addresses the classification, measurement and recognition of financial assets and financial liabilities.

IFRS 9 (2014) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2014), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The standard introduces additional changes relating to financial liabilities. It also amends the impairment model by introducing a new 'expected credit loss' model for calculating impairment. IFRS 9 (2014) also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness; however, it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgement to assess the effectiveness of a hedging relationship.

The standard will be effective for annual periods beginning on or after January 1, 2018, and will be applied retrospectively with some exemptions. Early adoption is permitted, and restatement of prior periods is not required. The Company is currently assessing the potential impact of this standard on its consolidated financial statements.

Revenue Recognition

In May 2014, the IASB issued IFRS 15 "Revenue from Contracts with Customers". The new standard provides a comprehensive framework for recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the standard on leases, insurance contracts and financial instruments. IFRS 15 becomes effective for annual periods beginning on or after January 1, 2017, and is to be applied retrospectively. Early adoption is permitted. The Company is currently assessing the potential impact of the new standard on its consolidated financial statements.

6. ACCOUNTS RECEIVABLE

	2014	2013
Trade receivables	**22,299**	173,472
Retroactive rate accruals	**1,861**	16,308
Other receivables	**16,876**	30,863
Total receivables - net of allowance *(note 26(a))*	**41,036**	220,643
Less: non-current portion *(note 10)*	**–**	(9,848)
Accounts receivable	**41,036**	210,795

7. DISPOSAL GROUP HELD FOR SALE

As at December 31, 2014, the Company has classified EHSI's operations as held for sale, which included 166 senior care centres (16,094 beds) owned/leased by EHSI, located in 12 states.

As previously disclosed in May 2013, the Board had been undertaking a review of strategic alternatives through its strategic committee (the "Strategic Committee") relating to a separation of the Company's Canadian and U.S. businesses that would be in the best interests of the Company and would reasonably be expected to enhance shareholder value (the "Strategic Review"). With the assistance of the Strategic Committee, the Board concluded that the sale of the U.S. business was the preferred technique for effecting the separation.

As announced on November 7, 2014, the Company and its subsidiary, Extendicare International Inc., entered into the U.S. Sale Transaction with 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, for gross proceeds of US$870 million ($1.0 billion using the closing U.S./Canadian dollar exchange rate of 1.1601 as at December 31, 2014), subject to a number of adjustments.

In addition, in connection with the U.S. Sale Transaction, the Company expects to receive additional value ascribed to an ongoing cash stream relating to certain U.S. skilled nursing centres to be leased prior to the closing *(note 24)*, the estimated net benefit of which is anticipated to average US$5 million per annum (pre-tax) for 15 years. Extendicare also has the potential for profit sharing above specified thresholds relating to such centres over the same period.

Under the terms of the U.S. Sale Transaction, Extendicare will share in the costs to be incurred by the Purchaser in order to implement and comply with the requirements of the corporate integrity agreement that took effect for EHSI on October 3, 2014, and which has a five-year term ending in October 2019. 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; the next US$5.0 million aggregate annual amount will be shared equally between the Purchaser and Extendicare; and the balance of any excess incurred will be borne by the Purchaser.

The U.S. Sale Transaction will be completed by the transfer to the Purchaser of all of the issued and outstanding shares of Extendicare Holdings, Inc., a U.S. subsidiary of the Company that is the holding company of EHSI, which owns and operates the U.S. business. Completion of the U.S. Sale Transaction is subject to receiving certain U.S. state licensure approvals, lender and other third-party consents and other customary conditions, and is expected to close in the second quarter of 2015. Management estimates the pre-tax gain to be in the range of $220 million to $250 million, subject to change at the time of closing.

Excluded from the U.S. Sale Transaction are the 10 U.S. skilled nursing centres (906 beds) that were classified as held for sale at the end of 2013. In December 2013, EHSI decided to sell 11 of its nursing centres, located in various states, due to poor operational performance and the need for future capital expenditures. EHSI reclassified the assets and liabilities of these nursing centres to current assets and liabilities, and recorded an impairment charge of $7.3 million (US$6.8 million) in December 2013 to reduce the net book value of the properties to their estimated fair value less costs to sell. In September 2014, EHSI sold one of these skilled nursing centres (74 beds) in Washington, for cash of US$1.9 million, which resulted in a pre-tax gain of $0.4 million (US$0.3 million) *(note 22)*. EHSI expects to complete the sale of the remaining centres during 2015. The net book value of these 10 centres was US$18.9 million (assets of US$33.8 million, net of liabilities of US$14.9 million including long-term debt of US$9.6 million), as at December 31, 2014.

Assets of Disposal Group Held for Sale

	2014	2013
Cash	**63,304**	189
Restricted cash	**14,852**	213
Accounts receivable	**173,034**	7,781
Income taxes recoverable	**14,848**	–
Other current assets	**16,470**	478
Property and equipment	**882,414**	27,757
Goodwill and other intangible assets	**65,604**	–
Other non-current assets	**24,009**	–
Total assets held for sale	**1,254,535**	36,418

Liabilities of Disposal Group Held for Sale

	2014	2013
Accounts payable and accrued liabilities	**129,930**	4,752
Income taxes payable	**12,190**	–
Long-term debt *(note 13)*	**756,764**	10,360
Provisions	**26,007**	1,242
Other long-term liabilities	**13,877**	2
Deferred tax liabilities	**192,045**	–
Total liabilities held for sale	**1,130,813**	16,356

8. PROPERTY AND EQUIPMENT

	Land & Land Improvements	Buildings	Furniture & Equipment	Leasehold Improvements	Construction in Progress	Total
Cost or Deemed Cost						
January 1, 2013	166,034	1,114,614	166,813	9,160	62,688	1,519,309
Additions	572	7,194	12,680	523	34,421	55,390
Government grants	–	(37,007)	–	–	–	(37,007)
Interest capitalized	–	–	–	–	1,232	1,232
Reclassification to assets held for sale *(note 7)*	(7,054)	(24,743)	(9,091)	(228)	(29)	(41,145)
Disposals	–	–	(42)	–	–	(42)
Write-off of fully-depreciated assets	(22)	(3,175)	(4,130)	(36)	–	(7,363)
Impairment loss *(notes 9, 19 and 22)*	(1,476)	(18,335)	(165)	–	–	(19,976)
Reversal of impairment loss *(note 22)*	–	15,676	–	–	–	15,676
Transfer from construction-in-progress	2,205	82,325	8,131	(849)	(91,812)	–
Reclass and other	68	(375)	(222)	(1,291)	(204)	(2,024)
Effect of movements in exchange rates	9,163	52,767	8,438	442	218	71,028
December 31, 2013	169,490	1,188,941	182,412	7,721	6,514	1,555,078
Additions	**731**	**6,155**	**12,745**	**136**	**9,796**	**29,563**
Acquisitions	**630**	**6,316**	**–**	**–**	**–**	**6,946**
Reclassification to assets held for sale *(note 7)*	**(146,758)**	**(874,547)**	**(124,889)**	**(5,591)**	**316**	**(1,151,469)**
Disposals	**–**	**–**	**(168)**	**–**	**–**	**(168)**
Write-off of fully-depreciated assets	**(95)**	**(611)**	**(11,371)**	**(16)**	**–**	**(12,093)**
Impairment loss *(notes 9, 19 and 22)*	**380**	**(16,602)**	**–**	**–**	**–**	**(16,222)**
Reversal of impairment loss *(note 22)*	**–**	**8,823**	**–**	**–**	**–**	**8,823**
Transfer from construction-in-progress	**35**	**10,523**	**1,720**	**(1,906)**	**(13,344)**	**(2,972)**
Reclass and other	**–**	**(1,267)**	**(22)**	**(3)**	**(599)**	**(1,891)**
Effect of movements in exchange rates	**11,788**	**73,663**	**11,625**	**542**	**101**	**97,719**
December 31, 2014	**36,201**	**401,394**	**72,052**	**883**	**2,784**	**513,314**
Accumulated Depreciation						
January 1, 2013	18,079	221,621	92,570	5,443	–	337,713
Additions	6,187	48,382	17,683	756	–	73,008
Reclassification to assets held for sale *(note 7)*	(1,028)	(5,549)	(6,998)	(20)	–	(13,595)
Disposals	–	–	(42)	–	–	(42)
Write-off of fully-depreciated assets	(22)	(3,175)	(4,130)	(36)	–	(7,363)
Reclass and other	69	(83)	(157)	(1,419)	–	(1,590)
Effect of movements in exchange rates	1,292	8,248	5,121	279	–	14,940
December 31, 2013	24,577	269,444	104,047	5,003	–	403,071
Additions	**5,739**	**40,735**	**17,948**	**515**	**–**	**64,937**
Reclassification to assets held for sale *(note 7)*	**(29,619)**	**(180,997)**	**(80,904)**	**(5,292)**	**–**	**(296,812)**
Disposals	**–**	**–**	**(168)**	**–**	**–**	**(168)**
Write-off of fully-depreciated assets	**(95)**	**(611)**	**(11,371)**	**(16)**	**–**	**(12,093)**
Reclass and other	**–**	**(1,252)**	**(18)**	**2**	**–**	**(1,268)**
Effect of movements in exchange rates	**2,307**	**14,358**	**7,415**	**433**	**–**	**24,513**
December 31, 2014	**2,909**	**141,677**	**36,949**	**645**	**–**	**182,180**
Carrying amounts						
At December 31, 2013	144,913	919,497	78,365	2,718	6,514	1,152,007
At December 31, 2014	**33,292**	**259,717**	**35,103**	**238**	**2,784**	**331,134**

The cost of assets included in property and equipment under finance leases was $84.4 million (2013 – $88.3 million) with accumulated depreciation of $25.4 million (2013 – $24.9 million) *(note 13)*.

ECI completed the construction of two Ontario redevelopment projects during 2013: a new 256-bed nursing centre in Sault Ste. Marie was completed in March 2013 and opened to residents in April 2013; another new 180-bed nursing centre in Timmins was completed and opened to residents in October 2013. The construction costs of these projects amounted to approximately $80 million and these new centres replaced two owned centres (287 class "C" beds) and one leased centre (95 interim beds) in the communities.

Upon the opening of each of these nursing centres, ECI is entitled to receive capital funding from the Government of Ontario, subject to ECI operating the centres as prescribed under the guidelines of the Ministry of Health and Long-Term Care (Ontario), as part of the program to redevelop existing class "C" beds in Ontario. The funding provides for a payment of $14.30 per bed per day upon the opening of each of these centres, and continues for a period of 25 years. This funding has been discounted at the applicable Ontario government bond rates, and the present value is recorded as a note receivable within other assets, with an offset to the cost of buildings upon inception; as this funding is received over time, the accretion of the note receivable is recognized in interest revenue as part of net finance costs within net earnings.

Interest is capitalized in connection with the construction of centres and is amortized over their estimated useful life, at 5.86% for 2013. Interest capitalized in 2013 was $1.2 million; no interest was capitalized in 2014.

9. GOODWILL AND OTHER INTANGIBLE ASSETS

	2014	2013
Goodwill		
Balance at beginning of year	**70,640**	70,503
Impairment loss	**(5,259)**	(3,775)
Other	**(37)**	–
Reclassification to assets held for sale *(note 7)*	**(57,232)**	–
Effect of movements in exchange rates	**4,944**	3,912
Balance at end of year	**13,056**	70,640
Other Intangible Assets		
Gross carrying value at beginning of year	**43,896**	40,991
Additions	**660**	362
Write-off of fully amortized assets	**(15,292)**	(120)
Reclassification to assets held for sale *(note 7)*	**(32,057)**	–
Other	**4,808**	157
Effect of movements in exchange rates	**3,136**	2,506
Gross carrying value at end of year	**5,151**	43,896
Accumulated amortization at beginning of year	**(35,307)**	(28,701)
Amortization	**(3,205)**	(4,921)
Write-off of fully amortized assets	**15,292**	120
Reclassification to assets held for sale *(note 7)*	**23,685**	–
Other	**–**	146
Effect of movements in exchange rates	**(2,445)**	(1,951)
Accumulated amortization at end of year	**(1,980)**	(35,307)
Net carrying value	**3,171**	8,589
Goodwill and other intangible assets	**16,227**	79,229

Goodwill

The carrying value of goodwill is reviewed at each reporting date to determine whether there exists any indication of impairment. If any indication exists, then the assets' recoverable amount is estimated and an impairment loss is recognized if the carrying amount of the asset or its related CGU exceeds the estimated recoverable amount *(notes 19 and 22)*.

In September 2014, EHSI recognized a net pre-tax loss of $11.4 million (US$10.4 million), consisting of a goodwill impairment of $5.3 million (US$4.8 million), a $14.9 million (US$13.6 million) impairment on certain properties and an $8.8 million (US$8.0 million) reversal of a previously recorded impairment loss on property and equipment *(note 22)*.

In 2013, EHSI recognized a net pre-tax recovery of $0.1 million (US$0.1 million), consisting of a goodwill impairment of $3.7 million (US$3.6 million), an $11.9 million (US$11.5 million) impairment on certain properties and a $15.7 million (US$15.2 million) reversal of a previously recorded impairment loss on property and equipment. An additional impairment was recognized in December 2013, but it did not affect goodwill *(note 22)*.

Other Intangible Assets

Other intangible assets comprise computer software, purchased licenses and non-compete agreements. Computer software represents the majority of other intangible assets with a gross and net carrying value of $4.1 million and $2.3 million, respectively, at December 31, 2014 (2013 – $39.0 million and $4.8 million, respectively).

10. OTHER ASSETS

	2014	2013
Investments held for self-insured liabilities: available-for-sale securities, at fair value	**154,178**	118,827
Notes, mortgages and amounts receivable	**63,187**	84,896
Medicare and Medicaid settlement receivables, less allowance of nil *(note 6)*	**–**	9,848
	217,365	213,571

Investments Held for Self-insured Liabilities

Extendicare holds investments within the Captive for self-insured liabilities that are subject to insurance regulatory requirements.

As a result of the U.S. Sale Transaction in 2014 *(note 7)*, the expense for self-insured liabilities has been reclassified to discontinued operations; however, the obligation to settle any claims incurred prior to the closing of the U.S. Sale Transaction, including claims incurred but yet to be reported, remains with Extendicare and the Captive. Consequently, neither the accrual for self-insured liabilities nor the investments held for self-insured liabilities have been classified as held for sale as at December 31, 2014 *(note 12)*.

The investment portfolio is categorized as available for sale, and comprises U.S. dollar-denominated cash, money market funds and investment-grade corporate and government securities. Certain of these investments in the amount of $33.4 million (US$28.8 million) (2013 – $19.4 million or US$18.2 million), have been pledged as collateral for letters of credit issued by the banker of the Captive in favour of ceding companies. As at December 31, 2014, all investments were categorized as available for sale.

	2014	2013
Fixed income securities, with maturities due in one year or less	–	1,214
Cash and money market funds	**127,858**	94,717
Equities	**26,320**	22,896
	154,178	118,827

Financial assets include the following available-for-sale securities:

	2014	2013
U.S. Treasuries	–	1,214
Equities	**26,320**	22,896
	26,320	24,110

Notes, Mortgages and Amounts Receivable

Notes, mortgages and amounts receivable were primarily related to discounted amounts receivable due from government agencies, which represented the Ontario construction funding subsidy for newly constructed nursing centres. The long-term portion of the funding was $62.5 million (2013 – $66.8 million), included in notes, mortgages and amounts receivable, while the current portion of $4.3 million was included as part of accounts receivable (2013 – $4.0 million). As each centre was opened, a receivable from the government was recorded based on applying a discount rate equivalent to the yield on an Ontario government bond for an equivalent duration. The two new Ontario centres qualified for construction funding of $14.30 per bed per day over 25 years *(note 8)*, and 11 previously built centres receive construction funding of $10.35 per bed per day over 20 years. The amounts were discounted at rates ranging from 3.6% to 6.5%, and were treated as a reduction in the cost of the property and equipment related to the centres.

Medicare and Medicaid Settlement Receivables

As a result of the U.S. Sale Transaction in 2014, assets of EHSI have been classified as held for sale as at December 31, 2014 *(note 7)*. As at December 31, 2014, settlement receivables included in assets held for sale were $11.4 million and contained no allowance (2013 – $13.3 million included in other assets). These receivables were from EHSI's Medicare and Medicaid state programs. The Medicare settlement receivables primarily related to reimbursable Part A co-insurance receivables, while the Medicaid settlement receivables pertained to cost-based reimbursement programs. Differences between the final settlement and amounts previously recorded were reported as adjustments to revenue in the period of determination. The amounts expected to be substantially collected within one year were reported as current accounts receivable, and the remaining amounts totalling $9.8 million were reported in other assets.

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2014	2013
Accounts payable	**4,998**	31,031
Accrued liabilities	**103,907**	199,165
	108,905	230,196

12. PROVISIONS

	Accrual for Self-insured Liabilities	Decommissioning Provisions	Total
January 1, 2013	95,930	26,851	122,781
Provisions recorded	54,482	–	54,482
Provisions used	(42,720)	–	(42,720)
Reclass	(294)	(1,281)	(1,575)
Accretion	883	1,823	2,706
Effect of movements in exchange rates	7,028	1,408	8,436
December 31, 2013	115,309	28,801	144,110
Less: current portion	28,052	–	28,052
	87,257	28,801	116,058
January 1, 2014	**115,309**	**28,801**	**144,110**
Provisions recorded	**44,010**	**–**	**44,010**
Provisions used	**(38,091)**	**–**	**(38,091)**
Reclassification to liabilities held for sale *(note 7)*	**–**	**(24,765)**	**(24,765)**
Reclass	**281**	**(645)**	**(364)**
Accretion	**1,105**	**2,030**	**3,135**
Effect of movements in exchange rates	**10,829**	**2,115**	**12,944**
December 31, 2014	**133,443**	**7,536**	**140,979**
Less: current portion	**25,984**	**–**	**25,984**
	107,459	**7,536**	**114,995**

Accrual for Self-insured Liabilities

Within the long-term care industry, operators including the Company are subject to lawsuits alleging negligence, malpractice, or other related claims. The Company maintains liability insurance policies through third-party insurers as well as retaining a portion of the risk within the Captive at a level that the Company believes to be adequate based upon the nature and risks of its business, historical experience and industry standards, along with the type of insurance coverage commercially available in the marketplace.

The Company entered into the U.S. Sale Transaction in 2014 *(note 7)*, but the accrual for self-insured liabilities has not been classified as held for sale as at December 31, 2014, as the obligation to settle any claims incurred prior to the closing of the U.S. Sale Transaction, remains with Extendicare and the Captive *(note 10)*.

The accrual for self-insured liabilities is based on management's best estimate of the ultimate cost to resolve general and professional liability claims, including both known claims and claims that have been incurred but not yet reported by the end of the reporting period. The Company estimates the value of losses that may occur within its self-insured retention levels, based upon individual assessment of the settlement, using historical information and industry data, supported by actuarial projections, advice from legal counsel, consultants and external risk management. General and professional liability claims are the most volatile and significant type of risks for which the Company self-insures; furthermore, claim payments for any particular policy year can occur over a period of several years that are limited by state or provincial regulations. Actual results can differ materially from the estimates made due to a number of factors including the assumptions used by management and other market forces.

Management regularly evaluates and periodically engages an independent third-party actuary to provide a report to determine the appropriateness of the carrying value of this liability. Assumptions underlying the determination of the liability are limited by the uncertainty of predicting future events and assessments regarding expectations of several factors. Such factors include, but are not limited to: the frequency and severity of claims, which can differ materially by jurisdiction; trends in claims along with unique and identifiable settlements; coverage limits of third-party reinsurance; the effectiveness of the claims management process; and the outcome of litigation. Therefore, management's estimate of the accrual for general and professional liability claims is significantly influenced by assumptions that are subject to judgement by management and the actuary, which may cause the provision to fluctuate significantly from one reporting period to another.

Management estimates and allocates a portion of the general and professional liability claim payments as current on the statement of financial position.

Decommissioning Provisions

The decommissioning provisions relate to possible asbestos remediation of Extendicare's pre-1980 constructed centres *(note 3(m))*. The portion related to EHSI has been classified as held for sale as at December 31, 2014 *(note 7)*.

13. LONG-TERM DEBT

	Interest rate	Year of Maturity	2014	2013
Canadian Operations				
Convertible unsecured subordinated debentures	6.0%	2019	**122,312**	121,590
Convertible unsecured subordinated debentures	5.7%	2014	–	114,226
CMHC mortgages	2.22%–7.7%	2016–2037	**163,672**	175,762
Non-CMHC mortgages	4.14%–5.637%	2020–2038	**93,728**	95,688
Finance lease obligations	6.41%–7.19%	2026–2028	**100,749**	105,711
Note payable	2.0%	2015	**6,961**	–
			487,422	612,977
Financing costs			**(9,057)**	(10,434)
			478,365	602,543
U.S. Operations				
HUD mortgages	3.20%–5.75%	2022–2047	–	576,715
Line of credit	variable	2015	–	2,234
Finance lease obligations	0%–10.25%	2016–2018	**624**	2,267
Notes payable	0%	2014	–	72
			624	581,288
Financing costs			–	(18,995)
			624	562,293
Total debt, net of financing costs			**478,989**	1,164,836
Less: current portion			**25,789**	148,051
Long-term debt, net of financing costs			**453,200**	1,016,785

Canadian Operations

CONVERTIBLE UNSECURED SUBORDINATED DEBENTURES

In 2012, Extendicare issued $126.5 million of aggregate principal amount of 6.00% convertible unsecured subordinated debentures due September 30, 2019, convertible at $11.25 per Common Share (the "2019 Debentures"). The initial offering of $110.0 million closed on September 25, 2012, for net proceeds of $104.8 million; and the exercise of the over-allotment option for $16.5 million closed on October 1, 2012, for additional net proceeds of $15.9 million, securing total net proceeds of $120.7 million on this offering.

Interest on the 2019 Debentures is payable semi-annually in March and September. The 2019 Debentures may not be redeemed by the Company prior to October 1, 2015, except in the event of the satisfaction of certain conditions after a change of control has occurred. On or after October 1, 2015, but prior to October 1, 2017, these debentures may be redeemed by the Company in whole at any time or in part from time to time, at a price equal to the principal amount thereof plus accrued and unpaid interest, on a notice of not more than 60 days and not less than 30 days prior, provided that 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 immediately preceding the date on which notice of redemption is given is not less than 125% of the conversion price. On and after

October 1, 2017, these debentures may be redeemed by the Company in whole at any time or in part from time to time, at a price equal to the principal amount thereof plus accrued and unpaid interest, on a notice of not more than 60 days and not less than 30 days prior.

Upon the occurrence of a change of control, whereby more than 66.67% of the Common Shares are acquired by any person, or group of persons acting jointly, each holder of the 2019 Debentures may require the Company to purchase their debentures at 101% of the principal. If 90% or more of the debentureholders do so, the Company has the right, but not the obligation, to redeem all the remaining outstanding 2019 Debentures.

Upon closing of the initial offering on September 25, 2012, the debt and equity components of the 2019 Debentures were bifurcated as the financial instrument is considered a compound instrument with $105.0 million classified as a liability and the residual $5.0 million classified as equity attributable to the conversion option. Following the completion of the exercise of the over-allotment option on October 1, 2012, the bifurcation of the 2019 Debentures resulted in $120.7 million classified as a liability and the residual $5.8 million classified as equity. The liability portion of the 2019 Debentures is recorded at amortized cost. The fees and transaction costs allocated to the debt component are amortized over the term of the 2019 Debentures using the effective interest method and recognized as part of net finance costs.

Extendicare completed a public offering of convertible unsecured subordinated debentures in June 2007 that matured on June 30, 2014 (the "2014 Debentures"). These were designated as financial liabilities valued at fair value, with changes in fair value recognized in net earnings as part of net finance costs. Fair value was based on the closing price of the publicly traded convertible debentures on each reporting date. The 2014 Debentures were fully repaid in the aggregate principal amount of $113.9 million upon maturity on June 30, 2014. The Company recorded a loss of $0.9 million in connection with this settlement *(note 19)*.

CMHC MORTGAGES

Extendicare's Canadian subsidiaries have various mortgages insured through the Canada Mortgage and Housing Corporation (CMHC) program. The CMHC mortgages are secured by several Canadian financial institutions at rates ranging from 2.22% to 7.7% with maturity dates through to 2037.

Effective August 1, 2013, ECI renewed its existing CMHC mortgage on three Ontario nursing centres for a term of five years at a fixed rate of 3.08%. This mortgage was renewed at its maturing balance of $15.4 million.

In January 2014, ECI committed to the renewal of its existing $6.4 million CMHC mortgage on an Ontario nursing centre for a 10-year term at a fixed rate of 3.62%, effective March 1, 2014.

NON-CMHC MORTGAGES

In October 2011, ECI secured conventional long-term financing on its Timmins and Sault Ste. Marie centres in Ontario. The first two years of the loans were for construction with interest-only payments, following which the loans would be amortized over 25 years. The Timmins and Sault Ste. Marie loans contain fixed rates for the full 27-year term of 5.558% and 5.637%, respectively, with a requirement to maintain a minimum debt service coverage ratio. The Sault Ste. Marie centre and the Timmins centre opened in April and October of 2013, following which their construction loans totalling $69.9 million were converted to conventional mortgages.

ECI has completed the refinancing of three Manitoba nursing centres in September 2013, with conventional mortgages totalling $26.0 million at a fixed rate of 4.14% for a term of seven years. The existing mortgages had a balance of $15.3 million at June 30, 2013, maturing in November 2013. We recorded an early debt retirement charge of $0.2 million in connection with the refinancing of these centres *(note 19)*.

FINANCE LEASE OBLIGATIONS

ECI obtained financing of $125.4 million in 2001 from BCP Long-Term Care Facilities Inc. (BCP) to build eight Ontario nursing centres and entered into another arrangement in 2003 with BCP for $14.4 million of financing for an additional Ontario nursing centre. ECI is operating the centres for BCP under 25-year finance lease arrangements at an average effective rate of 6.99%.

Finance lease obligations are payable as follows:

	2014			2013		
	Future Minimum Lease Payments	**Interest**	**Present Value of Minimum Lease Payments**	Future Minimum Lease Payments	Interest	Present Value of Minimum Lease Payments
Less than one year	**12,104**	**6,788**	**5,316**	12,104	7,141	4,963
Between one and five years	**48,416**	**23,080**	**25,336**	48,416	24,767	23,649
More than five years	**92,300**	**22,203**	**70,097**	104,404	27,305	77,099
	152,820	**52,071**	**100,749**	164,924	59,213	105,711

NOTE PAYABLE

In December 2014, EHSI completed the acquisition of a 108-bed nursing facility in Ohio, which EHSI had previously leased, for $6.9 million (US$6.0 million) *(note 22)*. The acquisition was paid for by the assumption of a note payable by Canada to the Purchaser, and will be netted against the proceeds upon completion of the U.S. Sale Transaction.

U.S. Operations

FINANCE LEASE OBLIGATIONS

Finance lease obligations in the U.S. as at December 31, 2014, are related to our health technology operations, and are payable as follows:

	2014			2013		
	Future Minimum Lease Payments	**Interest**	**Present Value of Minimum Lease Payments**	Future Minimum Lease Payments	Interest	Present Value of Minimum Lease Payments
Less than one year	**433**	**34**	**399**	1,626	75	1,551
Between one and five years	**246**	**21**	**225**	736	20	716
	679	**55**	**624**	2,362	95	2,267

Long-term Debt Held for Sale

As a result of the U.S. Sale Transaction, the consolidated long-term debt as at December 31, 2014, does not include long-term debt of EHSI *(note 7)*.

As at December 31, 2014, long-term debt held for sale included all of EHSI's debt. Balances held for sale as at December 31, 2013, were related to the 11 centres classified as held for sale in 2013.

(payable in US$)	Interest rate	Year of Maturity	2014	2013
Total Debt Held for Sale				
HUD mortgages	3.20%–5.75%	2022–2047	**628,800**	10,708
PrivateBank loans	variable	2019	**149,612**	–
Finance lease obligations	5.24%–10.25%	2015	**364**	–
			778,776	10,708
Financing Costs				
HUD mortgages			**(18,376)**	(348)
PrivateBank loans			**(3,636)**	–
			(22,012)	(348)
Total debt held for sale, net of financing costs *(note 7)*			**756,764**	10,360

REFINANCINGS

In April 2013, EHSI closed on six U.S. Department of Housing and Urban Development (HUD) loans totalling US$37.7 million to refinance a term loan secured in 2010 with the PrivateBank (the "2010 U.S. PrivateBank loans"), which was due in 2013 with a remaining principal balance of US$33.8 million. These HUD loans have a weighted average interest rate of 3.66% (including mortgage insurance premiums of 0.65%) and term to maturity of approximately 32 years. A loss on refinancing and retirement of debt of US$0.4 million was recorded in the 2013 second quarter associated with this repayment.

2014 U.S. PRIVATEBANK PENNSYLVANIA LOAN

On September 22, 2014, EHSI obtained an additional US$30.0 million non-recourse term loan (the "2014 PrivateBank Pennsylvania Loan") from The PrivateBank and Trust Company (The PrivateBank). The proceeds of this loan, together with available cash, were used to settle the previously disclosed 2010 U.S. Government Investigations *(note 22)* of US$39.0 million in October 2014.

The 2014 PrivateBank Pennsylvania Loan is secured by first mortgages on five skilled nursing centres in the state of Pennsylvania. The 2014 PrivateBank Pennsylvania Loan has a five-year term maturing in September 2019, with monthly principal and interest payments based on a 25-year amortization period and one-month LIBOR plus 450 basis points. EHSI has the option to prepay the outstanding balance of the loan in whole or in part subject to a prepayment fee of 4% of the outstanding loan balance during the first year of the agreement, 3% during the second year, 2% during the third and fourth years, 1% during the first half of the fifth year, and 0% thereafter. The 2014 PrivateBank Pennsylvania Loan contains customary covenants and events of default, including maintaining minimum rent coverage and debt service coverage ratios on each of the five centres and a minimum fixed charge coverage ratio with respect to the five centres on a consolidated basis.

2014 U.S. PRIVATEBANK KENTUCKY LOAN AND SETTLEMENT OF 2014 CONVERTIBLE DEBENTURES

On June 6, 2014, EHSI obtained a US$100.0 million non-recourse term loan (the "2014 PrivateBank Kentucky Loan") from The PrivateBank and other banks in the syndicate. These proceeds, together with other available cash on hand, were used to fund a US$110.5 million dividend paid by Extendicare's U.S. subsidiaries to their Canadian parent. The payment of this cross-border dividend attracted withholding tax of $6.1 million (US$5.5 million). Extendicare used the proceeds, together with available cash on hand, to repay the principal owing under the 2014 Debentures, in the aggregate principal amount of $113.9 million that matured on June 30, 2014 *(note 13)*.

The 2014 PrivateBank Kentucky Loan is secured by first mortgages and an assignment of rents and leases on 19 skilled nursing centres in the state of Kentucky that EHSI leases out to a third-party operator. The 2014 PrivateBank Kentucky Loan has a five-year term maturing in June 2019, with monthly principal and interest payments based on a 25-year amortization period and one-month LIBOR plus 475 basis points. EHSI has the option to prepay the outstanding balance of the loan in whole or in part subject to a prepayment fee of 4% of the outstanding loan balance during the first year of the agreement, 3% during the second year, 2% during the third and fourth years, 1% during the first half of the fifth year, and 0% thereafter. The prepayment penalty does not apply to a prepayment in connection with the third-party operator exercising its purchase option under the lease. The 2014 PrivateBank Kentucky Loan contains customary covenants and events of default, including maintaining minimum rent coverage and debt service coverage ratios on each of the 19 centres and a minimum fixed charge coverage ratio with respect to the 19 centres on a consolidated basis.

2014 U.S. REVOLVING LOAN AND TERMINATION OF U.S. CREDIT FACILITY

On June 30, 2014, EHSI entered into a US$35.0 million revolving loan agreement with The PrivateBank (the "EHSI Revolving Loan") with a five-year term to June 2019 and interest based on LIBOR plus 400 basis points. The EHSI Revolving Loan replaced the US$100.0 million senior secured revolving credit facility that was terminated on June 25, 2014. EHSI recorded a $1.2 million (US$1.1 million) pre-tax loss on retirement of debt related to the write-off of unamortized deferred finance charges *(note 22)*.

The EHSI Revolving Loan is secured by accounts receivable of 35 centres (32 skilled nursing centres and three assisted living centres). Under the loan agreement, the combined operations of the 35 centres must meet minimum debt service and fixed charge coverage ratios, and maintain a minimum level of tangible net worth.

The amount available to be borrowed under the EHSI Revolving Loan is 80% of eligible receivables that are less than 90 days old. The maximum amount available to be borrowed under the EHSI Revolving Loan as at December 31, 2014, was US$17.7 million, of which EHSI had utilized US$7.5 million under letters of credit, leaving US$10.2 million available for future borrowings for working capital and corporate purposes. The letters of credit are in favour of workers' compensation programs that renew annually and mature in June 2015.

HUD MORTGAGES

As at December 31, 2014, EHSI has a total of 82 HUD-insured mortgages secured by 82 skilled nursing centres and two assisted living facilities. These mortgages have an average remaining term of 29 years with fixed interest rates ranging from 3.20% to 5.75% and a weighted average interest rate of 4.30%. Depending on the mortgage agreement, prepayments are generally allowed, with HUD approval, only after 12 months or 24 months from the inception of the mortgage, and in the first year thereafter, prepayments are subject to penalties between 8% and 10% of the remaining principal balances. The prepayment penalties decrease each subsequent year by 1% until no penalty is required. As at December 31, 2014, US$538.0 million were subject to prepayment fees between 7% and 9%, and US$4.3 million were subject to prepayment fees of 1%.

All HUD-insured mortgages are non-recourse loans to EHSI. All mortgages are subject to HUD regulatory agreements that require escrow reserve funds to be deposited with the loan servicer for mortgage insurance premiums, property taxes, insurance and for capital replacement expenditures. As at December 31, 2014, EHSI had escrow reserve funds of $6.7 million (US$5.8 million) with the loan servicer that are reported within other current assets, and replacement reserve funds of $11.7 million (US$10.1 million) in other non-current assets. In addition, cash for working capital purposes may only be distributed semi-annually to EHSI from the real estate special purpose entities within the HUD mortgage structures. As at December 31, 2014, restricted cash of $14.8 million (US$12.8 million) mainly related to amounts restricted under HUD agreements.

2010 U.S. PRIVATEBANK LOANS

As mentioned above, in April 2013, EHSI closed on six HUD loans totalling US$37.7 million, at which time, the 2010 U.S. PrivateBank loans with an aggregate balance of US$33.8 million were repaid in full, resulting in a loss of $0.5 million (US$0.4 million) *(note 22)*.

NOTES PAYABLE

In November 2013, the final instalment of US$4.0 million was paid on notes payable which related to seller notes arising from the 2007 acquisition of Tendercare (Michigan) Inc. (Tendercare) *(note 28)*.

Other

RBC LINE OF CREDIT AND LETTERS OF CREDIT

Extendicare has a demand credit facility with the Royal Bank of Canada (the "RBC Credit Facility") that is secured by 13 class "C" nursing centres in Ontario and is guaranteed by certain Canadian subsidiaries of Extendicare. In February 2015, the RBC Credit Facility was amended to reduce the amount available to $44.8 million from $64.0 million as a result of changes in valuations. Under the terms of the new agreement, up to $39.8 million of the $44.8 million would be available for operating purposes, and the full $44.8 million would be available for letters of credit.

As at December 31, 2014, Extendicare had a letter of credit totalling $39.8 million issued under the RBC Credit Facility to secure executive pension obligations. This letter of credit renews annually based on an actuarial valuation of pension obligations, and will increase to $42.8 million effective May 1, 2015, primarily due to lower discount rates and a weaker Canadian dollar. The RBC Credit Facility has no financial covenants, but does contain normal and customary terms, including annual re-appraisals of the centres that could limit the maximum amount available.

RESTRICTED CASH

Restricted cash of $1.1 million is mainly designated for future capital expenditure.

UNDRAWN BORROWING FACILITIES

The Company has the following undrawn borrowing facilities:

	2014	2013
Variable Rate		
Expiring within one year	**4,960**	21,679
Expiring beyond one year	–	80,834
	4,960	102,513

FINANCING COSTS

Financing costs are deducted from long-term debt and are amortized using the effective interest method over the expected term of the debt. Financing costs included as part of long-term debt amounted to $9.1 million at December 31, 2014 (2013 – $29.4 million). The decrease of $20.3 million in 2014 related primarily to the reclassification of $19.0 million to liabilities held for sale, and $1.4 million of costs associated with amortization charges included in finance costs, nominally offset by refinancing of existing debt.

Below is a summary of the financing costs:

	2014	2013
Canadian Operations		
Convertible unsecured subordinated debentures	**3,752**	4,525
CMHC mortgages	**3,977**	4,455
Non-CMHC mortgages	**973**	1,065
Finance lease obligations	**355**	389
	9,057	10,434
U.S. Operations		
HUD mortgages	–	17,253
Line of credit	–	1,742
	–	18,995
Total financing costs	**9,057**	29,429
Less: current portion	**1,427**	3,519
	7,630	25,910

Principal Repayments

Principal repayments on long-term debt, exclusive of finance lease obligations and liabilities held for sale, are as follows:

Year	Amount
2015	21,502
2016	21,015
2017	31,798
2018	18,586
2019	136,161
2020 and beyond	161,799
	390,861

Interest Rates

The weighted average interest rate of all long-term debt at December 31, 2014, was approximately 5.4% (2013 – 4.9%). At December 31, 2014, all the long-term debt, excluding financing costs and liabilities held for sale, was at fixed rates.

14. OTHER LONG-TERM LIABILITIES

	2014	2013
Accrued pension plan obligation *(note 25)*	**36,533**	32,989
Deferred compensation	**–**	10,839
Share appreciation rights	**202**	183
Future lease commitments	**–**	1,683
Other	**1,279**	453
	38,014	46,147

As a result of the U.S. Sale Transaction in 2014, liabilities of EHSI have been classified as held for sale as at December 31, 2014 *(note 7)*.

Deferred Compensation

EHSI maintains an unfunded deferred compensation plan offered to all corporate employees defined as highly compensated by the U.S. Internal Revenue Code in which participants may defer up to 10% of their base salary. EHSI will match up to 50% of the amount deferred. EHSI also maintains non-qualified deferred compensation plans covering certain executive employees.

Share Appreciation Rights Plan

SARs are granted at the discretion of the Board. Any director, officer or employee of Extendicare or its affiliates is eligible to participate. To date, all SARs have been granted to senior management and directors.

A summary of the SARs issued and outstanding in each of 2014 and 2013 is as follows:

	2014		2013	
	Share Appreciation Rights	**Weighted Average Vesting Price**	Share Appreciation Rights	Weighted Average Vesting Price
Outstanding, beginning of year	**1,472,499**	**$ 8.58**	1,616,750	$ 9.66
Granted	**524,000**	**6.88**	474,000	6.52
Vested	**(466,333)**	**10.93**	(488,750)	10.02
Forfeited	**(217,611)**	**7.87**	(129,501)	9.09
Outstanding, end of year	**1,312,555**	**$ 7.18**	1,472,499	$ 8.58

The fair value of SARs was measured based on the Black-Scholes model. The inputs used in the fair value measurement for 2014 and 2013 were as follows:

	2014	2013
Share price	**6.54**	$6.58
Volatility	**38.00%**	21.00%
Risk-free interest rate	**0.92%–1.04%**	0.91%–1.17%
Strike price	**$6.52–$8.11**	$6.52–$11.16
Expected remaining life	**0.2 years–2.4 years**	0.2 years–2.6 years

The vesting price represents the price at which the respective SARs were granted, and equates to the minimum Common Share price at which they can be vested. As at December 31, 2014, 1,312,555 SARs were outstanding, with an average remaining contractual life of 1.4 years (2013 – 1.3 years). During 2014, $0.3 million was expensed in net earnings from continuing operations as an increase to the obligation in SARs (2013 – nominal recovery). The total liability was $0.8 million as at December 31, 2014, with $0.4 million included in liabilities held for sale and $0.2 million included in accounts payable and accrued liabilities (2013 – $0.2 million in other long-term liabilities).

Awards under the SARP cliff vest after three years, subject to conditions as described below, and permit the participants to receive, at the election of the Board, either a payment in cash or equivalent value of Common Shares acquired on the TSX. Vesting of SARs is subject to continued employment of the participant, with pro-rating provisions in the event of the participant's death, retirement or termination of employment as described below, a minimum Common Share price, and may also be subject to achieving operating performance measures, as determined by the Board at the date of grant. Consideration for vested SARs is equal to the appreciation in the Fair Market Value of the vested SARs from the date of grant of the SAR, plus Accrued Distributions.

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

Future Lease Commitments

The effects of scheduled rent increases included in minimum lease payments are recognized on a straight-line basis over the lease term. The amount recorded as future lease commitments represents the cumulative excess of lease expense computed on a straight-line basis for the lease term over actual lease payments.

15. SHARE CAPITAL

	2014		2013	
	Shares	**Amount**	Shares	Amount
Balance at beginning of year	***87,266,511***	**$ 476,480**	*85,989,376*	$ 467,463
Transactions with shareholders – DRIP	***928,565***	**6,470**	*1,277,135*	9,017
Balance at end of year	***88,195,076***	**$ 482,950**	*87,266,511*	$ 476,480

Authorized Capital

Extendicare is authorized to issue an unlimited number of Common Shares and that number of preferred shares of Extendicare (the "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, for consideration and on terms and conditions that the Board may determine without the approval of shareholders.

Common Shares

Each Common Share is transferable and represents an equal and undivided beneficial interest in the assets of the Company. Each Common Share entitles the holder to one vote at all meetings of shareholders of the Company. Shareholders are entitled to receive dividends from the Company if, as and when declared by the Board. During 2014, the Company declared cash dividends of $0.48 per share (2013 – $0.60 per share).

Preferred Shares

Preferred Shares may at any time and from time to time be issued in one or more series. There are currently no Preferred Shares issued.

DISTRIBUTION REINVESTMENT PLAN

The Company has implemented a Distribution Reinvestment Plan (DRIP) pursuant to which shareholders who are residents in Canada may elect to reinvest their cash distributions in additional Common Shares on the date of the distribution, 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 date of distribution.

During 2014, the Company issued 0.9 million Common Shares at a value of $6.5 million in connection with the DRIP (2013 – 1.3 million Common Shares at a value of $9.0 million).

NORMAL COURSE ISSUER BID

On December 24, 2014, Extendicare received the approval of the TSX to commence a normal course issuer bid (the "2014 Bid") to purchase for cancellation up to 8,630,000 Common Shares, representing approximately 10% of the public float on December 19, 2014. The 2014 Bid commenced on December 31, 2014, and provided Extendicare with flexibility to repurchase Common Shares for cancellation until December 30, 2015. The Company did not acquire any shares for cancellation under the 2014 Bid during 2014. As at March 16, 2015, the Company had acquired 708,000 Common Shares at an average price of $7.05 per share, for a total cost of $5.0 million.

On July 5, 2012, the Company received the approval of a similar normal course issuer bid (the "2012 Bid") to purchase for cancellation up to 4.0 million Common Shares, which expired on July 8, 2013. The Company did not acquire any shares for cancellation under the 2012 Bid during 2013.

16. EQUITY RESERVES

Equity reserves are included in AOCI and comprise fair value, and translation reserves, as follows:

	Unrealized Gains/Losses on AFS Securities	Realized Gains/Losses on AFS Securities	Total Fair Value Reserve	Translation Reserve	Total Equity Reserves
Balance, January 1, 2013	2,637	(1,074)	1,563	(18,501)	(16,938)
Recognized during the year	2,882	(335)	2,547	18,580	21,127
Balance, December 31, 2013 – previously reported	5,519	(1,409)	4,110	79	4,189
Adoption of new standard on levies, applied retrospectively *(note 4)*	–	–	–	(30)	(30)
Balance, December 31, 2013 – restated	5,519	(1,409)	4,110	49	4,159
Recognized during the year	**3,085**	**(194)**	**2,891**	**14,764**	**17,655**
Balance, December 31, 2014	**8,604**	**(1,603)**	**7,001**	**14,813**	**21,814**

Fair Value Reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial assets until the investments are derecognized or impaired.

Translation Reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

17. REVENUE

Funding received by ECI for its nursing centres and home health care services is regulated by provincial authorities. Revenue from provincial programs represented approximately 70% of ECI's nursing centre revenue, and approximately 98% of ECI's home health care revenue for 2014 (2013 – 69% and 98%, respectively).

The Company also offers information technology services in the United States to smaller long-term and post-acute health care providers through VCPI. This revenue source is primarily derived from application hosting, customer support, telecommunications, equipment sales and consulting services, and is recognized as these services are provided and equipment is delivered to our customers.

18. EXPENSES BY NATURE

	2014	2013
Employee wages and benefits	**605,550**	580,511
Food, drugs, supplies and other variable costs	**57,585**	54,188
Property based and other costs	**73,254**	74,397
Total operating expenses and administrative costs	**736,389**	709,096
Lease costs	**5,064**	5,160
Total expenses	**741,453**	714,256

19. LOSS FROM ASSET IMPAIRMENT, DISPOSALS AND OTHER ITEMS

	2014	2013
Asset impairment	**1,250**	844
Debt settlement	**936**	228
U.S. transaction costs	**7,777**	–
Strategic review	**370**	2,081
Gain on disposals	**–**	(1,419)
Acquisition costs	**698**	–
Other	**–**	229
Loss from asset impairment, disposals and other items	**11,031**	1,963

Impairment

We are required to assess for impairment of goodwill on an annual basis. Goodwill and corporate assets are allocated to CGUs. The carrying value of the assets is then compared to the recoverable amount for each CGU to determine if there is any impairment. The recoverable amount of a CGU is determined to be the greater of fair value less costs to sell and value-in-use calculations. Any impairment loss is allocated first to goodwill, and the remainder to property and equipment. An impairment loss on goodwill cannot be reversed in the future. In respect of property and equipment, if future assessments indicate that there is a change in the estimates used to determine the recoverable amount, the impairment loss will be reversed subject to certain limits.

The determination of recoverable amounts can be significantly impacted by estimates related to current market valuations, current and future economic conditions in the geographical markets of each CGU, and management's strategic plans within each of its markets. Estimates and assumptions used in the determination of any impairment loss are based upon information that is known at the time, along with the future outlook.

Based upon the impairment assessment, the Canadian operations recognized a net pre-tax impairment loss of $1.2 million in 2014 on certain properties (2013 – $0.8 million).

According to the impairment assessment performed in 2014, there was no impairment of goodwill on our Canadian operations.

2014 – Other

In the 2014 second quarter, the Company incurred a charge of $0.9 million in connection with the settlement of the 2014 Debentures *(note 13)*.

During 2014, the Company incurred $7.8 million in connection with the U.S. Sale Transaction, and $0.4 million in advisor fees in relation to the Strategic Review *(note 7)*.

As previously announced, the Company entered into a definitive agreement on January 14, 2015, to acquire the Revera Home Health business from Revera Inc *(note 31)*. During 2014, we incurred $0.7 million in connection with this transaction.

2013 – Other

In 2013, we recorded a charge of $0.2 million on the early retirement of debt, in connection with the refinancing of the Manitoba nursing centres in August 2013 *(note 13)*.

The Company incurred $2.1 million in advisor fees in 2013 relating to the Strategic Review *(note 7)*.

Upon discontinuation of the Alberta home health care operations in August 2013, a charge of $0.2 million was incurred, mostly related to the outstanding lease payments.

During 2013, we sold three Canadian properties that had been closed following the completion of three newly built centres in the same communities: a closed Sault Ste. Marie, Ontario, nursing centre (120 beds) for $1.2 million in July 2013, a closed Alberta nursing centre (113 beds) for $1.4 million in October 2013, and a closed Timmins, Ontario, nursing centre (119 beds) for $1.1 million in November 2013, resulting in pre-tax gains of $0.4 million, $0.4 million and $0.6 million, respectively.

20. FINANCE COSTS AND FINANCE INCOME

Convertible Debentures

The fair value adjustment on the 2014 Debentures was a gain of $0.3 million for 2014, compared to $3.1 million for 2013. This related to the remeasurement of the 2014 Debentures at fair value at the end of each period, and these debentures were fully repaid as at June 30, 2014 *(note 13)*.

Transactions between Canadian and U.S. Subsidiaries

We recorded foreign exchange losses of $0.5 million for 2013. These related primarily to the payment of dividends from U.S. subsidiaries to Canadian subsidiaries.

21. EARNINGS PER SHARE

Basic earnings (loss) per share are calculated using the weighted average number of shares outstanding during the period. The calculation of diluted earnings (loss) per share, using the "if-converted" method and to the extent the conversion is dilutive, assumes all convertible securities have been converted at the beginning of the period, or at the time of issuance, if later, and any charges or returns on the convertible securities, on an after-tax basis, are removed from net earnings. The after-tax interest on convertible debentures have been removed from net earnings and the weighted average number of shares has been increased by the number of shares, which would be issued on conversion of the convertible debentures, pro-rated for the number of days in the period the convertible debentures were outstanding.

The following table reconciles the numerator and denominator of the basic and diluted earnings per share computation.

	2014	2013
Numerator for Basic and Diluted Earnings per Share		
Earnings from continuing operations		
Net earnings (loss) for basic earnings per share	**(18,753)**	5,283
Less: loss from discontinued operations, net of tax	**(23,075)**	(4,882)
Earnings from continuing operations for basic earnings per share	**4,322**	10,165
Add: after-tax interest on convertible debt	**6,973**	12,016
Add: after-tax gain on fair value adjustment on financial instruments	**(296)**	(3,099)
Earnings from continuing operations for diluted earnings per share	**10,999**	19,082
Net earnings (loss)		
Net earnings (loss) for basic earnings per share	**(18,753)**	5,283
Add: after-tax interest on convertible debt	**6,973**	12,016
Add: after-tax gain on fair value adjustment on financial instruments	**(296)**	(3,099)
Net earnings (loss) for diluted earnings per share	**(12,076)**	14,200
Denominator for Basic and Diluted Earnings per Share		
Weighted average number of shares for basic earnings per share	**87,735,709**	86,738,363
Shares issued if all convertible debt was converted	**11,244,444**	16,969,570
Total for diluted earnings per share	**98,980,153**	103,707,933
Basic Earnings (Loss) per Share *(in dollars)*		
Earnings from continuing operations	**0.05**	0.12
Loss from discontinued operations	**(0.26)**	(0.06)
Net earnings (loss)	**(0.21)**	0.06
Diluted Earnings (Loss) per Share *(in dollars)*		
Earnings from continuing operations	**0.05**	0.12
Loss from discontinued operations	**(0.26)**	(0.06)
Net earnings (loss)	**(0.21)**	0.06

22. DISCONTINUED OPERATIONS

As announced on November 7, 2014, the Company entered into the U.S. Sale Transaction *(note 7)*. As a result, the Company classified all of EHSI's operations, as well as the expense for self-insured liabilities incurred by the Captive, as discontinued.

The following is a summary of results of all discontinued operations with prior periods re-presented accordingly.

	2014	2013
Nursing and assisted living centres revenue	**1,312,730**	1,216,569
Outpatient therapy revenue	**12,907**	13,360
Management, consulting and other	**18,825**	17,742
Total revenue	**1,344,462**	1,247,671
Operating expenses	**1,190,988**	1,114,159
Administrative costs	**44,361**	41,335
Lease costs	**6,239**	5,936
Total expenses	**1,241,588**	1,161,430
Earnings before depreciation, amortization, loss from asset impairment, disposals and other items	**102,874**	86,241
Depreciation and amortization	**44,298**	56,290
Provision for U.S. government investigations	**42,240**	–
Loss from asset impairment, disposals and other items	**12,187**	7,678
Earnings before net finance costs and income taxes	**4,149**	22,273
Net finance costs	**33,172**	29,922
Loss before income taxes	**(29,023)**	(7,649)
Income tax recovery	**(5,948)**	(2,767)
Loss from discontinued operations	**(23,075)**	(4,882)
Cash Flows from Discontinued Operations		
Net cash from operating activities	**44,231**	47,163
Net cash from investing activities	**(19,349)**	(27,075)
Net cash from financing activities	**(5,995)**	(19,428)
Foreign exchange gain on cash	**4,566**	2,552
Effect on cash flows	**23,453**	3,212

Impairment

EHSI performs its assessment for impairment of goodwill on an annual basis in the third quarter. Goodwill and corporate assets are allocated to EHSI's CGUs. The carrying value of the assets is then compared to the recoverable amount for each CGU to determine if there is any impairment. Impairment is calculated in a similar way as described above *(note 19)*.

The key assumptions used to determine recoverable amount were as follows:

	2014	2013
Capitalization rates:		
Nursing centres	**12.5%**	11.8%
Assisted living centres	**8.4%**	8.5%
Maintenance capital expenditure per bed	**US$388**	US$350
Management fee as a % of revenue	**5.0%**	5.0%

The recoverable amount calculations used discounted pre-tax cash flow projections determined from financial projections based upon both historical and forecasted amounts on which capitalization rates were applied. The calculation was based on the following key assumptions:

- Cash flows were projected based upon historical financial performance along with the forecast impact of revenue rate changes in the coming year and past experience on average daily census, factoring in the historical maintenance capital expenditures and management fees.
- Capitalization rates were based on industry standards on recent transactions.

In September 2014, EHSI recognized a net pre-tax loss of $11.4 million (US$10.4 million), consisting of a goodwill impairment of $5.3 million (US$4.8 million), a $14.9 million (US$13.6 million) impairment on certain properties and an $8.8 million (US$8.0 million) reversal of a previously recorded impairment loss on property and equipment *(note 9)*. According to the impairment assessment performed in 2014, a 10-basis point increase in the capitalization rate would cause a $0.2 million increase in goodwill impairment of EHSI, assuming all other variables remained constant.

In September 2013, EHSI recognized a net pre-tax recovery of $0.1 million (US$0.1 million), consisting of a goodwill impairment of $3.7 million (US$3.6 million), a $11.9 million (US$11.5 million) impairment on certain properties and a $15.7 million (US$15.2 million) reversal of a previously recorded impairment loss on property and equipment *(note 9)*.

In December 2013, EHSI decided to sell 11 nursing centres, and recorded an impairment charge of $7.3 million (US$6.8 million) to reduce the net book value of the properties to fair value *(note 7)*.

Provision for U.S. Government Investigations

In October 2014, EHSI completed and executed a settlement agreement with the U.S. Department of Justice (DOJ), the Office of the Inspector General (OIG) of the U.S. Department of Health and Human Services and multiple states, which fully and finally resolved the previously disclosed DOJ and OIG investigations and ancillary claims that have been pending since 2010 (the "2010 U.S. Government Investigations").

Pursuant to the terms of the settlement, EHSI made a lump-sum payment of US$38.0 million in October 2014 to the government, along with US$1.0 million in other settlement costs. The settlements had been fully accrued for in the 2014 second quarter in the amount of $42.2 million (US$39.0 million), and have now been classified as discontinued operations.

As previously disclosed in 2010, EHSI received subpoenas from the OIG relating to the submission of claims that the OIG believed may be in violation of the U.S. Social Security Act. Starting in November 2012, representatives of the OIG and the DOJ met with senior representatives of EHSI to discuss the OIG's and DOJ's investigations into the submission of claims that related to the quality of care provided to residents and patients of EHSI's skilled nursing centres and the provision of rehabilitation services. EHSI has denied engaging in any illegal conduct and has 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 and DOJ investigations, EHSI has entered into a corporate integrity agreement with the OIG (the "CIA") for a five-year period effective October 3, 2014. During its term, the CIA requires EHSI to continue to maintain a compliance program at all of its U.S. skilled nursing centres and related rehabilitation operations designed to ensure compliance of EHSI's operations with U.S. federal and state health care program requirements. The CIA also requires EHSI to conduct certain additional compliance-related activities during its term, including various training, monitoring and review procedures, and to retain an independent third-party monitor.

2014 – Other

In December 2014, EHSI acquired a 108-bed nursing facility in Ohio, which EHSI had previously leased, for cash of $6.9 million (US$6.0 million). The acquisition was paid for by the assumption of a note payable by Canada to the Purchaser, and will be netted against the proceeds upon completion of the U.S. Sale Transaction *(note 13)*.

In June 2014, EHSI terminated the US$100.0 million senior secured revolving credit facility, and recorded a $1.2 million (US$1.1 million) pre-tax loss on retirement of debt relating to the write-off of unamortized deferred finance charges *(note 13)*.

During the 2014 first quarter, EHSI disposed of a closed nursing centre in the state of Washington for proceeds of US$0.2 million, and reported a nominal gain. In September 2014, EHSI disposed of another nursing centre in Washington for proceeds of US$1.9 million, and reported a pre-tax gain of $0.4 million (US$0.3 million).

2013 – Other

In 2013, we recorded charges totalling $0.5 million (US$0.4 million) on the early retirement of debt, in connection with the refinancing of the 2010 U.S. PrivateBank loans in April 2013.

23. INCOME TAXES

Tax Recognized in Net Earnings (Loss)

	2014	2013
Current Tax Expense		
Current year	**6,673**	13,870
Utilization of losses	**(2,145)**	(6,007)
Accelerated tax depreciation	**(575)**	(4,225)
Other prior year adjustments	**1,363**	929
	5,316	4,567
Deferred Tax Expense (Recovery)		
Origination and reversal of temporary difference	**(11,251)**	(7,846)
Utilization of losses	**2,145**	6,007
Accelerated tax depreciation	**575**	4,225
Change in recognized deductible temporary differences	**1,786**	(3,590)
	(6,745)	(1,204)
Total tax expense (recovery)	**(1,429)**	3,363
Tax expense from continuing operations	**4,519**	6,130
Tax recovery from discontinued operations	**(5,948)**	(2,767)
Total tax expense (recovery)	**(1,429)**	3,363

In respect of the 2009 income tax filings of our U.S. operations, we filed a one-time retroactive change in our U.S. tax accounting method to accelerate the tax depreciation and to expense certain previously capitalized assets that had occurred over the previous seven years. Instead of capitalizing certain expenditures, the tax accounting change expenses those that are frequently required to maintain our properties. This retroactive change is subject to review by the U.S. Internal Revenue Service (IRS).

As a result of this tax accounting change, a recovery of federal and state cash taxes of $24.9 million (US$21.8 million) was recorded in the 2009 fourth quarter, which were received through a reduction of our 2010 U.S. tax instalments. In addition, as at December 31, 2014, further recoveries totalling $16.4 million (US$14.1 million) have been recorded. An equal offset to these recoveries, excluding interest, was charged to the deferred income tax provision that will be reversed over time.

Tax Recognized in Other Comprehensive Income

	2014			2013		
	Before Tax	**Tax Recovery**	**Net of Tax**	Before Tax	Tax Recovery	Net of Tax
Foreign currency translation differences for foreign operations	**14,764**	**–**	**14,764**	18,550	–	18,550
Available-for-sale financial assets	**2,891**	**–**	**2,891**	2,547	–	2,547
Deferred benefit plan actuarial losses	**(4,240)**	**1,124**	**(3,116)**	(229)	61	(168)
	13,415	**1,124**	**14,539**	20,868	61	20,929

Effective Tax Rate

The major factors that caused variations from the expected combined Canadian federal and provincial statutory income tax rates were as follows:

	2014	2013
Earnings from continuing operations before income taxes	**8,841**	16,295
Income taxes at statutory rates of 26.5%	**2,343**	4,317
Income tax effect relating to the following items:		
Tax rate variance of foreign subsidiaries	**535**	1,233
Foreign exchange loss	**–**	137
Non-deductible items	**1,488**	671
Non-taxable income	**(79)**	(958)
Other items	**232**	730
	4,519	6,130

Summary of Operating and Capital Loss Carryforwards

At December 31, 2014, Extendicare's U.S. corporate subsidiaries had net operating loss carryforwards available for U.S. state income tax purposes of $49.3 million (US$42.5 million), which expire in the years 2017 through 2033, and had $12.2 million (US$10.6 million) of net operating loss carryforwards available for U.S. federal income tax purposes, which expire in the years 2021 through 2034. Extendicare's Canadian corporate subsidiaries have fully utilized all available net operating loss carryforwards as at December 31, 2014. To the extent that it is more likely than not that some or all of the deferred tax assets will not be realized, no deferred tax asset has been established.

At December 31, 2014, there were capital losses of $7.7 million (2013 – $20.3 million) available for Canadian income tax purposes that can be carried forward indefinitely to apply against future capital gains. Deferred tax assets of $1.0 million (2013 – $2.7 million) have not been recognized as future tax benefits of these capital losses.

Net deferred tax liabilities decreased in 2014 by $184.3 million to $8.1 million from $192.4 million at December 31, 2013, mainly as a result of the reclassification of the balances related to discontinued operations. Management believes it is more likely than not that Extendicare's corporate subsidiaries will realize the benefits of these deductible differences.

Recognized Deferred Tax Assets and Liabilities

Net deferred tax liabilities comprise the following:

	2014	2013
Deferred tax assets	**7,935**	7,531
Deferred tax liabilities	**16,047**	199,953
Deferred tax liabilities, net	**8,112**	192,422

Deferred income taxes are provided for temporary differences between the carrying values of assets and liabilities and their respective tax values as well as available tax loss carryforwards. The significant components of deferred income tax assets and liabilities and the movement in these balances during the year were as follows:

	Balance January 1 2014	Recognized in Net Loss	Recognized in Other Comprehensive Income/Other	Recognized in Other Comprehensive Income re: FX	Reclassified as Held for Sale	Balance December 31 2014
Deferred tax liabilities						
Property and equipment	**240,186**	**(8,548)**	–	**18,969**	**(224,324)**	**26,283**
Other	**22,248**	**(3,603)**	–	**1,698**	**(18,771)**	**1,572**
	262,434	**(12,151)**	–	**20,667**	**(243,095)**	**27,855**
Deferred tax assets						
Self-insurance reserves	**9,130**	**(130)**	–	**802**	**(9,561)**	**241**
Employee benefit accruals	**17,418**	**1,362**	**1,124**	**793**	**(10,106)**	**10,591**
Operating loss carryforwards	**2,964**	**(2,703)**	**660**	**81**	**(1,002)**	–
Deferred revenue	**3,392**	**240**	–	–	–	**3,632**
Accounts receivable reserves	**5,634**	**(1,180)**	–	**452**	**(4,757)**	**149**
Decommissioning provision	**11,285**	**548**	–	**869**	**(10,662)**	**2,040**
Other	**20,189**	**(3,543)**	–	**1,406**	**(14,962)**	**3,090**
	70,012	**(5,406)**	**1,784**	**4,403**	**(51,050)**	**19,743**
Deferred tax liabilities, net	**192,422**	**(6,745)**	**(1,784)**	**16,264**	**(192,045)**	**8,112**

	Balance January 1 2013	Recognized in Net Earnings	Recognized in Other Comprehensive Income	Other	Recognized in Other Comprehensive Income re: FX	Balance December 31 2013
Deferred tax liabilities						
Property and equipment	230,030	(3,713)	–	–	13,869	240,186
Other	15,201	4,743	–	1,023	1,281	22,248
	245,231	1,030	–	1,023	15,150	262,434
Deferred tax assets						
Self-insurance reserves	7,928	647	–	–	555	9,130
Employee benefit accruals	16,930	(78)	61	–	505	17,418
Operating loss carryforwards	9,818	(6,925)	–	–	71	2,964
Deferred revenue	3,483	(91)	–	–	–	3,392
Accounts receivable reserves	3,562	1,771	–	–	301	5,634
Decommissioning provision	9,011	1,729	–	–	545	11,285
Other	13,999	5,181	–	–	1,009	20,189
	64,731	2,234	61	–	2,986	70,012
Deferred tax liabilities, net	180,500	(1,204)	(61)	1,023	12,164	192,422

24. COMMITMENTS AND CONTINGENCIES

Operating Lease Commitments

At December 31, 2014, the Company was committed under non-cancellable leases requiring future minimum rentals in its continuing operations as follows:

	Operating Leases
2015	2,076
2016	1,830
2017	1,564
2018	1,156
2019	902
2020 and beyond	49
Total minimum payments	7,577

Property and Equipment Commitments

As at December 31, 2014, the outstanding capital expenditure commitments for EHSI totalled $1.3 million (US$1.1 million); and there was none for ECI.

Lease Arrangements

As previously announced in November 2014, EHSI entered into an operations transfer agreement to lease all 22 of its owned skilled nursing centres in the states of Pennsylvania (2,502 beds), Delaware (120 beds) and West Virginia (120 beds) to an experienced third-party long-term care operator. Under the agreement, the operating leases have 15-year terms with two 5-year extensions at the option of the operator. The average annual lease revenue will be US$27.3 million, after taking into account lease incentives. The leases will not include options to purchase the associated real estate assets. The transfer of operations is subject to third-party approvals, including state licensure *(note 31)*. As a result of these transactions, EHSI will no longer operate skilled nursing centres in the states of Pennsylvania, Delaware and West Virginia. The decision to exit the operations of these centres is primarily related to the increasing exposure to undue litigation risks and the associated high liability costs that are prevalent in Pennsylvania and West Virginia, in particular.

In September 2009, EHSI entered into an agreement with the company controlled by the former shareholders of Tendercare, which includes a partial interest of Mr. Lukenda, our President and Chief Executive Officer, and his immediate family *(note 28)*. EHSI owns a 120-bed skilled nursing centre in Lansing, Michigan. Effective January 1, 2011, under the terms of the agreement and immediately following the renovation of the centre, EHSI entered into a 10-year operating lease for US$0.4 million per annum. The centre was certified in March 2011, and the lease expires on January 1, 2021.

The arrangements mentioned above will be transferred to the Purchaser once the U.S. Sale Transaction is completed *(note 7)*.

Legal Proceedings and Regulatory Actions

The provision of health care services is subject to complex federal, state and provincial laws and regulations, including laws and regulations that are intended to prevent health care fraud and abuse. Extendicare and its consolidated subsidiaries are defendants in various actions and proceedings that are brought against them from time to time in connection with their operations. Recently adopted U.S. health care reform legislation has resulted in an increase in government oversight of the long-term care industry and, as a result, long-term care providers, including Extendicare, are experiencing an increase in government surveys, investigations, audits and scrutiny of their operations. In such circumstances, Extendicare cooperates in responding to information requests and takes the necessary corrective actions. Every effort is made by the Company to avoid or mitigate deficiencies in the quality of patient care through quality assurance strategies and to remedy any such deficiencies cited by the government inspections within any applicable prescribed time period. Extendicare accrues for costs that may result from investigations (or any possible related litigation) to the extent that an outflow of funds is probable and a reliable estimate of the amount of the associated costs can be made.

As a result of any determination that Extendicare has violated the U.S. Social Security Act or other applicable laws and regulations in connection with a government investigation or otherwise, or in connection with any settlement of an allegation of the same, Extendicare may incur significant costs, fines, civil monetary penalties, recoupments and administrative penalties (including suspension or exclusion from participation in Medicare, Medicaid and other provider programs) and suffer other sanctions. Among other things, as part of the settlement of any investigation or as a result of litigation relating to an investigation, the Company may be required to assume specific procedural and financial obligations under a corporate integrity agreement, which would typically require the Company to retain a third-party monitor and to implement various new reporting and employee training requirements, and/or other arrangement with the government. Any of these outcomes could have a material adverse effect on the business, results of operations and consolidated financial position of Extendicare.

In October 2014, EHSI completed and executed a settlement agreement with the OIG and DOJ related to the settlement of the 2010 U.S. Government Investigations, which resulted in a payment of US$39.0 million that had been fully accrued for in the 2014 second quarter. As is standard practice in settlements of OIG and DOJ investigations, EHSI has entered into a CIA with the OIG for a five-year period effective October 3, 2014 *(note 22)*.

25. EMPLOYEE BENEFITS

Retirement compensation arrangements are maintained for certain employee groups as described below.

Defined Benefit Plans

Extendicare has pension arrangements for certain of its executives, which include a registered defined benefit pension plan, as well as a supplementary plan that provide pension benefits in excess of statutory limits. Both of these plans have been closed to new entrants for several years. The plans are exposed to various risks, including longevity risk, currency risk, interest rate risk and market risks.

The different types of defined benefit plans of the Company are listed below.

	Funded Defined Benefit Plan		Unfunded Supplementary Defined Benefit Plan		Total	
	2014	2013	**2014**	2013	**2014**	2013
Fair value of plan assets	**5,653**	5,664	**–**	–	**5,653**	5,664
Present value of obligations	**7,869**	7,267	**36,611**	33,605	**44,480**	40,872
Deficit	**(2,216)**	(1,603)	**(36,611)**	(33,605)	**(38,827)**	(35,208)

Funding

As required by law, the registered defined benefit pension plan benefits are funded through a trust, and the Company is responsible for meeting the statutory obligations for funding this plan. The funding requirement for past service is determined based on separate actuarial valuations for funding purposes, which are completed every three years. The most recent actuarial review was performed effective October 1, 2012, and was completed in early 2013.

The supplementary plan is unfunded and pension benefits are secured through a letter of credit that is renewed annually. We do not set aside assets for this plan and the benefit payments are funded from our cash from operations.

Defined Benefit Obligations

	2014	2013
Present Value of Defined Benefit Obligations		
Accrued benefit obligations		
Balance at beginning of year	**40,872**	41,488
Current service cost	**156**	156
Benefits paid	**(2,658)**	(2,851)
Interest costs	**1,786**	1,512
Actuarial losses	**4,324**	567
Balance at end of year	**44,480**	40,872
Plan assets		
Fair value at beginning of year	**5,664**	5,683
Employer contributions	**73**	87
Expected return on assets	**85**	338
Actual return on plan assets	**247**	207
Benefits paid	**(416)**	(651)
Fair value at end of year	**5,653**	5,664
Defined benefit obligations	**38,827**	35,208

The expected contribution for the coming year is approximately $2.4 million.

	2014	2013
Reported in Extendicare's Statements of Financial Position		
Current accrued liabilities	**2,294**	2,219
Other long-term liabilities *(note 14)*	**36,533**	32,989
Accrued benefit liability at end of year	**38,827**	35,208

Effect of Changes to Defined Benefit Obligations

	2014	2013
Expense Recognized in Net Earnings (Loss)		
Annual benefit plan expense		
Current service costs	**156**	156
Interest cost	**1,539**	1,305
Plan benefit expense recognized in the year – included in operating expenses and administrative costs	**1,695**	1,461
Actuarial Losses Recognized in Other Comprehensive Income		
Amount accumulated in accumulated deficit at January 1	**(6,630)**	(6,462)
Actuarial loss arising from changes in:		
Discount rate	**(3,366)**	3,034
Mortality assumption	**183**	(2,548)
Other experience	**(1,141)**	(1,053)
Return on assets	**85**	338
Income tax recovery on actuarial losses	**1,123**	61
Amount recognized in accumulated deficit at December 31	**(9,746)**	(6,630)

Plan Assets

	2014	2013
Equities	**45%**	66%
Fixed income securities	**38%**	34%
Real estate / commercial mortgage	**17%**	—
	100%	100%

Actuarial Assumptions

	2014	2013
Discount rate for year-end accrued obligation	**3.75%**	4.50%
Discount rate for period expense	**4.50%**	3.75%
Rate of compensation increase	**2.0%**	2.0%
Income Tax Act limit increase	**3.0%**	3.0%
Average remaining service years of active employees	**3**	4

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

Extendicare determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Company considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and those that have terms to maturity approximating the terms of the related pension liability.

Changes to the following actuarial assumptions, while holding the other assumptions constant, would have affected the defined benefit obligation and related expense for 2014 by the amounts shown below.

	Increase (Decrease) in Benefit Obligation	Increase (Decrease) in Net Loss
Discount rate:		
1% increase	(4,367)	(147)
1% decrease	5,220	203
Rate of compensation increase		
1% increase	21	(2)
1% decrease	(20)	2
Income Tax Act limit increase		
1% increase	–	–
1% decrease	–	–
Mortality rate		
10% increase	(873)	35
10% decrease	956	(40)

Defined Contribution Plans

Both Canada and the U.S. offer defined contribution plans. Canada maintains registered savings and defined contribution plans, while in the U.S., EHSI maintains defined contribution retirement 401(k) savings plans. Canada matches up to 120% of the employees' contributions according to seniority, subject to a maximum based on the salary of the plan participants. Contributions expensed by Canada in 2014 and 2013 were $13.0 million and $12.5 million, respectively. EHSI pays a discretionary matching contribution. Contributions expensed by EHSI in 2014 and 2013 were US$3.1 million and US$2.7 million, respectively, which were included in discontinued operations.

26. MANAGEMENT OF RISKS AND FINANCIAL INSTRUMENTS

a) Management of Risks

MANAGEMENT OF LIQUIDITY RISK

Liquidity risk is the risk that the Company will encounter difficulty in meeting its contractual obligations. We manage our liquidity risk through the use of budgets and forecasts. Cash requirements are monitored regularly based on actual financial results and actual cash flows to ensure that there are sufficient resources to meet operational requirements. We ensure that there are sufficient funds for declared and payable distributions and any other future commitments at any point in time. In addition, since there is a risk that long-term debt may not be refinanced or may not be refinanced on as favourable terms or with interest rates as favourable as those of the existing debt, we attempt to appropriately structure the timing of contractual long-term debt renewal obligations and exposures.

The following are the contractual maturities of financial liabilities, including estimated interest payments:

As at December 31, 2014	Carrying Amount	Contractual Cash Flows	Less than 1 Year	1-2 Years	2-5 Years	More than 5 Years
Convertible debentures	**122,312**	**162,553**	7,590	7,590	147,373	–
CMHC mortgages	**163,672**	**204,726**	19,133	24,973	63,447	97,173
Non-CMHC mortgages	**93,728**	**156,455**	6,916	6,916	20,747	121,876
Finance lease obligations	**101,373**	**153,499**	12,537	12,248	36,414	92,300
Notes payable	**6,961**	**7,031**	7,031	–	–	–
Accounts payable and accrued liabilities	**108,905**	**108,905**	108,905	–	–	–
Liabilities held for sale:						
PrivateBank loans	**149,612**	**180,882**	9,929	9,953	161,000	–
HUD mortgages	**628,800**	**1,111,616**	38,884	38,795	115,911	918,026
Finance lease obligations	**364**	**364**	364	–	–	–
Accounts payable and accrued liabilities	**129,930**	**129,930**	129,930	–	–	–
	1,505,657	**2,215,961**	341,219	100,475	544,892	1,229,375

The gross outflows presented above represent the contractual undiscounted cash flows.

Management of Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the Company by failing to discharge its obligation. The nature and maximum exposure to credit risk as at December 31 was:

	Carrying Amount	
	2014	2013
Cash and short-term investments	**35,495**	95,999
Restricted cash *(note 13)*	**1,085**	18,668
Total receivables, net of allowance [1] *(note 6)*	**41,036**	220,643
Investments held for self-insured liabilities *(note 10)*	**154,178**	118,827
Notes, mortgages and amounts receivable *(note 10)*	**63,187**	84,896
	294,981	539,033

(1) Includes non-current portion.

Cash and Short-term Investments

The majority of our cash and short-term investments are held with highly rated financial institutions in Canada and the United States.

Restricted Cash

The restricted cash is cash held mainly for regulatory requirements with no credit risk.

Total Receivables, Net of Allowance

The maximum exposure to credit risk for accounts receivable at the reporting date is the carrying value of each class of receivable, denominated in the following currencies.

	2014			2013		
	Carrying Amount			Carrying Amount		
	U.S. Dollar	**Canadian Dollar**	**Total**	U.S. Dollar	Canadian Dollar	Total
Trade receivables	**4,717**	**17,582**	**22,299**	155,973	17,499	173,472
Retroactive rate receivables	**–**	**1,861**	**1,861**	13,287	3,021	16,308
Other receivables	**3,346**	**13,530**	**16,876**	14,297	16,566	30,863
	8,063	**32,973**	**41,036**	183,557	37,086	220,643

Receivables from Canadian government agencies, which are included in accounts receivable, notes, mortgages and amounts receivable, represented the only concentrated group of credit risks for the Company. As at December 31, 2014, receivables from government agencies represented approximately 78% of the total receivables (2013 – 71%). Management does not believe that there is significant credit risk associated with these government agencies other than possible funding delays. Management continuously monitors reports from trade associations or notes from provincial or federal agencies that announce possible delays that are rare to occur and usually associated with changes of fiscal intermediaries or changes in information technology or forms.

Receivables, other than those from government agencies, consist of receivables from various payors and do not represent any concentrated credit risks to the Company. There is no significant exposure to any single party.

As at December 31, 2014, ECI had trade receivables of $17.6 million (2013 – $17.5 million), and the continuing U.S. operations (pertaining to VCPI) had trade receivables of $4.7 million (2013 – $156.0 million, related primarily to EHSI *(note 7)*). All of these receivables were fully performing and collectible in the amounts outlined above. ECI and VCPI continuously monitor the collection of all trade receivables and assess the collectability and aging of accounts by payor type and on an individual basis.

During 2014, ECI incurred a provision for receivable impairment of $0.7 million and $0.6 million for 2014 and 2013, respectively, while VCPI incurred a provision for receivable impairment of $0.2 million and $0.3 million for similar periods; 2013 also included a provision of $18.8 million from EHSI.

The aging analysis of these trade receivables is as follows:

	2014	2013
Current	**15,899**	98,853
Between 30 and 90 days	**4,516**	59,835
Between 90 and 365 days	**2,406**	24,079
Over 365 days	**799**	11,038
Less: provision for receivable impairment	**(1,321)**	(20,333)
	22,299	173,472

Movements on the Company's provision for receivable impairment are as follows:

	2014	2013
At January 1	**20,333**	18,452
Increase in provision for receivable impairment	**18,214**	19,745
Receivables written off as uncollectible	**(19,594)**	(18,293)
Reclassificiation to assets held for sale *(note 7)*	**(19,393)**	(822)
Other	**1,761**	1,251
At December 31	**1,321**	20,333

The increase in provision for receivables impairment has been included in operating expenses in net earnings. In general, amounts charged to the provision for impairment of trade receivables are written off when there is no expectation of recovering additional cash.

Investments Held for Self-insured Liabilities

The Company's investments held for self-insured liabilities include investments in corporate or government fixed-rate bonds with ratings above a rating of AAA- along with U.S. treasuries. Cash held for self-insured liabilities are with high-quality financial institutions. The Company limits the amount of exposure to any one institution.

Notes, Mortgages and Amounts Receivable

Included in notes, mortgages and amounts receivable were $62.5 million (2013 – $66.8 million) of discounted amounts receivable due from government agencies. These represent non-current amounts funded by the Ontario government for a portion of nursing centre construction costs over a 20-year or 25-year period *(note 10)*. The Company does not believe there is any credit exposure for these amounts due from government agencies.

MANAGEMENT OF CURRENCY RISK

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Company finances and secures Canadian debt on only Canadian operations and assets; and similarly, finances and secures U.S. debt on only U.S. operations and assets. Therefore, there is no currency exposure in respect of the valuation of assets and associated debt. The Company can raise capital to finance its U. S. operations through cross-border loans or an injection of capital. Intercompany advances to the U.S. operations for acquisitions or growth expenditures are subsequently repaid. Any cross-border transactions are subject to exchange fluctuations that may result in realized gains or losses as and when the balances are settled and upon the payment of interest on such loans, as well as cross-border dividend or return of capital on significant disposals.

Our exposure to foreign currency risk as at December 31, 2014 and 2013, was as follows:

(in thousands of US$)	**2014**	2013
Assets		
Current assets	**1,089,696**	275,906
Property and equipment, goodwill and other intangibles, and other assets	**142,685**	970,682
Liabilities		
Current liabilities	**1,001,557**	196,811
Long-term debt and other liabilities	**89,616**	795,363
Net asset exposure	**141,208**	254,414

Net Earnings Sensitivity Analysis

The majority of the Company's operations are conducted in the United States, which accounted for approximately 64% of its revenue from total operations in 2014.

Every one cent strengthening of the Canadian dollar against the U.S. dollar would impact net earnings and OCI by the amounts shown below. This analysis assumes that all other variables, in particular the interest rates, remain constant.

Unfavourable impact	**2014**	2013
Net earnings (loss)	**–**	–
Other comprehensive income	**(1,412)**	(2,549)

Cash Flow Sensitivity

All of the Company's dividends are denominated in Canadian dollars; therefore, to the extent these dividends are funded by our U.S. operations, the Company is subject to currency risk. To limit the exposure of converting the Company's U.S. cash flow into Canadian dollars, we monitor the U.S. to Canadian dollar and, should the conditions be considered favourable, implement a foreign currency hedging strategy through the purchase of FCFCs.

The Company maintains risk management control systems to monitor foreign currency cash flow risk attributable to its outstanding or forecasted debt obligations as well as its offsetting hedge positions. We do not enter into financial instruments for trading or speculative purposes.

MANAGEMENT OF INTEREST RATE RISK

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company assesses interest rate risk by continuously identifying and monitoring changes in interest rates that may adversely impact expected future cash flows and by evaluating hedging opportunities. The Company maintains risk management control systems to monitor interest rate risk attributable to its outstanding or forecasted debt obligations as well as its offsetting hedge positions.

In order to meet its monthly dividends, the Company has limited the amount of debt that may be subject to changes in interest rates. As at December 31, 2014, substantially all of our outstanding long-term debt was at fixed rates; and long-term debt of $149.6 million, included in liabilities held for sale, was subject to interest rate fluctuations. We do not enter into financial instruments for trading or speculative purposes.

The interest rate profile of our interest-bearing financial instruments at December 31, 2014 and 2013, was as follows:

	Carrying Amount	
	2014	2013
Fixed-rate instruments:		
Long-term debt (1)	**488,046**	1,192,031
Long-term debt – held for sale (1) *(note 7)*	**629,164**	10,708
Less: investments held for self-insured liabilities	**(98,131)**	(81,964)
Net liability in fixed-rate instruments	**1,019,079**	1,120,775
Variable-rate instruments:		
Long-term debt – held for sale (1) *(note 7)*	**149,612**	2,234
Total liability in variable-rate instruments	**149,612**	2,234

(1) Includes current portion and excludes netting of financing costs.

Fair Value Sensitivity Analysis for Fixed-rate Instruments

We do not designate interest rate derivatives as hedging instruments under a fair-value hedge accounting model; therefore, changes in interest rates would not affect net earnings with respect to these fixed-rate instruments. As at December 31, 2014, there were no fixed-rate instruments designated as held for trading; therefore, changes in interest rates will not have any impact on net earnings for these instruments.

Fair Value Sensitivity Analysis for Variable-rate Instruments

All long-term debt with variable rates are classified as other financial liabilities, which are measured at amortized cost using the effective interest method of amortization; therefore, changes in interest rates would not affect OCI with respect to variable-rate debt.

Cash Flow Sensitivity Analysis for Variable-rate Instruments

A change of 100 basis points in interest rates would have increased or decreased net earnings by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	2014		2013	
Favourable (unfavourable) impact	**100bp Increase**	**100bp Decrease**	100bp Increase	100bp Decrease
Net earnings (loss)	**(782)**	**782**	(15)	15

b) Fair Values of Financial Instruments

As at December 31, 2014	Loans and Receivables	Available for Sale	Designated at Fair Value	Other Financial Liabilities	Total Carrying Amount	Fair Value
Financial assets:						
Cash and short-term investments	**35,495**	**–**	**–**	**–**	**35,495**	**35,504**
Restricted cash	**1,085**	**–**	**–**	**–**	**1,085**	**1,085**
Invested assets [1]	**442**	**–**	**–**	**–**	**442**	**442**
Trade and other receivables	**36,775**	**–**	**–**	**–**	**36,775**	**36,775**
Notes, mortgages and amounts receivable[2]	**67,448**	**–**	**–**	**–**	**67,448**	**77,163**
Investments held for self-insured liabilities	**–**	**154,178**	**–**	**–**	**154,178**	**154,178**
	141,245	**154,178**	**–**	**–**	**295,423**	**305,147**
Financial liabilities:						
Accounts payable	**–**	**–**	**–**	**4,998**	**4,998**	**4,998**
Long-term debt excluding convertible debentures[2][3]	**–**	**–**	**–**	**365,734**	**365,734**	**400,675**
Convertible debentures	**–**	**–**	**–**	**122,312**	**122,312**	**127,892**
	–	**–**	**–**	**493,044**	**493,044**	**533,565**
As at December 31, 2013						
Financial assets:						
Cash and short-term investments	95,999	–	–	–	95,999	96,005
Restricted cash	18,668	–	–	–	18,668	18,668
Invested assets [1	442	–	–	–	442	442
Trade and other receivables	216,608	–	–	–	216,608	215,999
Notes, mortgages and amounts receivable[2]	88,931	–	–	–	88,931	94,402
Investments held for self-insured liabilities	–	118,827	–	–	118,827	118,827
	420,648	118,827	–	–	539,475	544,343
Financial liabilities:						
Accounts payable	–	–	–	31,030	31,030	31,030
Long-term debt excluding convertible debentures[2][3]	–	–	–	958,449	958,449	954,568
Convertible debentures	–	–	114,226	121,590	235,816	241,991
	–	–	114,226	1,111,069	1,225,295	1,227,589

(1) Included in other current assets.

(2) Includes current portion.

(3) Excludes netting of financing costs.

BASIS FOR DETERMINING FAIR VALUES

The following summarizes the significant methods and assumptions used in estimating the fair values of financial instruments reflected in the previous table.

Fair values for investments designated as available for sale are based on quoted market prices.

Items designated as loans and receivables include cash, accounts receivable as well as notes, mortgages and amounts receivable. Accounts receivable, including other long-term receivables, are recorded at amortized cost. The carrying values of accounts receivable approximate fair values due to their short-term maturities, with the exception of certain settlement receivables from third-party payors that are anticipated to be collected beyond one year. The fair values of these settlement receivables are estimated based on discounted cash flows at current borrowing rates. Notes, mortgages and amounts receivable primarily consist of notes and amounts receivable from government agencies, and other third-party notes. The fair values for these instruments are based on the amount of future cash flows associated with each instrument, discounted using current applicable rates for similar instruments of comparable maturity and credit quality. The fair values of convertible debentures are based on the closing price of the publicly traded convertible debentures on each reporting date, and the fair values of mortgages and other debt are estimated based on discounted future cash flows using discount rates that reflect current market conditions for instruments with similar terms and risks.

FAIR VALUE HIERARCHY

We use a fair value hierarchy to categorize the type of valuation techniques from which fair values are derived. Our use of quoted market prices (Level 1), internal models using observable market information as inputs (Level 2) and internal models without observable market information as inputs (Level 3) for the following financial instruments recorded at fair value were as follows:

As at December 31, 2014	Level 1	Level 2	Level 3	Total
Available-for-sale securities	**154,178**	**–**	**–**	**154,178**
As at December 31, 2013				
Available-for-sale securities	118,827	–	–	118,827
Financial liabilities designated at FVTPL	–	114,226	–	114,226

27. CAPITAL MANAGEMENT

The Company's objective is to preserve a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. We seek to balance the need for maintaining an attractive payout ratio while preserving adequate capital to grow the business by acquisition or internal growth. There were no changes in the Company's approach to capital management during the year.

The Company must access the capital markets periodically to fund acquisitions, growth capital expenditures and certain other expenditures. We monitor the capital markets to assess the conditions for raising capital and the cost of such capital relative to the return on any acquisitions or growth capital projects. Funds raised in the capital markets that are not deployed in acquisitions or growth projects are held in high-quality investments with surplus cash held in secure institutions. We manage our cash position and prepare monthly cash flow projections over the remaining and future fiscal period, and we continuously monitor the level, nature and maturity dates of debt and level of leverage and interest coverage ratios to ensure our compliance with debt covenants. We provide information to the Board on a regular basis in order to carefully evaluate any significant cash flow decisions.

NORMAL COURSE ISSUER BID

On December 24, 2014, Extendicare received approval of the TSX for the 2014 Bid. The Company did not acquire any shares for cancellation under the Bid during 2014. As at March 16, 2015, the Company had acquired 708,000 Common Shares at an average price of $7.05 per share, for a total cost of $5.0 million *(note 15)*. There were no purchases for cancellation made under a similar normal course issuer bid that expired on July 8, 2013.

CAPITAL STRUCTURE

The Company defines its capital structure to include long-term debt, net of cash and short-term investments, and share capital.

	2014	2013
Current portion of long-term debt [(1)]	**25,789**	148,051
Long-term debt [(1)]	**453,200**	1,016,785
Total debt	**478,989**	1,164,836
Less: cash and short-term investments	**(35,495)**	(95,999)
Net debt	**443,494**	1,068,837
Share capital	**482,950**	476,480
	926,444	1,545,317

(1) Net of financing costs.

DIVIDENDS

The declaration and payment of future distributions is at the discretion of our Board and will be dependent upon a number of factors including results of operations, requirements for capital expenditures and working capital, future financial prospects of Extendicare, debt covenants and obligations, and any other factors deemed relevant by the Board. If our Board determines that it would be in Extendicare's best interests, it may reduce, for any period, the amount and frequency of dividends to be distributed to holders of Common Shares.

FINANCIAL COVENANTS

ECI is subject to external requirements for certain of its loans on the level of debt to cash flow of its operations *(note 13)*. Management and the Board monitor these covenant ratios on a monthly and quarterly basis, respectively. The Company was in compliance with all these covenants as at December 31, 2014.

28. RELATED PARTY TRANSACTIONS

a) Transactions with Key Management Personnel

Tim Lukenda, Extendicare's President and Chief Executive Officer, and members of his family have a company that owns long-term care centres (the "Lukenda Company"), in which Mr. Lukenda has an approximate 7.1% direct and indirect interest, and with which Extendicare has an ongoing relationship. Mr. Lukenda's employment contract provides a mechanism and process that effectively removes him from the decision-making process in situations where a conflict of interest may arise on any matter between the two companies. The following summarizes transactions between the two companies in the past two years.

In July 2013, ECI sold one of its closed long-term care centres for $1.2 million to the Lukenda Company.

In addition, Extendicare had operating lease arrangements with the Lukenda Company and continues to provide ongoing management services. ECI provides certain management services to a long-term care centre in Ontario, Canada, and prior to April 2013, ECI operated under lease arrangements, a second long-term care centre in Ontario. In the United States, EHSI operates under lease arrangements, a skilled nursing centre in Michigan, and until August 2013, EHSI provided certain management services to an assisted living centre in Michigan.

b) Compensation of Key Management Personnel

The remuneration of directors and other key management personnel of the Company during the years ended December 31, 2014 and 2013, was as follows:

	2014	2013
Short-term benefits	**4,175**	4,040
Post-employment benefits	**235**	221
Share appreciation rights	**335**	(26)
	4,745	4,235

29. SEGMENTED INFORMATION

Prior to the announcement of the U.S. Sale Transaction, the Company had two reportable operating segments that consisted of its U.S. operations and its Canadian operations. With the reclassification of the U.S. senior care and related operations to discontinued operations, the Company has determined there to be two reportable operating segments within its Canadian operations, being its long-term care and home health care operations, leaving its management and group purchasing operations to be reported as "other Canadian operations", and the Canadian corporate functions and any eliminations as "corporate Canada". The Company continues to segment its U.S. operations as one segment, with the continuing operations consisting of VCPI and the Captive, and the discontinued operations consisting of the U.S. senior care and related businesses conducted through EHSI that are held for sale. Comparative statements of earnings (loss) have been restated to reflect these changes.

The long-term care segment represents all the 57 long-term care centres that the Company owns and operates in Canada, three of which include assisted living or designated supportive living wings, and one stand-alone centre. Through the ParaMed Home Health Care division, our home health care operations provide complex nursing care, occupational, physical and speech therapy, and assistance with daily activities to accommodate those living at home.

The Company's other Canadian operations are composed of its management and group purchasing operations. Through our Extendicare Assist division, we provide management and consulting services to third-party owners; and through our Silver Group Purchasing division, we offer cost-effective purchasing contracts to other senior care providers for food, capital equipment, furnishings, cleaning and nursing supplies, and office products.

In the U.S., we offer information technology hosting and professional services to long-term and post-acute health care providers through VCPI. Revenue of VCPI included services provided to EHSI of $9.3 million (US$8.4 million) and $7.0 million (US$6.8 million) in 2014 and 2013, respectively. In addition, the company self-insures certain risks related to general and professional liability of its U.S. operations through the Captive. With the reclassification of substantially all of the U.S. business to discontinued operations, the expense for self-insured liabilities incurred by the Captive has also been reclassified to discontinued operations; however, the costs to administer and manage the settlement of the remaining claims are reported as continuing operations.

Intersegment adjustments in the following tables reflect the reversal of intercompany amounts that are eliminated prior to the preparation of the Company's consolidated financial statements.

(in thousands of Canadian dollars)	Long-term Care	Home Health Care	Other Canadian Operations	Corporate Canada	Total Canada	Total U.S.	Total
							2014
CONTINUING OPERATIONS							
Revenue							
Nursing and assisted living centres	**583,678**	–	–	–	**583,678**	–	**583,678**
Home health care	–	**185,491**	–	–	**185,491**	–	**185,491**
Health technology services	–	–	–	–	–	**32,165**	**32,165**
Management, consulting and other	–	–	**12,800**	**43**	**12,843**	**1,942**	**14,785**
Total revenue	**583,678**	**185,491**	**12,800**	**43**	**782,012**	**34,107**	**816,119**
Operating expenses	**515,128**	**161,750**	**6,777**	–	**683,655**	**24,441**	**708,096**
Administrative costs	–	–	–	**20,630**	**20,630**	**7,663**	**28,293**
Lease costs	–	**2,848**	–	**1,536**	**4,384**	**680**	**5,064**
Total expenses	**515,128**	**164,598**	**6,777**	**22,166**	**708,669**	**32,784**	**741,453**
Earnings (loss) before depreciation, amortization, loss from asset impairment, disposals and other items	**68,550**	**20,893**	**6,023**	**(22,123)**	**73,343**	**1,323**	**74,666**
Depreciation and amortization	–	–	–	**20,413**	**20,413**	**3,431**	**23,844**
Loss from asset impairment, disposals and other items	–	–	–	**11,031**	**11,031**	–	**11,031**
Earnings (loss) before net finance costs and income taxes	**68,550**	**20,893**	**6,023**	**(53,567)**	**41,899**	**(2,108)**	**39,791**
Interest expense	–	–	–	**32,846**	**32,846**	**59**	**32,905**
Accretion of decommissioning provisions	–	–	–	**349**	**349**	–	**349**
Other accretion	–	–	–	**722**	**722**	**1,105**	**1,827**
Finance costs	–	–	–	**33,917**	**33,917**	**1,164**	**35,081**
Interest revenue	–	–	–	**3,835**	**3,835**	–	**3,835**
Fair value adjustments	–	–	–	**296**	**296**	–	**296**
Finance income	–	–	–	**4,131**	**4,131**	–	**4,131**
Net finance costs	–	–	–	**29,786**	**29,786**	**1,164**	**30,950**
Earnings (loss) before income taxes	**68,550**	**20,893**	**6,023**	**(83,353)**	**12,113**	**(3,272)**	**8,841**
Income tax expense (recovery)							
Current	–	–	–	**4,248**	**4,248**	**(185)**	**4,063**
Deferred	–	–	–	**713**	**713**	**(257)**	**456**
Total income tax expense (recovery)	–	–	–	**4,961**	**4,961**	**(442)**	**4,519**
Earnings (loss) from continuing operations	**68,550**	**20,893**	**6,023**	**(88,314)**	**7,152**	**(2,830)**	**4,322**
DISCONTINUED OPERATIONS							
Loss from discontinued operations, net of income taxes	–	–	–	–	–	**(23,075)**	**(23,075)**
Net earnings (loss)	**68,550**	**20,893**	**6,023**	**(88,314)**	**7,152**	**(25,905)**	**(18,753)**

(in thousands of Canadian dollars)	Long-term Care	Home Health Care	Other Canadian Operations	Corporate Canada	Total Canada	Total U.S.	2013 Total
CONTINUING OPERATIONS							
Revenue							
Nursing and assisted living centres	568,870	–	–	–	568,870	–	568,870
Home health care	–	174,087	–	–	174,087	–	174,087
Health technology services	–	–	–	–	–	29,363	29,363
Management, consulting and other	–	–	9,858	146	10,004	1,485	11,489
Total revenue	568,870	174,087	9,858	146	752,961	30,848	783,809
Operating expenses	498,750	152,105	4,893	–	655,748	21,964	677,712
Administrative costs	–	–	–	20,758	20,758	10,626	31,384
Lease costs	–	2,956	–	1,541	4,497	663	5,160
Total expenses	498,750	155,061	4,893	22,299	681,003	33,253	714,256
Earnings (loss) before depreciation, amortization, loss from asset impairment, disposals and other items	70,120	19,026	4,965	(22,153)	71,958	(2,405)	69,553
Depreciation and amortization	–	–	–	18,534	18,534	3,105	21,639
Loss from asset impairment, disposals and other items	–	–	–	1,963	1,963	–	1,963
Earnings (loss) before net finance costs and income taxes	70,120	19,026	4,965	(42,650)	51,461	(5,510)	45,951
Interest expense	–	–	–	34,412	34,412	89	34,501
Accretion of decommissioning provisions	–	–	–	349	349	–	349
Other accretion	–	–	–	674	674	883	1,557
Loss on foreign exchange and financial instruments	–	–	–	519	519	–	519
Finance costs	–	–	–	35,954	35,954	972	36,926
Interest revenue	–	–	–	4,171	4,171	–	4,171
Fair value adjustments	–	–	–	3,099	3,099	–	3,099
Finance income	–	–	–	7,270	7,270	–	7,270
Net finance costs	–	–	–	28,684	28,684	972	29,656
Earnings (loss) before income taxes	70,120	19,026	4,965	(71,334)	22,777	(6,482)	16,295
Income tax expense (recovery)							
Current	–	–	–	1,252	1,252	(179)	1,073
Deferred	–	–	–	5,107	5,107	(50)	5,057
Total income tax expense (recovery)	–	–	–	6,359	6,359	(229)	6,130
Earnings (loss) from continuing operations	70,120	19,026	4,965	(77,693)	16,418	(6,253)	10,165
DISCONTINUED OPERATIONS							
Loss from discontinued operations, net of income taxes	–	–	–	–	–	(4,882)	(4,882)
Net earnings (loss)	70,120	19,026	4,965	(77,693)	16,418	(11,135)	5,283

				2014
(in thousands of Canadian dollars)	Total Canada	Total U.S.	Eliminations	Total
Assets				
Current assets				
Cash and short-term investments	**34,837**	**658**	**–**	**35,495**
Restricted cash	**1,085**	**–**	**–**	**1,085**
Accounts receivable	**32,973**	**8,183**	**(120)**	**41,036**
Income taxes recoverable	**–**	**65**	**–**	**65**
Assets held for sale	**–**	**1,254,535**	**–**	**1,254,535**
Other current assets	**9,575**	**834**	**–**	**10,409**
Total current assets	**78,470**	**1,264,275**	**(120)**	**1,342,625**
Non-current assets				
Property and equipment	**320,384**	**10,750**	**–**	**331,134**
Goodwill and other intangible assets	**15,642**	**585**	**–**	**16,227**
Other assets	**63,187**	**154,178**	**–**	**217,365**
Deferred tax assets	**7,918**	**17**	**–**	**7,935**
Total non-current assets	**407,131**	**165,530**	**–**	**572,661**
Total Assets	**485,601**	**1,429,805**	**(120)**	**1,915,286**
Liabilities and Equity (Deficiency)				
Current liabilities				
Accounts payable and accrued liabilities	**104,195**	**4,830**	**(120)**	**108,905**
Income taxes payable	**4,043**	**–**	**–**	**4,043**
Long-term debt	**25,390**	**399**	**–**	**25,789**
Liabilities held for sale	**–**	**1,130,813**	**–**	**1,130,813**
Provisions	**–**	**25,984**	**–**	**25,984**
Total current liabilities	**133,628**	**1,162,026**	**(120)**	**1,295,534**
Non-current liabilities				
Long-term debt	**452,975**	**225**	**–**	**453,200**
Provisions	**11,674**	**103,321**	**–**	**114,995**
Other long-term liabilities	**38,014**	**–**	**–**	**38,014**
Deferred tax liabilities	**15,630**	**417**	**–**	**16,047**
Total non-current liabilities	**518,293**	**103,963**	**–**	**622,256**
Total liabilities	**651,921**	**1,265,989**	**(120)**	**1,917,790**
Share capital	**287,443**	**195,507**	**–**	**482,950**
Equity portion of convertible debentures	**5,573**	**–**	**–**	**5,573**
Contributed surplus	**48**	**–**	**–**	**48**
Accumulated deficit	**(455,059)**	**(48,084)**	**–**	**(503,143)**
Accumulated other comprehensive income (loss)	**(4,325)**	**16,393**	**–**	**12,068**
Shareholders' equity (deficiency)	**(166,320)**	**163,816**	**–**	**(2,504)**
Total Liabilities and Equity (Deficiency)	**485,601**	**1,429,805**	**(120)**	**1,915,286**
Total Capital Expenditures				
Continuing operations	**11,046**	**2,901**	**–**	**13,947**
Discontinued operations	**–**	**16,276**	**–**	**16,276**
Total operations	**11,046**	**19,177**	**–**	**30,223**

(in thousands of Canadian dollars)	Total Canada	Total U.S.	Eliminations	2013 Total
Assets				
Current assets				
Cash and short-term investments	55,710	40,289	–	95,999
Restricted cash	776	17,892	–	18,668
Accounts receivable	39,293	173,708	(2,206)	210,795
Income taxes recoverable	870	8,525	–	9,395
Assets held for sale	–	36,418	–	36,418
Other current assets	8,853	16,622	–	25,475
Total current assets	105,502	293,454	(2,206)	396,750
Non-current assets				
Property and equipment	330,184	821,823	–	1,152,007
Goodwill and other intangible assets	14,761	64,468	–	79,229
Other assets	67,446	146,125	–	213,571
Deferred tax assets	7,531	–	–	7,531
Total non-current assets	419,922	1,032,416	–	1,452,338
Total Assets	525,424	1,325,870	(2,206)	1,849,088
Liabilities and Equity (Deficiency)				
Current liabilities				
Accounts payable and accrued liabilities	87,203	145,199	(2,206)	230,196
Income taxes payable	778	9,333	–	10,111
Long-term debt	137,625	10,426	–	148,051
Liabilities held for sale	–	16,356	–	16,356
Provisions	–	28,052	–	28,052
Total current liabilities	225,606	209,366	(2,206)	432,766
Non-current liabilities				
Long-term debt	464,918	551,867	–	1,016,785
Provisions	18,239	97,819	–	116,058
Other long-term liabilities	33,528	12,619	–	46,147
Deferred tax liabilities	16,312	183,641	–	199,953
Total non-current liabilities	532,997	845,946	–	1,378,943
Total liabilities	758,603	1,055,312	(2,206)	1,811,709
Share capital	298,704	177,776	–	476,480
Equity portion of convertible debentures	5,573	–	–	5,573
Contributed surplus	48	–	–	48
Retained earnings (accumulated deficit)	(535,721)	93,470	–	(442,251)
Accumulated other comprehensive loss	(1,783)	(688)	–	(2,471)
Shareholders' equity (deficiency)	(233,179)	270,558	–	37,379
Total Liabilities and Equity (Deficiency)	525,424	1,325,870	(2,206)	1,849,088
Total Capital Expenditures				
Continuing operations [1]	28,500	2,679	–	31,179
Discontinued operations	–	25,806	–	25,806
Total operations	28,500	28,485	–	56,985

(1) Included $1,232 of interest capitalized in Canada.

30. SIGNIFICANT SUBSIDIARIES

The following is a list of the significant subsidiaries as at December 31, 2014, all of which are 100% directly or indirectly owned by the Company.

	Jurisdiction of Incorporation
Extendicare (Canada) Inc.	Canada
Extendicare Health Services, Inc.	Delaware
Extendicare Health Facilities, Inc.	Wisconsin
Extendicare Homes, Inc.	Delaware
Fir Lane Terrace Convalescent Center, Inc.	Washington
Indiana Health and Rehabilitation Centers Partnership	Delaware
Laurier Indemnity Company, Ltd.	Bermuda
Marshall Properties Inc.	Indiana
Northern Health Facilities, Inc.	Delaware
Tendercare (Michigan) Inc.	Michigan

31. SUBSEQUENT EVENTS

Pennsylvania Lease Transaction

As previously announced in November 2014, EHSI entered into an operations transfer agreement to lease all 22 of its owned skilled nursing centres in Pennsylvania, Delaware and West Virginia *(note 24)*. On January 8, 2015, EHSI signed an agreement to transfer the operations of the first 10 centres effective January 1, 2015. The lease agreements for the remaining 12 centres are expected to close in the 2015 second quarter.

Revera Home Health Acquisition

As previously announced, the Company entered into a definitive agreement on January 14, 2015, to acquire the Revera Home Health business for $83.0 million in cash, before working capital adjustments, from Revera Inc. The completion of this acquisition is subject to customary closing conditions and regulatory approvals, including assignment of government contracts, and is expected to close in the 2015 second quarter.

THREE-YEAR SUMMARY[1]

(unaudited) (thousands of dollars unless otherwise noted)	**2014**	2013	2012
Financial Position			
Property and equipment	**331,134**	1,152,007	1,181,596
Total assets	**1,915,286**	1,849,088	1,807,916
Assets of disposal group held for sale	**1,254,535**	36,418	3,121
Liabilities of disposal group held for sale	**1,130,813**	16,356	512
Long-term debt, including current portion	**478,989**	1,164,836	1,132,235
Shareholders' equity (deficiency)	**(2,504)**	37,379	54,660
Number of shares outstanding (year end)	**88,195,076**	87,266,511	85,989,376
Financial Results			
Revenue from continuing operations			
Long-term care - Canada	**583,678**	568,870	550,302
Home health care - Canada	**185,491**	174,087	170,343
Other Canadian operations	**12,843**	10,004	8,316
Other U.S. operations	**34,107**	30,848	32,906
	816,119	783,809	761,867
Net operating income from continuing operations[2]			
Long-term care - Canada	**68,550**	70,120	70,694
Home health care - Canada	**23,741**	21,982	20,620
Other Canadian operations	**6,066**	5,111	4,662
Other U.S. operations	**9,666**	8,884	8,881
	108,023	106,097	104,857
Adjusted EBITDA[2]	**74,666**	69,553	73,572
Earnings from continuing operations before separately reported items[2]	**13,188**	9,141	15,942
Net earnings (loss)	**(18,753)**	5,283	62,656
Adjusted funds from contining operations[2]	**34,357**	32,851	32,875
AFFO[2]	**73,692**	71,114	84,569
AFFO per basic share ($)	**0.84**	0.82	0.99
Distributions declared	**42,131**	52,023	71,497
Distributions declared per share ($)	**0.48**	0.60	0.84
Distribution payout ratio (% of AFFO)	**57**	73	85
Average U.S./Canadian dollar exchange rate	**1.1045**	1.0299	0.9996
Other Information - Canadian Operations			
Number of senior care centres operated (year end)			
Owned/leased[3]	**58**	58	59
Managed	**46**	35	29
	104	93	88
Operational resident capacity of senior care centres (year end)			
Owned/leased	**8,116**	8,119	8,071
Managed	**5,470**	4,360	3,396
	13,586	12,479	11,467
Average occupancy of senior care centres (owned/leased) (%)	**97.9**	97.7	98.0
ParaMed home health care hours of service	**5,082,000**	4,911,000	4,796,000
Number of employees (year end)	**16,800**	16,500	16,400
Senior care operations	**11,400**	11,100	11,100
Home health care operations	**5,400**	5,400	5,300

(1) The selected information reflects the classification of Extendicare's operations held for sale as at December 31, 2014, as discontinued operations for the years ended 2012, 2013 and 2014.

(2) Refer to discussion of non-GAAP measures on page 9.

(3) Extendicare operates nine long-term care centres under finance lease arrangements, whereby ownership transfers to Extendicare at the end of the respective lease terms.

EXTENDICARE INC. BOARD OF DIRECTORS

Benjamin J. Hutzel [A, HR/GN, QC]
Chairman

Timothy L. Lukenda
President and Chief Executive Officer

John F. Angus [A]
President of Stonehenge Corporation

Margery Cunningham [A]
Vice President, Avalere Health LLC

Governor Howard B. Dean, MD [HR/GN, QC]
Senior Strategic Advisor and Independent Consultant, McKenna Long & Aldridge LLP, and former Governor of Vermont

Dr. Seth B. Goldsmith [A, QC]
Attorney and Professor Emeritus, University of Massachusetts at Amherst

Sandra L. Hanington [A]
President and Chief Executive Officer of the Royal Canadian Mint

Alvin G. Libin [HR/GN]
President and Chief Executive Officer of Balmon Investments Ltd.

J. Thomas MacQuarrie, Q.C. [A]
Partner in the Atlantic Canada law firm of Stewart McKelvey

Honorary Director

George A. Fierheller
President of Four Halls Inc.

A	Audit Committee
HR/GN	Human Resources, Governance and Nominating Committee
QC	Quality and Compliance Committee

OFFICERS AND EXECUTIVES

Extendicare Inc.
(Markham, Ontario)

Timothy L. Lukenda
President and Chief Executive Officer

Paul Tuttle
President of Canadian Operations

Dylan T. Mann
Senior Vice President and Chief Financial Officer

Jillian E. Fountain
Corporate Secretary

Elaine E. Everson
Vice President and Controller

Frederick B. Ladly
(1930–2015)

In recognition of the life of Fred Ladly and his contribution to Extendicare spanning 26 years (1984 to 2010), first as CEO of the Canadian operations and then as CEO, followed by Chairman, of Extendicare Inc.; Fred will be greatly missed by his friends and colleagues at Extendicare.

Extendicare (Canada) Inc.
(Markham, Ontario)

Timothy L. Lukenda
Chairman and Chief Executive Officer

Paul Tuttle
President

Dylan T. Mann
Senior Vice President and Chief Financial Officer

Jillian E. Fountain
Corporate Secretary

Deborah Bakti
Vice President, Human Resources

Elaine E. Everson
Vice President and Controller

Michael A. Harris
Vice President, Western Operations

Gary M. Loder
Vice President of Managed Homes and Consulting

Richard Luneburg
Vice President, ParaMed Home Health Care

Christina L. McKey
Vice President, Eastern Operations

A. Paula Neves
Vice President of Quality and Healthcare Innovation

Extendicare Health Services, Inc.
(Milwaukee, Wisconsin)

Timothy L. Lukenda
Chairman and Chief Executive Officer

Richard Gurka
Senior Vice President, Operations

Dylan T. Mann
Senior Vice President, Chief Financial Officer and Treasurer

Jillian E. Fountain
Corporate Secretary

William P. Bryan
Vice President, Design and Development

Timothy J. Detary
Vice President, Human Resources

David C. Keating
Vice President and General Counsel

Donna J. Thiel
Vice President and Chief Compliance Officer

LaRae L. Nelson
Vice President, Reimbursement

Judith L. Taubenheim
Vice President, Clinical Services

SECURITYHOLDER INFORMATION

Extendicare Inc.

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Transfer Agent

Computershare Trust Company of Canada

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Fax: (866) 249-7775

email: service@computershare.com

www.computershare.com

Exchange Listings/ Trading Profile

Toronto Stock Exchange Symbols
Common shares: EXE
Convertible debentures: EXE.DB.B

2014 EXE Common Share Activity
High: $8.79; Low: $6.21
Close: $6.52; Volume: 57,535,659

Shareholder Inquiries/ Investor Relations

Jillian Fountain
Corporate Secretary

Tel: (905) 470-5534
Fax: (905) 470-4003

email: jfountain@extendicare.com

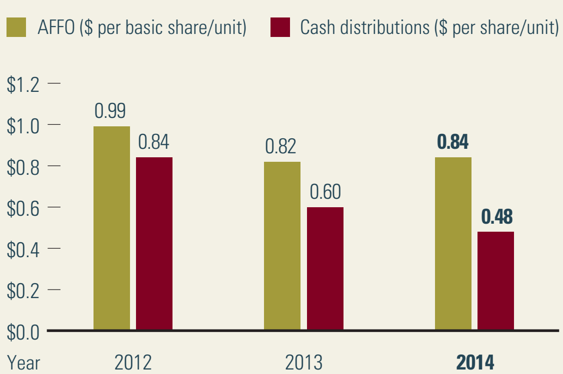
Annual Meeting

Shareholders are invited to attend the Annual and Special Meeting of Extendicare Inc. on June 18, 2015, at 11:00 a.m., at the Gallery, TMX Broadcast Centre, 130 King Street West, Toronto, Ontario, Canada

Published Information

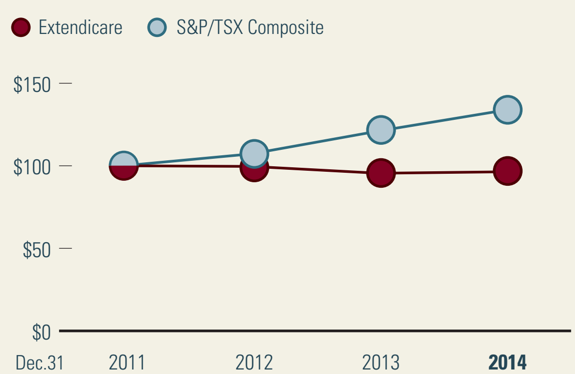
Extendicare's 2014 Annual Report is available for viewing or printing on its website at www.extendicare.com, together with news releases, quarterly reports and other filings with the securities commissions. Printed copies of the annual report are available upon request to the Corporate Secretary.

Extendicare AFFO and Cash Distributions



Payout ratio:	85%	73%	**57%**

Total Return Share Price Performance
(assuming a $100 investment is made at December 31, 2011)



EXTENDICARE®
... helping people live better

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