



Management's Discussion and Analysis



Year ended December 31, 2015

Dated: February 25, 2016

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February 25, 2016

TABLE OF CONTENTS

Basis of Presentation	1	Adjusted Funds from Operations	17
Forward-looking Statements	2	2015 Fourth Quarter Financial Review	20
Non-GAAP Measures	3	2015 Financial Review	23
Business Strategy	4	Other Significant Developments	27
Significant 2015 Events and Developments	4	Update of Regulatory and Funding	
Business Overview	7	Changes Affecting Results	29
Key Performance Indicators	12	Liquidity and Capital Resources	33
Impact of U.S. Dollar and Foreign Currency Translation	13	Related Party Transactions	39
Dividend Policy	13	Risks and Uncertainties	39
2015 Selected Annual Information	14	Accounting Policies and Estimates	43
2015 Selected Quarterly Information	15	Additional Information	46

BASIS OF PRESENTATION

This Management's Discussion and Analysis (MD&A) provides information on Extendicare Inc. 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. Extendicare is a Canadian public company whose common shares (the "Common Shares") trade on the Toronto Stock Exchange (TSX) under the symbol "EXE". The registered office of Extendicare is located at 3000 Steeles Avenue East, Markham, Ontario, Canada, L3R 9W2.

Extendicare and its predecessors have been in operation since 1968, providing care and services to seniors in North America. As previously announced, effective July 1, 2015, Extendicare completed the sale of 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. Extendicare's U.S. senior care operations were conducted through its wholly owned U.S. subsidiary, Extendicare Health Services, Inc. and its subsidiaries (collectively "EHSI"). As a result of the sale of the U.S. Sale Transaction, EHSI's operations to the date of sale were classified as discontinued operations. For further information, refer to the discussion under the heading "Significant 2015 Events and Developments – U.S. Sale Transaction" and to *note 20* of the audited consolidated financial statements.

As part of its continuing operations, Extendicare retained 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, insured Extendicare's U.S. general and professional liability risks up to the date of the U.S. Sale Transaction.

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, 2015. This MD&A should be read in conjunction with Extendicare's audited consolidated financial statements for the years ended 2015 and 2014, and the notes thereto, found in Extendicare's 2015 Annual Report. The accompanying audited consolidated financial statements for the years ended 2015 and 2014, including the notes thereto, have been prepared in accordance with International Financial Reporting Standards (IFRS). 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 the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com under Extendicare's issuer profile.

All currencies are in Canadian dollars unless otherwise indicated. Except as otherwise specified, references to years indicate the fiscal year ended December 31, 2015, or December 31 of the year referenced.

The discussion and analysis in this MD&A are based upon information available to management as of February 25, 2016. 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.

Recast of Comparative Information

During the first quarter of 2015, certain costs and transactions previously classified as part of continuing operations were classified as discontinued operations. This included a note payable and transaction costs incurred in the 2014 fourth quarter associated with the sale of the U.S. operations.

A note payable of \$7.6 million (US\$6.0 million) was reclassified in 2015 from long-term debt to liabilities held for sale as this liability was settled upon the completion of the U.S. Sale Transaction. The comparative amount of \$7.0 million (US\$6.0 million) as at December 31, 2014, has been reclassified on the consolidated statement of financial position. The Company has also recast the transaction costs incurred in the 2014 fourth quarter associated with the sale of the U.S. operations totalling \$7.8 million (pre-tax), \$6.7 million (after-tax), from continuing operations to discontinued operations, to conform with the current year's presentation. For further information, refer to *note 29* of the audited consolidated financial statements.

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 U.S. Sale Transaction, including statements relating to indemnification provisions, and the net benefit (pre-tax) of an ongoing cash stream relating to certain U.S. skilled nursing centres that were leased prior to the closing of the U.S. Sale Transaction; the acquisition by the Company of a competitor's home health business (the "Home Health Acquisition"), and the acquisition and development of retirement communities, including statements related to the expected annual revenue, net operating income, stabilized net operating income yield, and adjusted funds from operations to be derived from 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 risks, uncertainties and other factors that could cause the actual results, performance or achievements of Extendicare to differ materially from those expressed or implied by the forward-looking statements, include, without limitation, the following: changes in the overall health of the economy and government; the ability of the Company to attract and retain qualified personnel; changes in the health care industry in general and the long-term care industry in particular because of political and economic influences; changes in applicable accounting policies; changes in regulations governing the health care and long-term care industries and the compliance by Extendicare with such regulations; changes in government funding levels for health care services; changes in tax laws; resident care and class action litigation, including the Company's exposure to punitive damage claims, increased insurance costs and other claims; the ability of Extendicare to maintain and increase resident occupancy levels and home health care volumes; changes in competition; changes in demographics and local environment economies; changes in foreign exchange and interest rates; changes in the financial markets, which may affect the ability of Extendicare to refinance debt; and the availability and terms of capital to Extendicare to fund capital expenditures and acquisitions; changes in the anticipated outcome and benefits of dispositions, acquisitions and development projects (including the U.S. Sale Transaction and the Home Health Acquisition), including risks relating to completion; and those other risks, uncertainties and other factors identified in the Company's other public filings with the Canadian securities regulators available on the System for Electronic Document Analysis and Retrieval at www.sedar.com under Extendicare's issuer profile.

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.

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", "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", or "NOI", 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" in this document are to earnings (loss) from continuing operations, excluding the following separately reported line items: "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 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 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: i) a reversal of the non-cash portion of financing and accretion costs that are deducted in the determination of FFO; ii) the principal portion of government capital funding; iii) amounts received from income support arrangements; and iv) a reversal of income or loss of the Captive that was included in the determination of FFO, as the Captive's operations are funded through investments held for U.S. self-insured liabilities, which are not included in the Company's reported cash and short-term investments. In addition, AFFO is further adjusted to account for the difference in total maintenance capex incurred from the amount deducted in the determination of FFO. Since 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.

References to “payout ratio” in this document are to the ratio of dividends declared per share to basic AFFO per share.

Reconciliations of “earnings (loss) from continuing operations before income taxes” to “Adjusted EBITDA” and “net operating income” are provided under the headings “2015 Selected Quarterly Information”, “2015 Fourth Quarter Financial Review” and “2015 Financial Review”.

Reconciliations of “Adjusted EBITDA” to “FFO” and “AFFO” are provided under the heading “Adjusted Funds from Operations”.

Reconciliations of “AFFO” to “net cash from operating activities” are provided under the heading “Adjusted Funds from Operations”.

BUSINESS STRATEGY

Our strategy is to be a leading provider of care and services to seniors in Canada. To do this, we strive to provide quality, person-centred care through compassionate caregivers across the continuum of care. We intend to complement our core long-term care services through growth of our home health care operations. In addition, we intend to expand our private-pay retirement business lines through acquisition and development, as well as supporting continued growth in our management 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.

SIGNIFICANT 2015 EVENTS AND DEVELOPMENTS

This section provides an update on the U.S. Sale Transaction, the Home Health Acquisition, and our current activities to expand into the retirement segment. Refer to the discussion under the heading “Other Significant Developments” for a summary of other developments affecting the financial results or operations of Extendicare.

U.S. Sale Transaction

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’s primary intended use of the proceeds from the sale of the U.S. business will be to expand and grow its Canadian operations across the sectors of the Canadian senior care continuum.

As previously announced, effective July 1, 2015, the Company, through its subsidiary, Extendicare International Inc. (the “Vendor”), completed the sale of its U.S. business (the “U.S. Sale Transaction”), by the transfer by the Vendor of all of the issued and outstanding shares of Extendicare Holdings, Inc. (EHI), a U.S. subsidiary of the Company that was the holding company of EHSI, which owns and operates the 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. The U.S. Sale Transaction was completed for a value of US\$870 million (\$1.1 billion using the noon U.S./Canadian dollar exchange rate of 1.2474 on June 30, 2015), partially settled through the assumption by the Purchaser of mortgage loans and other third-party indebtedness relating to the U.S. business of approximately US\$655 million, and working capital and other specified adjustments, resulting in gross proceeds of US\$280.8 million representing US\$193.4 million received on July 1, 2015, and an intercompany dividend of US\$87.4 million received as part of a pre-closing reorganization on June 30, 2015 (the “Pre-closing Distribution”). In addition to final working capital adjustments, the Company has indemnified certain obligations of the U.S. operations related to tax and other items. The Company

estimates these items to be a potential net liability of US\$15.9 million, and has recorded provisions totalling US\$25.2 million and a potential receivable of approximately US\$9.3 million. Total estimated taxes of the U.S. Sale Transaction are US\$33.1 million, resulting in net after-tax proceeds of approximately US\$231.8 million, including the Pre-closing Distribution. The U.S. Sale Transaction resulted in an after-tax gain of \$205.4 million (US\$146.9 million), before transactions costs, and includes the realization of a foreign currency translation adjustment of \$22.0 million, previously recognized in accumulated other comprehensive income.

Prior to the closing, we received advanced proceeds of US\$6.0 million from the Purchaser at the end of 2014. On June 30, 2015, the Company received a cross-border dividend of US\$87.4 million that included cash of approximately US\$83 million and the transfer of approximately US\$4.4 million in net working capital associated with excluded assets. EHSI funded the Pre-closing Distribution with a US\$60 million term loan and cash on hand.

Net after-tax proceeds from the U.S. Sale Transaction reported on the consolidated statements of cash flow of \$150.3 million (US\$120.5 million), represents the gross proceeds of US\$280.8 million referred to above, net of income taxes paid of US\$32.2 million (US\$19.2 million on closing and US\$13.0 million in the 2015 fourth quarter), cash disposed of US\$24.0 million, an advance of US\$6.0 million received from the Purchaser in 2014, and a US\$4.5 million final working capital adjustment made in December 2015. In addition, it excludes the above noted intercompany Pre-closing Distribution of US\$87.4 million, and non-cash proceeds of US\$6.2 million. The US\$6.2 million represents the net present value ascribed to an ongoing cash stream of US\$28.0 million, relating to certain U.S. skilled nursing centres that were leased prior to the closing (the "U.S. Sale Deferred Consideration"), offset in part by obligations of US\$21.8 million that were assumed related to these leases. On July 1, 2015, US\$6.8 million of the obligation was settled, leaving a balance of US\$15.0 million owing as at December 31, 2015. Cash of US\$14.0 million has been placed in escrow to secure the obligation and is reported in other assets on the consolidated statements of financial position. The estimated benefit of this cash stream, net of the obligations, is anticipated to average US\$5 million per annum (pre-tax) over 15 years, which we expect to cash flow positive following settlement of the remaining obligations in a couple of years. There are significant credit risks associated with the realization of this cash stream attributable to factors outside of Extendicare's control that could materially negatively impact the amounts that are expected to be received by the Company (refer to *notes 9 and 12* of the audited consolidated financial statements).

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

Further information relating to the U.S. Sale Transaction, 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 under Extendicare's issuer profile.

Home Health Acquisition

As previously announced, on April 30, 2015, the Company completed the Home Health Acquisition for \$84.3 million in cash, which included final working capital adjustments and settlement of amounts that had been held in escrow at closing.

The Home Health Acquisition was financed with a bridge loan of \$80 million (the "Bridge Loan") and cash on hand. The Bridge Loan was outstanding from April 30, 2015 until July 2, 2015, and bore interest at an average rate of approximately 5.9%, incurring interest charges of approximately \$0.8 million. In addition, financing fees of \$1.4 million were incurred in connection with securing the Bridge Loan and were fully amortized in the 2015 second quarter. The Bridge Loan was repaid in full on July 2, 2015, using a portion of the proceeds from the U.S. Sale Transaction.

For the first eight months of ownership, ending December 31, 2015, the Home Health Acquisition contributed revenue of approximately \$131.6 million, net operating income of approximately \$13.2 million, lease costs of approximately \$1.4 million, and AFFO of approximately \$8.4 million, or \$0.096 per basic share.

The Home Health Acquisition brought together two leading Canadian private-sector home health care providers focused on quality, person-centred care and employee satisfaction. Extendicare has rebranded these acquired operations under its ParaMed banner across six provinces (Ontario, British Columbia, Alberta, Manitoba, Quebec and Nova Scotia). Further information relating to the Home Health Acquisition is available in the Company's related material change report dated January 23, 2015, filed on SEDAR at www.sedar.com under Extendicare's issuer profile.

Expansion into Private-pay Retirement Segment

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

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

Name/Location	Acquisition / Opening Date	# of Communities	Suites	Purchase Price / Development Cost (millions) ⁽¹⁾	Price per Suite	Expected Stabilized NOI Yield ⁽²⁾
Completed at Year End						
Empire Crossing, Port Hope, ON	Oct. 1, 2015	1	64	\$20.2	\$315,600	6.9% to 7.1%
Harvest, Tillsonburg, ON	Dec. 1, 2015	1	100	\$28.4	\$284,500	6.7% to 6.9%
Stonebridge Crossing, Saskatoon, SK, and Riverbend Crossing, Regina, SK	Dec. 1, 2015	2	184	\$50.3	\$273,271	7.2%
In Progress at Year End						
West Park Crossing, Moose Jaw, SK, and Yorkton Crossing, Yorkton, SK	Feb. 22, 2016	2	158	\$40.5	\$256,300	7.3% to 7.7%
Simcoe/Bolton/Uxbridge, ON	Fall 2016 / Spring 2017	3	304	\$81.0	\$266,500	7.4%

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

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

RETIREMENT ACQUISITIONS

During the 2015 fourth quarter, we completed the acquisition of four retirement communities (the "Retirement Acquisitions") for an aggregate purchase price of approximately \$98.6 million, after a \$0.3 million reduction for net working capital adjustments on closing, and inclusive of \$2.3 million for income support during the lease-up period. Subsequent to the end of 2015, we closed on an additional two retirement communities for an aggregate purchase price of \$40.5 million, inclusive of \$4.5 million for income support during the lease-up period. The purchase price for each of these acquisitions was initially paid in cash with an intention to finance up to 65% as stabilized occupancy is achieved. Further details on these acquisitions are provided below, and in *note 5* of the audited consolidated financial statements.

For the 2015 fourth quarter, the Retirement Acquisitions contributed net operating income of \$0.3 million, reflecting revenue of \$1.2 million net of operating expenses of \$0.9 million. Average occupancy of the four communities was 64.1% for the 2015 fourth quarter, and as at February 11, 2016, was approximately 75%. During the 2015 fourth quarter, the Company realized \$0.5 million of income support that is excluded from the net operating income reported of \$0.3 million, but which is included in the determination of AFFO for the period.

Empire Crossing Retirement Community (Empire Crossing) was acquired on October 1, 2015, for a purchase price of \$20.2 million, inclusive of income support. Empire Crossing, located in Port Hope, Ontario, is a newly built 64-suite community offering independent and enhanced care services that opened in May 2015. As well, this property comes with excess land, providing us with the option to increase the size of the retirement community in the future. The vendor has provided Extendicare with income support of up to \$1.3 million over 24 months, which amount was held back from the \$20.2 million purchase price, and will be released to Extendicare during the lease-up period based on an agreed upon formula.

Harvest Retirement Community (Harvest) was acquired on December 1, 2015, for a purchase price of \$28.4 million, inclusive of income support. Harvest, located in Tillsonburg, Ontario, is a 100-suite independent/enhanced living community with 64-suites that opened in December 2011, and a newly constructed addition of 36-suites that opened in December 2015. The vendor has provided Extendicare with income support of up to \$1.0 million over 24 months, which amount was held back from the \$28.4 million purchase price, and will be released to Extendicare during the lease-up period based on an agreed upon formula.

Stonebridge Crossing Retirement Community (Stonebridge) and **Riverbend Crossing Memory Care Community** (Riverbend) were acquired on December 1, 2015, for an aggregate purchase price of \$50.3 million. Stonebridge, located in Saskatoon, SK, is a 116-suite independent/enhanced living community that opened in December 2012. Riverbend, located in Regina, SK, is a 68-suite community specializes in memory care services that opened in August 2013.

West Park Crossing Retirement Community (West Park) and **Yorkton Crossing Retirement Community** (Yorkton) were acquired on February 22, 2016, for an aggregate purchase price of \$40.5 million, inclusive of income support. The properties, located in Moose Jaw and Yorkton, SK, respectively, are newly built 79-suite communities offering independent, enhanced and memory care services. The vendor has provided Extendicare with income support over 27 months of up to \$2.25 million on each community, for an aggregate of up to \$4.5 million in income support. This amount was held back from the \$40.5 million purchase price on closing, and will be released back to Extendicare during the lease-up period based on an agreed-upon formula.

RETIREMENT DEVELOPMENT PROJECTS

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

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

BUSINESS OVERVIEW

Extendicare, through its subsidiaries, is the largest private-sector operator of long-term care centres in Canada and one of the largest providers of publicly funded home health care services in Canada. For the 2015 fourth quarter, approximately 59% of the revenue from our Canadian operations was derived from our long-term care operations, approximately 39% was from our home health care business and the balance was from our management and group purchasing operations.

As at December 31, 2015, Extendicare operated 116 senior care centres in four provinces in Canada, with capacity for 14,890 residents, with a significant presence in Ontario and Alberta, where approximately 72% and 16% of its residents were served, respectively. Subsequent to December 31, 2015, Extendicare acquired two retirement communities (158 suites) in Saskatchewan, expanding its operations to 118 senior care centres, with capacity for 15,048 residents. Through its ParaMed Home Health Care (ParaMed) division, Extendicare operates 47 branches in six provinces providing in excess of 10.5 million hours of home health care service a year, with the Ontario market representing approximately 85% of its service volumes.

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 of our centres provides financial and strategic advantages.

The following summarizes the senior care centres operated by Extendicare as at December 31, 2015, which consist of long-term care (LTC) centres, retirement communities, and a chronic care unit. For financial reporting purposes, a centre is categorized based on the predominant level of care provided, the type of licensing and the type of funding provided. Some of our long-term care centres include wings housing retirement suites. In this case, the centre and its resident capacity is categorized as LTC centres, and its operations are included as part of our LTC operating segment. In addition, government-funded supportive living suites have been categorized as LTC centres due to the nature of the regulatory oversight and fixed-fee structure determined by the government.

By Province	Long-term Care		Retirement Living		Chronic Care Unit		Total	
	No. of Centres	Resident Capacity	No. of Centres	Resident Capacity	No. of Centres	Resident Capacity	No. of Centres	Resident Capacity
Owned/Leased ⁽¹⁾								
Ontario	34	5,210	2	164	—	—	36	5,374
Alberta	14	1,495	—	—	—	—	14	1,495
Manitoba	5	762	—	—	—	—	5	762
Saskatchewan	5	649	2	184	—	—	7	833
	58	8,116	4	348	—	—	62	8,464
Managed								
Ontario	37	4,752	4	440	1	120	42	5,312
Alberta	4	526	6	420	—	—	10	946
Manitoba	2	168	—	—	—	—	2	168
	43	5,446	10	860	1	120	54	6,426
Total	101	13,562	14	1,208	1	120	116	14,890

(1) Extendicare operates nine long-term care centres (1,155 LTC beds and 76 retirement suites) 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 2015 and 2014.

Senior Care Centres	2015		2014	
	No. of Centres	Resident Capacity	No. of Centres	Resident Capacity
As at beginning of year	104	13,586	93	12,479
Managed contracts added	8	956	11	1,110
Retirement communities acquired	4	348	—	—
Operational capacity adjustments	—	—	—	(3)
As at end of year	116	14,890	104	13,586

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, and the recent expansion into the private-pay retirement segment, the Company reports the following segments within its Canadian operations: i) long-term care; ii) retirement living; iii) home health care; and iv) management and group purchasing as “other Canadian operations”; and v) 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 were sold on or before July 1, 2015.

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

LONG-TERM CARE (including government-funded supportive living)

Through its subsidiaries, Extendicare owns and operates for its own account 58 LTC centres with capacity for 8,116 residents, inclusive of a stand-alone designated supportive living centre (140 suites) and a designated supportive living wing (60 suites) in Alberta, and two retirement wings (76 suites) in Ontario. This reporting segment excludes the senior care centres that are managed by our management services group, because the revenue earned for this operating division is on a fee-for-service basis with the third-party owners of the centres (refer to the discussion below under the heading “Other Canadian Operations – Management Services”). Revenue from the long-term care operations represented 56.9% and 60.7 % of consolidated revenue from continuing operations for the quarter and year ended December 31, 2015, respectively, compared to 71.4% and 71.5% in the same 2014 periods, respectively. The change in the revenue mix

primarily resulted from the impact of growth in revenue outside of the long-term care segment due primarily to the Home Health Acquisition in April 2015.

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 Alberta, designated supportive living offers services similar to that of a retirement community, 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.

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, Extencicare 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 Extencicare in Ontario, as at December 31, 2015.

Ontario Owned/Leased	No. of Centres	Composition of Beds				
		Private up to \$25.00 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

RETIREMENT LIVING

During the 2015 fourth quarter, Extencicare acquired four retirement communities (348 suites) and subsequent to December 31, 2015, acquired a further two (158 suites). These retirement communities provide services to private-pay residents at rates set by Extencicare based on the services provided and market conditions. Revenue from these operations represented 0.5% and 0.1% of consolidated revenue from continuing operations for the quarter and year ended December 31, 2015, respectively.

HOME HEALTH CARE

Extencicare 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 clients of all ages living at home. Revenue from these operations represented 36.9% and 33.4% of consolidated revenue from continuing operations for the three and twelve months ended December 31, 2015, respectively (2014 – 22.7%). The Home Health Acquisition contributed revenue of approximately \$49.1 million and \$131.6 million for quarter and year ended December 31, 2015, resulting in the increased contribution to revenue from this operating segment.

Provincial governments fund a wide range of home health care services, and contract these services to providers such as ParaMed. In 2015, ParaMed received approximately 97% of its revenue from contracts tendered by locally administered provincial agencies (2014 – 98%), with the remainder from private-pay clients. Throughout 2014 and the first quarter of 2015, ParaMed's operations were solely in Ontario, where it provided approximately 1.2 million hours of service in the 2015 first quarter (2014 – 5.1 million), making it the largest provider of publicly funded home health care in Ontario. Following the Home Health Acquisition, ParaMed's operations more than doubled and expanded to six provinces, with Ontario representing approximately 85% of the service volumes in the 2015 fourth quarter, followed by British Columbia at 9%, Alberta at 4%, and the balance provided in Manitoba, Quebec and Nova Scotia. ParaMed provided approximately 8.9 million hours of service in 2015, of which approximately 2.7 million hours were provided in the 2015 fourth quarter. The Home Health Acquisition contributed approximately 1.3 million and 3.7 million hours of service for the quarter and year ended December 31, 2015, respectively.

OTHER CANADIAN OPERATIONS

Extendicare's other Canadian operations are composed of its management and group purchasing services. Revenue from these operations represented 1.6% of consolidated revenue from continuing operations for 2015 (2014 – 1.6%).

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. Extendicare Assist partners with public, not-for-profit and private senior care centres that seek to improve their management practices, levels of care and operating efficiencies. Most of these contracts include management, accounting and purchasing services, staff training, reimbursement assistance, and where applicable, the implementation of Extendicare's policies and procedures. As at December 31, 2015, Extendicare managed 54 senior care centres with capacity for 6,426 residents, for third-party owners, compared to 46 centres (resident capacity of 5,470) at the end of 2014.

Group Purchasing Services

Through its SGP Purchasing Partner Network division (SGP), Extendicare offers cost-effective purchasing contracts to other senior care providers for food, capital equipment, furnishings, cleaning and nursing supplies, and office products. SGP negotiates long-term contracts that insulate members from rising costs, thereby providing a cost-effective way to secure quality national brand-name products, along with a range of innovative services. As at December 31, 2015, SGP provided services to third-party clients with capacity for approximately 29,600 residents (December 31, 2014 – 27,100).

U.S. CONTINUING OPERATIONS

Following the closing of the U.S. Sale Transaction, Extendicare retained its wholly owned subsidiaries, VCPI and the Captive. Revenue from these operations represented 4.2% of consolidated revenue from continuing operations for 2015 (2014 – 4.2%).

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. VCPI provided services to approximately 2,032 clients at the end of December 2015, compared to approximately 2,132 at the end of December 2014, which included EHSI centres. The decline in clients served reflects the impact of the U.S. Sale Transaction as not all of the new operators of the EHSI centres have continued with VCPI. VCPI's revenue for 2015 was US\$28.4 million compared to US\$29.1 million in 2014, and included internal revenue provided to EHSI of US\$4.1 million and US\$8.4 million, respectively. Following the U.S. Sale Transaction completed on July 1, 2015, VCPI provided transitional services of approximately US\$2.5 million to the Purchaser, and provided services of approximately US\$1.3 million under new contracts with the new operators of the EHSI centres.

Captive Insurance Company

Prior to the U.S. Sale Transaction, Extendicare self-insured certain risks related to general and professional liability of its disposed U.S. operations through the Captive. 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 within the Captive. The majority of the risks that Extendicare self-insured are long-term in nature, and accordingly, claim payments for any particular policy year can occur over a long period of time. In addition, through the Captive, the Company maintains third-party liability insurance on a "claims made" basis, as opposed to "occurrence based" coverage, meaning that some level of coverage may continue to be required and expenses incurred 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, 2015, the accrual for U.S. self-insured general and professional liabilities was \$148.4 million (US\$107.2 million) and the investments held for U.S. self-insured liabilities totalled \$176.8 million (US\$127.7 million). Our earnings (loss) from discontinued operations for the 2015 fourth quarter, includes a release of reserves in the amount of \$5.2 million (US\$3.9 million), as a result of an independent actuarial review conducted at year end. The provisions recorded 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 U.S. Self-insured Liabilities" found within the "Liquidity and Capital Resources" section of this MD&A.

KEY PERFORMANCE INDICATORS

In addition to those measures identified under the heading "Non-GAAP Measures", management uses certain key performance indicators in order to compare the financial performance of Extendicare's continuing operations between periods. In addition, we assess the operations on a same-store basis between the reported periods. Such performance indicators may not be comparable to similar indicators presented by other companies. 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 suites in the case of a retirement community) 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-store" or "NSS", in the context of comparing our 2015 and 2014 results from continuing operations in this document, refers to the Home Health Acquisition that was completed April 30, 2015, and the Retirement Acquisitions completed in the 2015 fourth quarter;

"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 suites in the case of a retirement community) available for occupancy multiplied by the number of days in the period; and

"Same-store" or "SS", in the context of comparing our 2015 and 2014 results from continuing operations in this document, refers to those centres and businesses that were operated by us on January 1, 2014, and throughout 2014 and 2015, and are not classified as held for sale; such operations specifically refer to all continuing operations excluding the Home Health Acquisition and the Retirement Acquisitions.

Long-term Care

Funding received by Extendicare for its long-term care centres 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 Extendicare. 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 Funding Changes Affecting Results".

Revenue from provincial programs represented approximately 70% of Extendicare's long-term care centre revenue in 2015 (2014 – 70%). In the 2015 fourth quarter, Extendicare's average daily revenue rate increased by 0.7% to \$205.60 from \$204.14 in the 2014 fourth quarter, and for the year, ECI's average daily revenue rate increased by 1.5% to \$201.04 from \$198.03 in 2014. The majority of Extendicare's long-term care operations are in Ontario, which operates under a funding envelope system, wherein a substantial portion of the revenue is tied to flow-through funding. Therefore, the flow-through funding is deferred until recognized when matched with the related costs for resident care in the periods in which the costs are incurred. Many of our centres are in an "underspent" position at the start of the year, resulting in a deferral of revenue until it is matched with increased spending throughout the year. As a result, absent the impact of funding changes throughout the year, Extendicare'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.

Extendicare's average occupancy was 98.1% this quarter compared to 98.2% in the 2014 fourth quarter, and was unchanged at 97.9% for the 2015 year compared to 2014. 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.

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. For 2015, all of Extendicare's LTC centres in Ontario achieved the 97% occupancy threshold, with an overall average of 98.2% (2014 – 98.0% with all but one achieving the threshold).

In addition, Extendicare's Ontario LTC centres receive premiums for preferred accommodation. The average occupancy of our private beds in our "New" centres improved to 95.4% in the 2015 fourth quarter from 91.4% in the 2014 fourth quarter, and for the year, improved to 93.8% in 2015 from 88.7% in 2014, primarily due to the full year of operation at our new northern Ontario centres that opened in 2013. The average occupancy of the private beds at our "C" centres improved to 98.8% this quarter from 98.5% in the 2014 fourth quarter, and improved to 98.2% for the year from 97.6% in 2014.

The following table provides Extendicare's average daily revenue rates and occupancy levels from its LTC operations for the past eight quarters.

Long-term Care Centres	2015					2014				
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year
Average Daily Revenue Rate (\$)	198.31	199.40	200.76	205.60	201.04	194.47	196.21	197.17	204.14	198.03
Average Occupancy (%)										
Total LTC	97.4%	98.0%	98.2%	98.1%	97.9%	97.3%	97.6%	98.2%	98.2%	97.9%
Ontario LTC										
Total operations	97.4%	98.3%	98.5%	98.5%	98.2%	97.2%	97.8%	98.4%	98.4%	98.0%
Preferred Accommodation ⁽¹⁾										
"New" centres – private ⁽²⁾	91.3%	93.5%	94.8%	95.4%	93.8%	85.3%	88.3%	89.7%	91.4%	88.7%
"C" centres – private	97.4%	97.7%	98.7%	98.8%	98.2%	96.8%	97.1%	98.2%	98.5%	97.6%
"C" centres – semi-private	60.6%	60.6%	62.5%	63.6%	61.8%	59.5%	59.5%	60.4%	61.0%	60.1%

(1) Average occupancy reported for the available private and semi-private rooms reflects the percentage of residents occupying those beds and paying the respective premium rates.

(2) The private occupancy percentages for the "New" centres reported for 2014 have been restated from what was previously reported at the end of 2014 to conform with the methodology described in note 1 above.

Retirement Living

The average occupancy from our recently acquired four retirement communities was 64.1% for the 2015 fourth quarter, with an average daily revenue rate of \$131.41. As at February 11, 2016, the average occupancy for these retirement communities was approximately 75%.

Home Health Care

Revenue from provincial programs represented approximately 97% of Extendicare's home health care revenue for 2015 (2014 – 98%). On a same-store basis, ParaMed's service volumes increased by 3.8% this quarter over the same 2014 period, and for the year, increased by 0.3% over 2014. With the Home Health Acquisition, ParaMed's average daily hours of service declined slightly by 0.1% to 29,230 in the 2015 fourth quarter from 29,271 in the 2015 third quarter, and for the year, the average daily hours of service more than doubled to 29,310 from 13,925 in 2014. For further information on the home health care operations, refer to the discussion under the heading "Update of Regulatory and Funding Changes Affecting Results – Ontario Home Health Care Legislation and Funding".

The following table provides Extendicare's home health care service volumes for the past eight quarters.

Service Volumes	2015					2014				
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year
Total Operations										
Hours of service (000's)	1,238.2	2,252.4	2,692.9	2,689.2	8,872.6	1,213.7	1,281.6	1,303.8	1,283.4	5,082.5
Hours per day	13,758	29,951	29,271	29,230	29,310	13,485	14,084	14,172	13,950	13,925
Same-store Basis										
Hours of service (000's)	1,238.2	1,290.3	1,285.0	1,332.1	5,145.6	1,213.7	1,281.6	1,303.8	1,283.4	5,082.5
Hours per day	13,758	14,179	13,967	14,480	14,098	13,485	14,084	14,172	13,950	13,925

IMPACT OF U.S. DOLLAR AND FOREIGN CURRENCY TRANSLATION

Impact on Financial Statements

Prior to the U.S. Sale Transaction on July 1, 2015, the majority of our total operations were conducted in the United States, most of which were classified as discontinued as at December 31, 2014. Our remaining U.S. operations accounted for approximately 25% of our consolidated assets as at December 31, 2015, approximately 4% of revenue from continuing operations in 2015, approximately 1% of Adjusted EBITDA in 2015, and approximately 1% of AFFO from continuing operations in 2015.

As a result of the sale of substantially all of our U.S. operations, the impact of a one-cent change in the Canadian dollar against the U.S. dollar would have a minimal impact on our financial results from continuing operations (less than \$0.1 million), and would impact our total assets and total liabilities by approximately \$1.8 million and \$1.3 million, 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 quarter and year ended December 31, 2015, and for the 2014 year.

Exchange Rate Impact on Periods	Q4		Year		Year	
	2015	2014	2015	2014	2014	2013
Average U.S./Canadian dollar exchange rate	1.3342	1.1351	1.2787	1.1045	1.1045	1.0299
Results (millions of dollars)						
Revenue	1.8		5.7		2.3	
Net operating income	0.7		1.9		0.6	
Adjusted EBITDA	0.3		0.2		0.1	
Earnings (loss) from continuing operations	0.3		(0.2)		(0.2)	
Earnings (loss) from discontinued operations	(0.7)		43.4		(1.5)	
Net earnings (loss)	2.5		46.1		(1.7)	
AFFO (continuing operations)	0.1		0.2		(0.1)	
AFFO	—		0.8		2.6	

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.

Dividends declared in each of 2015 and 2014 totalled \$42.1 million, or \$0.48 per share, representing a payout ratio in 2015 of approximately 83% of AFFO of \$50.8 million, or \$0.579 per basic share, compared to a payout ratio of approximately 57% in 2014, on AFFO of \$73.7 million, or \$0.840 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".

2015 SELECTED ANNUAL INFORMATION

The following is a summary of selected annual financial information for each of the past three years.

<i>(thousands of dollars unless otherwise noted)</i>	2015	2014	2013
Financial Results			
Revenue	979,609	816,119	783,809
Earnings before depreciation, amortization, loss from asset impairment, disposals and other items	86,446	74,666	69,553
Earnings from continuing operations	23,124	11,069	10,165
per basic share (\$)	0.26	0.13	0.12
Gain on sale of U.S. operations, net of taxes	205,418	—	—
Earnings (loss) from discontinued operations	3,536	(29,822)	(4,882)
Net earnings (loss)	232,078	(18,753)	5,283
per basic share (\$)	2.64	(0.21)	0.06
per diluted share (\$)	2.41	(0.21)	0.06
AFFO (continuing operations)	44,602	34,357	32,851
per basic share (\$)	0.508	0.392	0.379
AFFO	50,828	73,692	71,114
per basic share (\$)	0.579	0.840	0.820
Cash dividends declared	42,125	42,131	52,023
per share (\$)	0.480	0.480	0.600
Financial Position (at year end)			
Total assets	1,026,947	1,915,286	1,849,088
Assets of disposal group held for sale	—	1,254,535	36,418
Liabilities of disposal group held for sale	—	1,137,774	16,356
Total non-current liabilities	636,798	622,256	1,378,943
Long-term debt (at year end)	428,679	453,200	1,016,785
Long-term debt including current portion (at year end)	454,074	472,028	1,164,836
U.S./Canadian dollar average exchange rate for the year	1.2787	1.1045	1.0299
U.S./Canadian dollar closing exchange rate at year end	1.3840	1.1601	1.0636

Financial Results – The selected information provided for each of the years under the heading “Financial Results”, reflects the classification of the U.S. operations identified as held for sale in 2014 as discontinued, all of which were sold in 2015. A comparison between the 2015 and 2014 results is provided under the heading “2015 Financial Review”. The financial results for 2014, in comparison to 2013, reflect growth from continuing operations largely due to increased home health care service hours and clients served by our management services and group purchasing operations. The increase in the loss from discontinued operations by \$24.9 million to \$29.8 million in 2014 from \$4.9 million in 2013, was largely due to the provision for U.S. government investigations of pre-tax \$42.2 million recorded in 2014, partially offset by a reduction in the expense for self-insured liabilities of pre-tax \$10.5 million.

Financial Position – The selected information provided for each of the years under the heading “Financial Position”, 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 \$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 in connection with the U.S. Sale Transaction and the remaining 10 U.S. skilled nursing centres, all of which were sold by July 1, 2015.

The closing rates used to translate the assets and liabilities of our U.S. operations were 1.3840 at December 31, 2015, 1.1601 at December 31, 2014, and 1.0636 at December 31, 2013. 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. Total assets at the end of 2015 of \$1,026.9 million declined by \$888.3 million from the end of 2014, primarily as a result of the sale of substantially all of our U.S. operations, with a total asset balance of \$1,254.5 million at the end of 2014, net of the related proceeds received.

A comparison between the 2015 and 2014 results is provided in the discussion under the headings “2015 Financial Review” and “Liquidity and Capital Resources”.

2015 SELECTED QUARTERLY INFORMATION

The following is a summary of selected quarterly financial information.

	2015				2014			
<i>(thousands of dollars unless otherwise noted)</i>	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	270,853	263,352	243,185	202,219	212,836	207,918	201,111	194,254
Net operating income	34,284	34,771	33,388	25,815	29,313	28,718	27,290	22,702
Net operating income margin	12.7%	13.2%	13.7%	12.8%	13.8%	13.8%	13.6%	11.7%
Adjusted EBITDA	23,067	23,974	23,218	16,187	23,023	19,572	18,184	13,887
Adjusted EBITDA margin	8.5%	9.1%	9.5%	8.0%	10.8%	9.4%	9.0%	7.1%
Earnings (loss) from continuing operations	7,028	11,173	3,863	1,060	7,973	3,082	1,804	(1,790)
Gain on sale of U.S. operations, net of taxes	749	204,669	—	—	—	—	—	—
Earnings (loss) from discontinued operations	2,787	454	(5,381)	5,695	1,235	(9,093)	(22,696)	732
Net earnings (loss)	10,545	216,296	(1,518)	6,755	9,208	(6,011)	(20,892)	(1,058)
AFFO (continuing operations)	9,691	15,290	12,530	7,091	10,604	9,002	8,371	6,380
per basic share (\$)	0.110	0.174	0.143	0.081	0.121	0.102	0.096	0.073
AFFO	9,611	13,540	5,834	21,843	19,417	17,272	15,532	21,471
per basic share (\$)	0.109	0.155	0.067	0.248	0.221	0.196	0.177	0.246
Maintenance Capex								
Continuing operations	7,493	4,186	2,427	839	6,352	3,414	2,499	496
Discontinued operations	—	—	5,213	2,520	3,547	3,451	3,428	4,254
Cash dividends declared	10,547	10,522	10,510	10,546	10,573	10,547	10,520	10,491
per share (\$)	0.120	0.120	0.120	0.120	0.120	0.120	0.120	0.120
Weighted Average Number of Shares								
Basic	87,852	87,663	87,557	88,003	88,066	87,854	87,628	87,386
Diluted	99,097	98,907	98,802	99,247	99,311	99,099	98,872	104,355
U.S./Canadian dollar average exchange rate for the period	1.3342	1.3084	1.2297	1.2412	1.1351	1.0891	1.0904	1.1033

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

	2015				2014			
<i>(thousands of dollars)</i>	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Earnings (loss) from continuing operations before income taxes	10,013	18,359	5,984	2,292	9,806	4,740	3,523	(1,451)
Add (Deduct):								
Depreciation and amortization	7,687	6,994	6,730	5,870	6,680	5,749	5,710	5,705
Net finance costs (income)	1,953	(2,181)	8,914	7,126	7,163	7,159	7,555	9,073
Loss (gain) from asset impairment, disposals and other items	3,414	802	1,590	899	(626)	1,924	1,396	560
Adjusted EBITDA	23,067	23,974	23,218	16,187	23,023	19,572	18,184	13,887
Add (Deduct):								
Administrative costs	9,327	8,965	8,474	8,300	5,021	7,890	7,840	7,542
Lease costs	1,890	1,832	1,696	1,328	1,269	1,256	1,266	1,273
Net operating income	34,284	34,771	33,388	25,815	29,313	28,718	27,290	22,702

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 deferred until it is 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, and 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 second and third quarters, and can vary by as much as \$1.5 million to \$2.0 million; 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; for example, in 2015 our earnings from continuing operations were favourably impacted by net foreign exchange gains of \$6.5 million and \$3.3 million in the third and fourth quarters, respectively, as a result of U.S. proceeds and deferred consideration received in respect of the disposal of our U.S. operations in July.

Further details on the above can be found under the sections "Significant 2015 Events and Developments", "Key Performance Indicators", "Impact of U.S. Dollar and Foreign Currency Translation", "Other Significant Developments" and "Update of Regulatory and Funding Changes Affecting Results".

ADJUSTED FUNDS FROM OPERATIONS

The following table provides a reconciliation of our "Adjusted EBITDA" to "FFO" and "AFFO".

	Three months ended December 31			Years ended December 31		
	2015	2014	Change	2015	2014	Change
<i>(thousands of dollars unless otherwise noted)</i>						
Adjusted EBITDA	23,067	23,023	44	86,446	74,666	11,780
Depreciation for FFEC (maintenance capex) ⁽¹⁾	(2,627)	(2,466)	(161)	(10,091)	(9,394)	(697)
Accretion costs	(640)	(557)	(83)	(2,477)	(2,176)	(301)
Interest expense	(7,971)	(7,512)	(459)	(31,132)	(32,905)	1,773
Interest revenue	3,404	906	2,498	8,056	3,835	4,221
	15,233	13,394	1,839	50,802	34,026	16,776
Current income tax expense ⁽²⁾	1,424	824	600	9,851	4,063	5,788
FFO (continuing operations)	13,809	12,570	1,239	40,951	29,963	10,988
Amortization of financing costs	358	357	1	2,890	1,552	1,338
Accretion costs	640	557	83	2,477	2,176	301
Principal portion of government capital funding	1,067	1,006	61	4,260	4,033	227
Income support	471	—	471	471	—	471
Amounts offset through investments held for self-insured liabilities ⁽³⁾	(1,788)	—	(1,788)	(1,593)	—	(1,593)
Additional maintenance capex ⁽¹⁾	(4,866)	(3,886)	(980)	(4,854)	(3,367)	(1,487)
AFFO (continuing operations)	9,691	10,604	(913)	44,602	34,357	10,245
Discontinued operations	(80)	8,813	(8,893)	6,226	39,335	(33,109)
AFFO ⁽⁴⁾	9,611	19,417	(9,806)	50,828	73,692	(22,864)
Per Basic Share (\$)						
FFO (continuing operations)	0.158	0.144	0.014	0.467	0.342	0.125
FFO	0.157	0.230	(0.073)	0.605	0.765	(0.160)
AFFO (continuing operations)	0.110	0.121	(0.011)	0.508	0.392	0.116
AFFO	0.109	0.221	(0.112)	0.579	0.840	(0.261)
Per Diluted Share (\$)						
FFO (continuing operations)	0.158	0.144	0.014	0.467	0.342	0.125
FFO	0.157	0.214	(0.057)	0.606	0.747	(0.141)
AFFO (continuing operations)	0.112	0.121	(0.009)	0.505	0.392	0.113
AFFO	0.111	0.204	(0.093)	0.568	0.799	(0.231)
Dividends (\$)						
Declared	10,547	10,573	(26)	42,125	42,131	(6)
Declared per share (\$)	0.120	0.120	—	0.48	0.480	—
Weighted Average Number of Shares (thousands)						
Basic	87,852	88,066		87,768	87,736	
Diluted	99,097	99,311		99,012	98,980	

- (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 items that are excluded from the computation of AFFO from continuing operations, such as the gains or losses on foreign exchange, financial instruments, asset impairment, disposals and other items, and provisions for prior period tax reassessments.
- (3) Represents AFFO of the Captive that decreases/(increases) the Captive's investments held for self-insured liabilities not impacting the Company's reported cash and short-term investments.
- (4) Refer to the reconciliation that follows under the heading "Reconciliation of Net Cash from Operating Activities to AFFO".

AFFO 2015 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						
	2015			2014			Total
(thousands of dollars unless otherwise noted)	Canada	U.S.	Total	Canada	U.S.	Total	Change
AFFO (continuing operations)	9,076	615	9,691	7,665	2,939	10,604	(913)
Discontinued operations	—	(80)	(80)	—	8,813	8,813	(8,893)
AFFO	9,076	535	9,611	7,665	11,752	19,417	(9,806)
Maintenance capex (continuing operations)	6,713	780	7,493	5,806	546	6,352	1,141
Discontinued operations	—	—	—	—	3,547	3,547	(3,547)
Maintenance capex	6,713	780	7,493	5,806	4,093	9,899	(2,406)
Average U.S./Canadian dollar exchange rate			1.3342			1.1351	

AFFO was \$9.6 million (\$0.109 per basic share) in the 2015 fourth quarter compared to \$19.4 million (\$0.221 per basic share) in the 2014 fourth quarter, representing a decline of \$9.8 million, due to a reduction in AFFO from discontinued operations of \$8.9 million as a result of the completion of the U.S. Sale Transaction, and a \$0.9 million reduction from continuing operations.

AFFO from continuing operations was \$9.7 million (\$0.110 per basic share) in the 2015 fourth quarter compared to \$10.6 million in the 2014 fourth quarter (\$0.121 per basic share). However, Adjusted EBITDA for the 2014 fourth quarter was favourably impacted by a reinsurance premium refund of \$2.8 million. Excluding this refund, AFFO from continuing operations increased by \$1.8 million this quarter, and included an improvement in Adjusted EBITDA of \$2.9 million, lower net finance costs of \$2.0 million, and income support of \$0.5 million, partially offset by the reversal of the Captive's AFFO of \$1.8 million, higher maintenance capex of \$1.1 million, and an increase in current income taxes of \$0.6 million. Net finance costs were favourably impacted by \$1.8 million (US\$1.4 million) of interest income realized this quarter in connection with the U.S. Sale Deferred Consideration. Current income taxes for the 2015 fourth quarter were \$1.4 million compared to \$0.8 million in the same 2014 period, representing 9.3% and 6.2% of pre-tax FFO from continuing operations, respectively. A discussion of the factors impacting Adjusted EBITDA from continuing operations and net finance costs can be found under the heading "2015 Fourth Quarter Financial Review".

Maintenance capex from continuing operations was \$7.5 million in the 2015 fourth quarter, compared to \$6.4 million in the 2014 fourth quarter and to \$4.2 million in the 2015 third quarter, representing 2.8%, 3.0% and 1.6% of revenue from continuing operations, respectively.

AFFO 2015 Financial Review

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

	Years ended December 31						
	2015			2014			Total
(thousands of dollars unless otherwise noted)	Canada	U.S.	Total	Canada	U.S.	Total	Change
AFFO (continuing operations)	43,990	612	44,602	35,231	(874)	34,357	10,245
Discontinued operations	—	6,226	6,226	—	39,335	39,335	(33,109)
AFFO	43,990	6,838	50,828	35,231	38,461	73,692	(22,864)
Maintenance capex (continuing operations)	13,246	1,699	14,945	10,438	2,323	12,761	2,184
Discontinued operations	—	7,733	7,733	—	14,680	14,680	(6,947)
Maintenance capex	13,246	9,432	22,678	10,438	17,003	27,441	(4,763)
Average U.S./Canadian dollar exchange rate			1.2787			1.1045	

AFFO was \$50.8 million (\$0.579 per basic share) in 2015 compared to \$73.7 million (\$0.840 per basic share) in 2014, reflecting a reduction in AFFO from discontinued operations of \$33.1 million as a result of the completion of the U.S. Sale Transaction, partially offset by an improvement of \$10.2 million from continuing operations.

AFFO from continuing operations was \$44.6 million (\$0.508 per basic share) in 2015 compared to \$34.4 million in 2014 (\$0.392 per basic share). Excluding the impact of the \$2.8 million reinsurance premium refund included in Adjusted EBITDA in 2014, AFFO from continuing operations improved by \$13.0 million, and included an increase in Adjusted EBITDA of \$14.6 million, lower net finance costs of \$7.3 million, and income support of \$0.5 million, partially offset by higher current income taxes of \$5.8 million, an increase in maintenance capex of \$2.2 million, and the reversal of the

Captive's AFFO of \$1.6 million. Net finance costs were favourably impacted by \$3.6 million (US\$2.8 million) of interest income realized in 2015 in connection with the U.S. Sale Deferred Consideration, and lower interest expense due to the redemption of convertible debentures in 2014. Current income taxes for 2015 were \$9.9 million compared to \$4.1 million in 2014, representing 19.4% and 11.9% of pre-tax FFO from continuing operations, respectively. Current income taxes in 2014 were partially sheltered by non-capital loss carryforwards, which decreased current taxes by approximately \$2.0 million, thereby reducing the effective current tax rate in 2014 to 11.9% from 17.7%. A discussion of Adjusted EBITDA from continuing operations and net finance costs can be found under the heading "2015 Financial Review".

As a result of the completion of the U.S. Sale Transaction on July 1, 2015, the contribution to AFFO from discontinued operations declined by \$33.1 million reflecting a decrease in Adjusted EBITDA from discontinued operations of \$68.1 million, partially offset by lower net finance costs of \$11.4 million, lower current income taxes of \$16.6 million and the balance due to lower maintenance capex. A discussion of the factors impacting the loss from discontinued operations can be found under the heading "2015 Financial Review".

The determination of FFO includes a deduction for current income tax expense, and does not include deferred income tax expense. As a result, 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 effective tax rate on FFO for 2015 at 19.4% was slightly below our anticipated range of between 20% and 25% primarily due to the impact of deferred timing differences.

For 2015, maintenance capex from continuing operations was \$15.0 million compared to \$12.8 million in 2014, representing 1.5% and 1.6% 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 approximately 1.5% of revenue annually in maintenance capex, which is consistent with our objective to maintain and upgrade our centres. In 2016, we are expecting to spend in the range of \$13 million to \$16 million in maintenance capex and in the range of \$35 million to \$40 million in growth capex, related primarily to the three retirement development projects.

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)	2015	2014	2015	2014
Net cash from operating activities	17,617	16,893	52,798	85,607
Add (Deduct):				
Net change in operating assets and liabilities, including interest, taxes and payments for U.S. self-insured liabilities	3,350	27,859	(1,061)	31,048
Current income tax on items excluded from AFFO ⁽¹⁾	(3,662)	(4,232)	47,917	(17,828)
Expense for U.S. self-insured liabilities	—	(9,519)	(34,495)	(44,010)
Depreciation for FFEC (maintenance capex) ⁽²⁾	(2,627)	(6,370)	(10,091)	(22,895)
Additional maintenance capex ⁽²⁾	(4,866)	(3,529)	(12,587)	(4,546)
Principal portion of government capital funding	1,067	1,006	4,260	4,033
Income support	471	—	471	—
Amounts offset through investments held for self-insured liabilities ⁽³⁾	(1,788)	—	(1,593)	—
Provision for U.S. government investigations	—	—	—	42,240
Property taxes under IFRIC 21	—	(2,734)	5,209	—
Other	49	43	—	43
AFFO	9,611	19,417	50,828	73,692

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

(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.

(3) Represents AFFO of the Captive that decreases/(increases) the Captive's investments held for self-insured liabilities not impacting the Company's reported cash and short-term investments.

2015 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						
	2015			2014			Total Change
(thousands of dollars)	Canada	U.S.	Total	Canada	U.S.	Total	
Revenue	259,138	11,715	270,853	203,027	9,809	212,836	58,017
Operating expenses	229,760	6,809	236,569	177,303	6,220	183,523	53,046
Net operating income	29,378	4,906	34,284	25,724	3,589	29,313	4,971
Administrative costs	6,459	2,868	9,327	5,062	(41)	5,021	4,306
Lease costs	1,682	208	1,890	1,094	175	1,269	621
Adjusted EBITDA	21,237	1,830	23,067	19,568	3,455	23,023	44
Depreciation and amortization	6,835	852	7,687	5,797	883	6,680	1,007
Loss (gain) from asset impairment, disposals and other items	3,414	—	3,414	(626)	—	(626)	4,040
Earnings before net finance costs and income taxes	10,988	978	11,966	14,397	2,572	16,969	(5,003)
Interest expense	7,964	7	7,971	7,496	16	7,512	459
Interest income	(1,550)	(1,854)	(3,404)	(906)	—	(906)	(2,498)
Accretion	286	354	640	273	284	557	83
Loss (gain) on foreign exchange	691	(3,945)	(3,254)	—	—	—	(3,254)
Net finance costs (income)	7,391	(5,438)	1,953	6,863	300	7,163	(5,210)
Earnings from continuing operations before income taxes	3,597	6,416	10,013	7,534	2,272	9,806	207
Income tax expense (recovery)							
Current	718	494	1,212	880	(46)	834	378
Deferred	850	923	1,773	1,114	(115)	999	774
Total income tax expense (recovery)	1,568	1,417	2,985	1,994	(161)	1,833	1,152
Earnings from continuing operations	2,029	4,999	7,028	5,540	2,433	7,973	(945)
Gain on sale of U.S. operations, net of taxes	—	749	749	—	—	—	749
Earnings from discontinued operations	—	2,768	2,768	—	1,235	1,235	1,533
Net earnings	2,029	8,516	10,545	5,540	3,668	9,208	1,337
Earnings from continuing operations	2,029	4,999	7,028	5,540	2,433	7,973	(945)
Add (Deduct) ⁽¹⁾:							
Loss (gain) on foreign exchange	829	(2,900)	(2,071)	—	—	—	(2,071)
Loss (gain) from asset impairment, disposals and other items	2,530	—	2,530	(548)	—	(548)	3,078
Earnings from continuing operations before separately reported gains/losses, net of taxes	5,388	2,099	7,487	4,992	2,433	7,425	62

(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 from continuing operations before income taxes” to “Adjusted EBITDA” and “net operating income”.

	Three months ended December 31						
	2015			2014			Total Change
(thousands of dollars)	Canada	U.S.	Total	Canada	U.S.	Total	
Earnings from continuing operations before income taxes	3,597	6,416	10,013	7,534	2,272	9,806	207
Add (Deduct):							
Depreciation and amortization	6,835	852	7,687	5,797	883	6,680	1,007
Net finance costs	7,391	(5,438)	1,953	6,863	300	7,163	(5,210)
Loss (gain) from asset impairment, disposals and other items	3,414	—	3,414	(626)	—	(626)	4,040
Adjusted EBITDA	21,237	1,830	23,067	19,568	3,455	23,023	44
Add (Deduct):							
Administrative costs	6,459	2,868	9,327	5,062	(41)	5,021	4,306
Lease costs	1,682	208	1,890	1,094	175	1,269	621
Net operating income	29,378	4,906	34,284	25,724	3,589	29,313	4,971

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

Three months ended December 31 (thousands of dollars)	Long-term Care	Retirement Living	Home Health Care	Other Canadian Operations	Corporate Canada	Total Canada	Total U.S.	Total
2015 – Same-Store								
Revenue	154,188	–	50,943	3,725	6	208,862	11,715	220,577
Operating expenses	137,587	–	45,316	1,909	–	184,812	6,809	191,621
Net operating income	16,601	–	5,627	1,816	6	24,050	4,906	28,956
Net operating income margin (%)	10.8%	–	11.0%	48.8%	100.0%	11.5%	41.9%	13.1%
2015 – Non Same-Store								
Revenue	–	1,238	49,038	–	–	50,276	–	50,276
Operating expenses	–	987	43,961	–	–	44,948	–	44,948
Net operating income	–	251	5,077	–	–	5,328	–	5,328
Net operating income margin (%)	–	20.3%	10.4%	–	–	10.6%	–	10.6%
2015 – Total								
Revenue	154,188	1,238	99,981	3,725	6	259,138	11,715	270,853
Operating expenses	137,587	987	89,277	1,909	–	229,760	6,809	236,569
Net operating income	16,601	251	10,704	1,816	6	29,378	4,906	34,284
Net operating income margin (%)	10.8%	20.3%	10.7%	48.8%	100.0%	11.3%	41.9%	12.7%
2014 – Total								
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%
Change in Total								
Revenue	2,122	1,238	52,504	246	1	56,111	1,906	58,017
Operating expenses	3,224	987	48,167	79	–	52,457	589	53,046
Net operating income	(1,102)	251	4,337	167	1	3,654	1,317	4,971

Consolidated Net Operating Income

Consolidated continuing operations – net operating income improved by \$5.0 million, or 17.0%, to \$34.3 million in the 2015 fourth quarter compared to \$29.3 million in the same 2014 period, representing 12.7% and 13.8% of revenue, respectively. Net operating income of our Canadian operations improved by \$3.7 million and the balance was from our U.S. operations.

Long-term care operations – net operating income declined by \$1.1 million, representing an increase in revenue of \$2.1 million, or 1.4%, offset by higher costs of \$3.2 million. The revenue improvement included approximately \$0.2 million related to the Ontario flow-through envelopes and approximately \$0.2 million from higher preferred accommodation in Ontario. Higher operating expenses of \$3.2 million included a 3.3% increase in labour costs of \$3.6 million.

Retirement living operations – net operating income from the Retirement Acquisitions was \$0.3 million, reflecting revenue of \$1.2 million net of operating expenses of \$0.9 million. The average occupancy of the four communities was 64.1% for the 2015 fourth quarter. In accordance with the purchase agreements, the purchase price of two of the communities includes income support totalling \$2.3 million to be released back to Extendicare during the lease-up periods until the communities reach stabilized NOI. During the 2015 fourth quarter, the Company realized \$0.5 million of income support that is excluded from earnings reported in the consolidated statements of earnings, but is included in the determination of AFFO.

Home health care operations – net operating income increased by \$4.3 million to \$10.7 million this quarter, representing an increase in revenue of \$52.5 million, partially offset by higher costs of \$48.2 million. The Home Health Acquisition contributed \$49.1 million to revenue and \$5.1 million to net operating income this quarter. Net operating income from same-store operations declined by \$0.8 million despite an increase in service volumes, due in part to timing of cost incurred during the year for staff training and year end accrual adjustments. Same-store revenue increased by \$3.4 million and included funding to support an increase in government-funded wage increases for personal support workers (PSWs), estimated at approximately \$2.0 million, with the balance of the \$1.4 million improvement primarily due to a 3.9% increase

in service volumes this quarter. Higher labour costs accounted for \$3.7 million of the increase in same-store operating costs of \$4.2 million.

Other Canadian operations – net operating income from our management and group purchasing services improved by \$0.2 million to \$1.8 million this quarter due to growth in business.

U.S. operations – net operating income improved by \$1.3 million, which included a \$0.7 million positive effect of the weaker Canadian dollar, and higher investment income from the Captive of \$1.5 million, partially offset by a decline in health technology services provided by VCPI of \$1.4 million primarily due to a decline in external clients.

Administrative and Lease Costs

Administrative and lease costs increased by \$4.9 million to \$11.2 million in the 2015 fourth quarter, of which approximately \$0.4 million was due to a weaker Canadian dollar. Approximately \$2.0 million of the increase was from our Canadian operations, of which approximately \$0.5 million represented additional lease costs associated with the Home Health Acquisition, \$0.6 million was due to an increase in the expense for share appreciation rights, and the balance was largely due to an increase in professional fees. Administrative and lease costs from our U.S. operations increased by \$2.9 million and were unfavourably impacted by the receipt in the 2014 fourth quarter of a prior period reinsurance premium refund of \$2.8 million (US\$2.6 million).

Consolidated Adjusted EBITDA

Consolidated Adjusted EBITDA was relatively unchanged at \$23.1 million this quarter compared to the 2014 fourth quarter, representing 8.5% and 10.8% of revenue, respectively. Excluding the reinsurance premium refund recognized in the 2014 fourth quarter, Adjusted EBITDA increased by approximately \$2.9 million, reflecting growth in net operating income of \$5.0 million, partially offset by the increase in administrative and lease costs, previously discussed.

Depreciation and Amortization

Depreciation and amortization costs increased by \$1.0 million to \$7.7 million in the 2015 fourth quarter, largely due to the Home Health Acquisition and Retirement Acquisitions.

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

Extendicare recorded a pre-tax loss of \$3.4 million in the 2015 fourth quarter related to integration costs in connection with the Home Health Acquisition of \$0.8 million, transaction costs related to the Retirement Acquisitions of \$1.3 million, and proxy contest costs of \$1.3 million. In comparison, a pre-tax gain of \$0.6 million was incurred in the 2014 fourth quarter related to the reclassification of transactions costs of \$1.3 million related to the U.S. Sale Transaction to discontinued operations, partially offset by transaction costs of \$0.7 million in connection with the Home Health Acquisition.

Net Finance Costs (Income)

Net finance costs declined by \$5.2 million to \$2.0 million in the 2015 fourth quarter, and were favourably impacted by higher interest income of \$2.5 million that included \$1.8 million (US\$1.4 million) in connection with the U.S. Sale Deferred Consideration, and a gain on foreign exchange of \$3.3 million.

Income Taxes

The income tax provision was \$3.0 million on pre-tax earnings of \$10.0 million in the 2015 fourth quarter compared to a provision of \$1.8 million on pre-tax earnings of \$9.8 million in the 2014 fourth quarter, representing an effective tax rate of 29.8% and 18.7%, respectively. The effective tax rates for each period were distorted by, among other things, gains and losses from financial instruments, foreign exchange, asset impairment, disposals, and other items. The effective tax rate on earnings from continuing operations before separately reported items was 26.4% this quarter and 19.1% in the 2014 fourth quarter. The change in the effective tax rates, excluding separately reported items, between periods was primarily due to the change in proportion of income among our taxable and non-taxable entities, which included the non-taxable reinsurance premium refund of \$2.8 million recognized in the 2014 fourth quarter.

Discontinued Operations

Earnings from discontinued operations, net of tax, were \$3.5 million this quarter compared to \$1.2 million in the 2014 fourth quarter. This quarter's net income included a \$5.2 million release of reserves for U.S. self-insured liabilities and a \$0.7 million adjustment to the after-tax gain on sale of the U.S. operations, partially offset by a \$3.1 million net after-tax increase in indemnification provisions in respect of the U.S. Sale Transaction. Earnings from discontinued operations recorded in the 2014 fourth quarter of \$1.2 million, included transaction costs in connection with the U.S. Sale Transaction of pre-tax \$7.8 million. For further information on the discontinued operations, refer to *note 20* of the audited consolidated financial statements, and the discussion under the heading "Significant 2015 Events and Developments – U.S. Sale Transaction".

2015 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						
	2015			2014			Total
(thousands of dollars)	Canada	U.S.	Total	Canada	U.S.	Total	Change
Revenue	937,983	41,626	979,609	782,012	34,107	816,119	163,490
Operating expenses	823,489	27,862	851,351	683,655	24,441	708,096	143,255
Net operating income	114,494	13,764	128,258	98,357	9,666	108,023	20,235
Administrative costs	23,246	11,820	35,066	20,630	7,663	28,293	6,773
Lease costs	5,955	791	6,746	4,384	680	5,064	1,682
Adjusted EBITDA	85,293	1,153	86,446	73,343	1,323	74,666	11,780
Depreciation and amortization	23,668	3,613	27,281	20,413	3,431	23,844	3,437
Loss from asset impairment, disposals and other items	6,705	–	6,705	3,254	–	3,254	3,451
Earnings (loss) before net finance costs and income taxes	54,920	(2,460)	52,460	49,676	(2,108)	47,568	4,892
Interest expense	31,089	43	31,132	32,846	59	32,905	(1,773)
Interest income	(4,407)	(3,649)	(8,056)	(3,835)	–	(3,835)	(4,221)
Accretion	1,122	1,355	2,477	1,071	1,105	2,176	301
Gain on foreign exchange	(5,796)	(3,945)	(9,741)	–	–	–	(9,741)
Fair value adjustments	–	–	–	(296)	–	(296)	296
Net finance costs	22,008	(6,196)	15,812	29,786	1,164	30,950	(15,138)
Earnings (loss) from continuing operations before income taxes	32,912	3,736	36,648	19,890	(3,272)	16,618	20,030
Income tax expense (recovery)							
Current	11,973	855	12,828	4,248	(185)	4,063	8,765
Deferred	(740)	1,436	696	1,743	(257)	1,486	(790)
Total income tax expense (recovery)	11,233	2,291	13,524	5,991	(442)	5,549	7,975
Earnings (loss) from continuing operations	21,679	1,445	23,124	13,899	(2,830)	11,069	12,055
Gain on sale of U.S. operations, net of taxes	–	205,418	205,418	–	–	–	205,418
Earnings (loss) from discontinued operations	–	3,536	3,536	–	(29,822)	(29,822)	33,358
Net earnings (loss)	21,679	210,399	232,078	13,899	(32,652)	(18,753)	250,831
Earnings (loss) from continuing operations	21,679	1,445	23,124	13,899	(2,830)	11,069	12,055
Add (Deduct) ⁽¹⁾:							
Gain on foreign exchange	(4,949)	(2,900)	(7,849)	–	–	–	(7,849)
Fair value adjustment on convertible debentures	–	–	–	(296)	–	(296)	296
Loss from asset impairment, disposals and other items	8,656	–	8,656	2,415	–	2,415	6,241
Earnings (loss) from continuing operations before separately reported gains/losses, net of taxes	25,386	(1,455)	23,931	16,018	(2,830)	13,188	10,743

(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						
	2015			2014			Total Change
(thousands of dollars)	Canada	U.S.	Total	Canada	U.S.	Total	
Earnings (loss) from continuing operations before income taxes	32,912	3,736	36,648	19,890	(3,272)	16,618	20,030
Add (Deduct):							
Depreciation and amortization	23,668	3,613	27,281	20,413	3,431	23,844	3,437
Net finance costs	22,008	(6,196)	15,812	29,786	1,164	30,950	(15,138)
Loss from asset impairment, disposals and other items	6,705	—	6,705	3,254	—	3,254	3,451
Adjusted EBITDA	85,293	1,153	86,446	73,343	1,323	74,666	11,780
Add (Deduct):							
Administrative costs	23,246	11,820	35,066	20,630	7,663	28,293	6,773
Lease costs	5,955	791	6,746	4,384	680	5,064	1,682
Net operating income	114,494	13,764	128,258	98,357	9,666	108,023	20,235

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

Years ended December 31 (thousands of dollars)	Long-term Care	Retirement Living	Home Health Care	Other Canadian Operations	Corporate Canada	Total Canada	Total U.S.	Total
2015 – Same-Store								
Revenue	594,198	—	195,385	15,543	40	805,166	41,626	846,792
Operating expenses	524,708	—	172,087	7,351	—	704,146	27,862	732,008
Net operating income	69,490	—	23,298	8,192	40	101,020	13,764	114,784
Net operating income margin (%)	11.7%	—	11.9%	52.7%	100.0%	12.5%	33.1%	13.6%
2015 – Non Same-Store								
Revenue	—	1,238	131,579	—	—	132,817	—	132,817
Operating expenses	—	987	118,356	—	—	119,343	—	119,343
Net operating income	—	251	13,223	—	—	13,474	—	13,474
Net operating income margin (%)	—	20.3%	10.0%	—	—	10.1%	—	10.1%
2015 – Total								
Revenue	594,198	1,238	326,964	15,543	40	937,983	41,626	979,609
Operating expenses	524,708	987	290,443	7,351	—	823,489	27,862	851,351
Net operating income	69,490	251	36,521	8,192	40	114,494	13,764	128,258
Net operating income margin (%)	11.7%	20.3%	11.2%	52.7%	100.0%	12.2%	33.1%	13.1%
2014 – 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
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%
Change in Total								
Revenue	10,520	1,238	141,473	2,743	(3)	155,971	7,519	163,490
Operating expenses	9,580	987	128,693	574	—	139,834	3,421	143,255
Net operating income	940	251	12,780	2,169	(3)	16,137	4,098	20,235

Consolidated Revenue

Consolidated continuing operations – revenue grew by \$163.5 million, or 20.0%, to \$979.6 million in 2015, of which acquisitions contributed \$132.8 million, with growth from same-store revenue of \$30.7 million, or 3.8%.

Long-term care operations – revenue improved by \$10.5 million, or 1.8%, to \$594.2 million in 2015, primarily due to funding enhancements. Approximately \$4.2 million of the revenue improvement related to our Ontario flow-through envelopes and was therefore directly offset by increased costs of resident care, and approximately \$0.9 million of the increase was due to improvements in preferred accommodation. Our average occupancy remained unchanged at 97.9% in both years. Our average daily revenue rate for 2015 increased by 1.5% to \$201.04 from \$198.03 in 2014.

Retirement living operations – revenue from the Retirement Acquisitions completed in the 2015 fourth quarter was \$1.2 million. The average occupancy of the four communities was 64.1% and the average daily revenue rate was \$131.41. In accordance with the purchase agreements, the purchase price of two of the communities includes income support totalling \$2.3 million to be released back to Extendicare during the lease-up periods until the communities reach stabilized NOI. The Company realized \$0.5 million of income support that is excluded from earnings reported in the consolidated statements of earnings, but is included in the determination of AFFO.

Home health care operations – revenue improved by \$141.5 million to \$327.0 million, of which \$131.6 million was from the Home Health Acquisition. Same-store revenue grew by \$9.9 million primarily due to enhanced funding to support an increase in government-funded wage increases for PSWs, estimated at approximately \$7.5 million, and a 1.2% increase in daily hours of service provided to 14,098 in 2015 from 13,925 in 2014. The average hourly service rate was \$37.95 in 2015 compared to \$36.50 in 2014, and remained unchanged excluding the impact of the government funding for the PSW wage increases.

Other Canadian operations – revenue from our management and group purchasing operations increased by \$2.8 million to \$15.6 million in 2015, primarily due to growth in the number of clients served.

U.S. operations – revenue increased by \$7.5 million to \$41.6 million in 2015, and included a \$5.7 million positive effect of a weaker Canadian dollar. The balance of the improvement of \$1.8 million related primarily to a \$2.6 million increase in income earned from investments held by the Captive, partially offset by \$0.8 million decline in revenue from VCPI. At the end of 2015, VCPI provided services to 2,032 clients, compared to 2,132 at the end of 2014, including those centres formerly operated by EHSI.

Consolidated Operating Expenses

Consolidated continuing operations – operating expenses increased by \$143.3 million, or 20.2%, to \$851.4 million in 2015, primarily as a result of acquisitions during 2015. The majority of our operating expenses are labour related, which increased by \$130.5 million over 2014, and represented 84.6% and 83.3% of operating expenses in 2015 and 2014, respectively, and as a percentage of revenue were 73.5% and 72.7%, respectively. Acquisitions contributed approximately \$119.3 million to operating expenses in 2015, with same-store operating expenses increasing by \$24.0 million, or 3.4%, of which approximately \$22.6 million resulted from higher labour costs.

Long-term care operations – operating expenses increased by \$9.6 million to \$524.7 million in 2015, primarily due to higher labour costs of approximately \$11.0 million, or 2.6%, that were partially offset by a net decline in other costs that included lower repairs and maintenance, staff training costs, and utilities. Labour costs of our long-term care operations represented 83.3% and 82.8% of operating expenses in 2015 and 2014, respectively.

Retirement operations – operating expenses from the Retirement Acquisitions were \$0.9 million, of which approximately \$0.7 million were labour costs.

Home health care operations – operating expenses increased by \$128.7 million to \$290.5 million, of which \$118.4 million was from the Home Health Acquisition. Same-store operating expenses grew by \$10.3 million, largely due to a \$9.7 million, or 6.7%, increase in labour costs, of which approximately \$7.5 million related to the government-funded wage increases. Labour costs of our home health care operations represented 90.2% and 89.7% of its operating expenses in 2015 and 2014, respectively.

Other Canadian operations – operating expenses from our management and group purchasing operations increased by \$0.6 million to \$7.4 million in 2015, primarily related to increased staffing to support the growth in clients served.

U.S. operations – operating expenses related to our health technologies services provided through VCPI, increased to \$27.9 million in 2015 from \$24.4 million in 2014, due to a \$3.8 million negative effect of a weaker Canadian dollar, partially offset by a reduction in costs due to the decline in clients served.

Consolidated Net Operating Income

Consolidated net operating income from continuing operations improved by \$20.2 million to \$128.2 million in 2015 from \$108.0 million in 2014, representing 13.1% and 13.2% of revenue, respectively. As discussed above, revenue increased by \$163.5 million and was partially offset by higher operating expenses of \$143.3 million. On a same-store basis, excluding the Home Health Acquisition and Retirement Acquisitions, net operating income improved by \$6.7 million to \$114.7 million, representing 13.6% of revenue compared to 13.2% in 2014. Same-store net operating income from our Canadian operations improved by \$2.7 million, primarily due to increased business volumes in our management services and group purchasing operations, and higher preferred accommodation revenue and enhanced funding in our Ontario long-term care operations, partially offset by cost increases in excess of government funding in our home health care operations. The \$4.0 million improvement in net operating income from our U.S. operations included a \$1.8 million positive effect of the weaker Canadian dollar, with the balance due to higher investment income of \$2.6 million, partially offset by a decline in VCPI's net operating income of \$0.4 million.

Administrative and Lease Costs

Administrative and lease costs increased by \$8.4 million to \$41.8 million in 2015, of which approximately \$1.7 million was due to a weaker Canadian dollar. Our Canadian operations realized a \$4.2 million increase, of which \$1.4 million related to higher lease costs associated with the Home Health Acquisition, and the balance was largely due to a \$1.0 million increase in labour costs, of which \$0.6 million was due to share appreciation rights, a \$0.9 million increase in professional fees, and an increase in information technology costs. Administrative and lease costs from our U.S. operations increased by \$4.2 million primarily due to the impact of the reinsurance premium refund of \$2.8 million received in the 2014 fourth quarter, and the impact of the weaker Canadian dollar.

Consolidated Adjusted EBITDA

Consolidated Adjusted EBITDA increased by \$11.8 million to \$86.4 million in 2015 from \$74.6 million in 2014, representing 8.8% and 9.1% of revenue, respectively. Excluding the \$2.8 million reinsurance premium refund recognized in 2014, the Adjusted EBITDA margins remained unchanged at 8.8%, and Adjusted EBITDA improved by \$14.6 million as a result of growth in net operating income of \$20.2 million, partially offset by the increase in administrative and lease costs, previously discussed.

Depreciation and Amortization

Depreciation and amortization costs increased by \$3.4 million to \$27.3 million in 2015, of which approximately \$0.5 million was due to the impact of the weaker Canadian dollar, and the balance was largely due to the Home Health Acquisition and the Retirement Acquisitions.

Loss from Asset Impairment, Disposals and Other Items

Extendicare recorded a pre-tax loss of \$6.7 million in 2015 related to transaction and integration costs in connection with the Home Health Acquisition. In comparison, a pre-tax loss of \$3.3 million was incurred in 2014 related to an asset impairment charge, the settlement of the 2014 Debentures, transaction costs in connection with the Home Health Acquisition, and advisor fees in connection with the Board's Strategic Review.

Net Finance Costs

Net finance costs of \$15.8 million in 2015 were \$15.1 million lower than in 2014. Results were favourably impacted this year by a gain on foreign exchange of \$9.7 million, of which approximately \$1.9 million was realized, and interest income of \$3.6 million (US\$2.8 million) in connection with the U.S. Sale Deferred Consideration. As well, interest expense was lower primarily due to the settlement of the 2014 Debentures in June 2014, partially offset by finance costs of approximately \$2.2 million associated with the Bridge Loan to finance the Home Health Acquisition. The Bridge Loan was repaid in full on July 2, 2015, from a portion of the proceeds from the U.S. Sale Transaction.

Income Taxes

The income tax provision was \$13.5 million on pre-tax earnings of \$36.6 million in 2015 compared to a provision of \$5.5 million on pre-tax earnings of \$16.6 million in 2014. The income tax provision recorded this year includes a provision of \$3.6 million in respect of a prior period tax reassessment which the Company plans to appeal (refer to the discussion under the heading, "Other Significant Developments – Tax Rules and Regulations"). The effective tax rates for each year were distorted by, among other things, the tax reassessment, fair value adjustments, gains and losses from financial instruments, foreign exchange, asset impairment, disposals, and other items. The effective tax rate on earnings from continuing operations before separately reported items was 28.8% and 32.6% for 2015 and 2014, respectively. The change in the effective tax rates, excluding separately reported items, between periods was primarily due to the change in proportion of income among our taxable and non-taxable entities.

Discontinued Operations

The earnings (loss) from discontinued operations reported this year included the after-tax gain on sale of the U.S. operations of \$205.4 million (US\$146.9 million), which is net of estimated taxes of \$41.3 million (US\$33.1 million), (refer to *note 20* of the audited consolidated financial statements, and the discussion under the heading "Significant 2015 Events and Developments – U.S. Sale Transaction").

Excluding the above noted gain on sale, the earnings (loss) from discontinued operations, net of tax, was earnings of \$3.5 million in 2015, compared to a loss of \$29.8 million in 2014. This year's net earnings reflected the earnings from the U.S. operations prior to their disposal, partially offset by a loss from asset impairment, disposals and other items of pre-tax \$12.0 million (\$0.4 million after-tax). The loss from discontinued operations of \$29.8 million in 2014 included the provision for U.S. government investigations of pre-tax \$42.2 million and transaction costs related to the U.S. Sale Transaction of pre-tax \$7.8 million.

OTHER SIGNIFICANT DEVELOPMENTS

The discussion under the heading "Significant 2015 Events and Developments" summarizes the sale of the U.S. operations, the Home Health Acquisition and our current activities to expand into the retirement segment. This section provides a summary of other developments that have impacted the financial results or operations of Extendicare for 2015 in comparison to 2014.

Continuing Operations

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 February 2015 agreement, up to \$39.8 million would be available for operating purposes, and the full \$44.8 million would be available for letters of credit. In July 2015, the RBC Credit Facility was further amended to increase the amount available to \$46.8 million from \$44.8 million, as a result of changes in valuations. Under the terms of the July 2015 agreement, up to \$42.8 million is available for operating purposes, and the full \$46.8 million is available for letters of credit.

As at December 31, 2015, Extendicare had letters of credit totalling approximately \$43.4 million issued under the RBC Credit Facility, of which \$42.8 million secure our defined benefit pension plan obligations. This letter of credit renews annually based on an actuarial valuation, and increased in May 2015 from \$39.8 million, 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.

2014 CANADIAN MORTGAGE REFINANCINGS

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

For further information on the long-term debt refinancings, refer to *note 11* of the audited consolidated financial statements.

TAX RULES AND REGULATIONS

The Company has received a notice of assessment from the Canada Revenue Agency (CRA) for the 2012 taxation year with regards to the deductibility of interest on intercompany debt between wholly owned subsidiaries of Extendicare. The CRA is likely to issue reassessments for the 2013 and 2014 taxation years on the same or similar basis, and as a result, in the 2015 third quarter, Extendicare recorded a provision of \$3.6 million for the full amount of the taxes in dispute for those periods, reflected as part of current tax expense. The Company has filed a notice of objection to appeal, and if successful in defending its position, in whole or in part, some or all of the provision will be reversed. Given the nature of this item, including the fact that it relates to prior periods, it has been excluded from the determination of AFFO and "earnings (loss) from continuing operations before separately reported items".

Discontinued Operations

2014 SETTLEMENT OF 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 were pending since 2010 (the "2010 U.S. Government Investigations").

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

As is standard practice in settlements of OIG and DOJ investigations, EHSI entered into a corporate integrity agreement, or CIA, with the OIG for a five-year period effective October 3, 2014. Under the terms of the U.S. Sale Transaction, Extendicare has agreed to share in the costs incurred in order to implement and comply with the requirements of the CIA. Extendicare's annual cost sharing arrangement with the Purchaser is capped at US\$4.5 million, on the basis that the first US\$2.0 million aggregate annual amount of such costs will be borne by the Purchaser; the next US\$2.0 million aggregate annual amount will be borne by Extendicare; with the next US\$5.0 million aggregate annual amount to be shared equally between the Purchaser and Extendicare; and the balance of any excess costs incurred to be borne by the Purchaser. Extendicare estimates that its obligations to the Purchaser relating to the CIA will average approximately US\$2.0 million per year to October 2019. Though the actual costs for the Purchaser to comply with the CIA are difficult to estimate, the Company has included a provision for such costs in its provision for indemnification obligations. For further information refer to *note 20* of the audited consolidated financial statements.

FINANCING ACTIVITY

On June 30, 2015, EHSI obtained a US\$60.0 million non-recourse term loan from General Electric Capital Corporation. The proceeds of this loan, together with available cash, were used by EHSI to make a cash dividend payment totalling \$103.5 million (US\$83.0 million) on June 30, 2015, to its Canadian parent company, Extendicare International Inc, as part of the Pre-closing Distribution. This debt was assumed by the Purchaser in connection with the U.S. Sale Transaction.

On June 6, 2014, EHSI obtained a US\$100.0 million non-recourse term loan from The PrivateBank and other banks in the syndicate. The proceeds from this loan, together with available cash on hand, were used to fund a US\$110.5 million cross-border 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 cash dividend, together with available cash on hand, to fund the repayment of the principal owing under its outstanding 2014 Debentures, in the aggregate principal amount of \$113.9 million that matured on June 30, 2014. This debt was assumed by the Purchaser in connection with the U.S. Sale Transaction.

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 20* of the audited consolidated financial statements.

As a result of the completion of the U.S. Sale Transaction on July 1, 2015, there were no assets or liabilities held for sale as at December 31, 2015. For further details, refer to the discussion under the heading "Significant 2015 Events and Developments – U.S. Sale Transaction".

Not included in the U.S. Sale Transaction were 10 U.S. skilled nursing centres disposed of separately, either prior to or on June 30, 2015, for proceeds, net of debt assumed, of \$21.1 million, or approximately US\$11.1 million after tax, that resulted in a pre-tax gain of approximately \$4.0 million (US\$3.2 million).

During 2014, EHSI sold two nursing centres for proceeds of US\$2.1 million, resulting in a nominal gain.

Legal Proceedings and Regulatory Actions

The provision of health care services is subject to complex government regulations. Extendicare and its consolidated subsidiaries are defendants in various actions and proceedings that are brought against them from time to time in connection with their operations. Extendicare cooperates in responding to any information requests and takes the necessary corrective actions. Every effort is made by the Company to avoid or mitigate deficiencies in the quality of patient care through quality assurance strategies and to remedy any such deficiencies cited by government inspections within any applicable prescribed time period. 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.

UPDATE OF REGULATORY AND FUNDING CHANGES AFFECTING RESULTS

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 either a long-term care centre or a retirement centre. In general, there has not been any issuance of new LTC 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

On February 27, 2015, the Ministry of Health and Long-Term Care (the "MOHLTC") released updates to its plan to redevelop approximately 31,000 older long-term care beds by the end of 2025. The new per diem construction funding subsidy includes: an increase to the base rate from \$13.30 to \$16.65 per bed for large centres of 161 beds or more; an incremental per diem of \$1.50 per bed for small centres with up to 96 beds; an incremental per diem of \$0.75 per bed for medium centres with 97 to 160 beds; and a per diem of up to \$0.38 per bed for those centres eligible for enhanced transition support. In addition, LTC centres are no longer required to meet Leadership in Energy and Environmental Design, or LEED, construction standards; however, those that achieve LEED Silver status will continue to receive a per diem premium of \$1.00 per bed. The MOHLTC has indicated that the increased construction funding subsidy will apply retroactively to qualified operators who participated in phase one of the redevelopment program launched in 2009. Extendicare constructed two centres (436 beds) under phase one of the program that currently receive a construction subsidy of \$14.30 per bed, and which have been confirmed as being eligible to receive an increase in the per diem construction subsidy to \$17.65 per bed, representing an additional \$0.5 million per annum. As a result, in the 2015 third quarter, the Company recorded an increase

of \$9.8 million in the balance of government notes receivable, representing the present value of this additional funding, with an offset to the cost of the buildings. This additional funding is anticipated to begin sometime in 2016 once the existing agreements have been amended. Refer to *note 9* of the audited consolidated financial statements, for additional information.

As a first step towards scheduling redevelopment projects, all operators completed a survey to assist the MOHLTC with gauging interest and readiness. Operators who are ready and interested in proceeding are being asked to complete an application form to facilitate the MOHLTC in capturing information required for both the capital redevelopment and the licensing process. We are working towards the redevelopment of our first project in this phase. Following their redevelopment, LTC centres meeting the enhanced design standards will be eligible to receive a 30-year license. In addition, the government amended the LTC Act 2007 to extend the maximum term of LTC centre licenses for "New" and "A" beds by five years (to a maximum of 30 years), effective January 1, 2015.

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. 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 would be in excess of \$375 million, with the actual amount dependent on a number of factors, including the cost of construction and prescribed design standards. Management estimates that approximately 20% to 25% of the total cost would be required to be funded by equity.

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 raw food). The funding for the NPC and PSS envelopes is generally adjusted annually based on the acuity of residents as determined by a classification assessment of resident care needs. The NPC, PSS and food envelopes are "flow-through" envelopes, whereby any deviation in actual costs from scheduled rates is either absorbed by the provider (if actual costs exceed funding allocations) or is returned to the MOHLTC (if actual costs are below funding allocations). With respect to the accommodation envelope, providers retain any excess funding received over costs incurred. The province sets the rates for standard accommodation, as well as the maximum amounts that a provider can charge for semi-private and private accommodation (preferred accommodation). The provider is allowed to bill and retain the premiums charged for preferred accommodation. The accommodation rates are substantially paid for by the resident; however, the province guarantees funding for standard accommodation through resident subsidies. Overall government funding is occupancy-based, but once the average occupancy level of 97% or higher is achieved, operators receive government funding based on 100% occupancy. In 2011, the MOHLTC implemented an occupancy protection program for occupancy levels between 90% and less than 97%, provided certain policy conditions are met. Under the occupancy protection program, providers with occupancy levels equal to 90% and less than 94% receive funding based on their actual occupancy plus 1% and those with occupancy levels equal to 94% and less than 97% receive funding based on their actual occupancy plus 2%. For 2015, all of Extendicare's LTC centres in Ontario achieved the 97% occupancy threshold, with an overall average of 98.2% (2014 – 98.0% with all but one achieving the threshold).

On April 1st each year, the MOHLTC generally provides flow-through funding adjustments on the government funded portion of the fees. Funding for the NPC and PSS flow-through envelopes increased by 2% on April 1, 2015. These enhancements, along with our CMI and re-indexing adjustments, are estimated to provide Extendicare with additional revenue of approximately \$1.3 million to offset additional costs for resident care and services within the NPC and PSS flow-through envelopes (April 2014 – \$4.8 million). As a result of delays in passing the 2014 budget, the April 1, 2014 funding changes were not provided until September 2014, resulting in retroactive funding adjustments recorded in the 2014 third quarter.

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, 2015 funding enhancements increased the daily rates for the non flow-through component of the accommodation envelope by \$0.81 (1.5%) and by \$0.16 (2.0%) for the flow-through food component. Extendicare estimates that this enhanced funding represents additional annual revenue of approximately \$1.8 million in total, of which approximately \$0.3 million is flow-through funding (July 2014 – \$0.8 million in total).

In addition, LTC operators in Ontario are permitted to designate up to 60% of the resident capacity of a centre as preferred accommodation at higher fixed rates that vary according to the structural classification of the LTC centre. For beds that are not classified as "New" or "A" beds, the maximum preferred accommodation premiums are \$8.00 per day for a semi-private room and \$18.00 per day for a private room. Since July 2012, the MOHLTC has introduced modest annual increases to the preferred accommodation premiums for "New" and "A" beds by \$1.00 per day for semi-private accommodation and \$1.75 per day for private accommodation, bringing the maximum to \$12.00 per day and \$25.00 per day, respectively, effective July 1, 2015. These increases are only applicable to newly admitted residents to beds that are classified as "New" or "A". As at December 31, 2015, 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.

Alberta Long-term Care Legislation and Funding

Alberta is Extendicare's second largest market for its senior care services. Since April 2010, AHS has been using an activity-based funding system for continuing care centres that includes the measurement of a resident's acuity through the use of a resident assessment instrument – minimum data set, or RAI-MDS, to determine the resident's level of care and resources required. However, AHS continues to adjust the formulas and the accountabilities. The funding model includes a separate pool for quality incentives funding (QIF) that represents a "quality bonus" awarded to centres meeting or exceeding a set of pre-determined quality criteria. The QIF program was implemented 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. It was anticipated that a revised care funding model would be implemented for fiscal 2016/2017; however, the new provincial government has not communicated any changes to date.

With respect to the annual April 1st, government funding changes for long-term care providers, funding notices for fiscal 2015/2016, incorporating changes to CMI and occupancy from fiscal 2014/2015, were provided to operators in July 2015, retroactive to April 1, 2015. Extendicare estimates that the funding changes for CMI and occupancy represent additional annual revenue of approximately \$1.4 million. At this time, it is unknown if the government will retroactively implement further funding changes with respect to the fiscal 2015/2016 year to include inflationary, provincial labour contract and other adjustments following its review of the funding model presently in use. It is expected that any retroactive payments will be incorporated into the final 2015/2016 funding notices by April 1, 2016. Last year, effective April 1, 2014, the Alberta government provided funding increases that included an inflationary funding increase of approximately 2%, together with adjustments for CMI, occupancy and other factors. Extendicare estimates that the April 2014 government funding increase averaged 0.9%, representing annual revenue of approximately \$0.7 million.

As was the case in 2014, the long-term care and designated supportive living accommodation fees (the portion paid directly by the residents) increased by 3% on July 1, 2015, to recognize the rising costs of delivering accommodation and related services. These fees are scheduled to rise again on July 1, 2016, by the greater of 3%, or the annual increase in the Alberta Consumer Price Index (CPI), and beginning on July 1, 2017, annual accommodation charge adjustments will be based solely on inflation as reflected by Alberta's CPI. Extendicare estimates that the 3% increase received in July 2015 represents additional annual revenue of approximately \$0.9 million (2014 – \$0.7 million).

Ontario Home Health Care Legislation and Funding

Extendicare's ParaMed Home Health Care division operates in six provinces across Canada, providing in excess of 10.5 million hours of care annually, which we believe makes ParaMed the largest private-sector provider of publicly funded home health care in Canada, and the largest in Ontario. Based on the 2015 fourth quarter, the Ontario market represents approximately 85% of ParaMed's service volumes, followed by British Columbia at 9%, and Alberta at 4%.

In October 2012, the MOHLTC implemented a new model for home health care that does not involve a competitive bidding process. All Community Care Access Centre (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 operators are to provide the CCAC with twelve months' notice of intention to give up a contract. The new service delivery model places greater emphasis on quality of care and value than past arrangements, with service providers' performance evaluated based on these elements. Performance against an established set of indicators will guide decisions during future contract discussions.

At present, the government rates are pre-determined between the CCAC and the service provider, with different rates for different services provided. The current service rates have remained static since they were last contracted under the competitive bidding model. Based upon a recommendation from the Auditor General's special report on the CCACs in September 2015, the MOHLTC is initiating work with the CCACs and home-care service providers to move toward harmonized billing rates. The MOHLTC has stated that they will work on this initiative over the next two years. Management is unable to predict whether the MOHLTC will adopt changes to the home health care billing rates, and if adopted and implemented, what effect such changes will have on the Company's home health care operations.

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

2014 ONTARIO BUDGET – HOME HEALTH CARE

As part of its July 2014 budget, the Ontario government announced a government-funded increase in 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 (2014 – \$1.50, 2015 – \$1.50 and 2016 – \$1.00) to a minimum of \$16.50 per hour. In June 2015, the government announced revisions to years two and three of the PSW wage enhancement initiative, which included establishing a new minimum base rate of \$15.50 per hour as of April 1, 2015, and \$16.50 per hour as of April 1, 2016, and limiting the eligibility for the April 1, 2015, wage increase to a maximum of \$19.00 per hour. For example, a qualifying PSW earning \$18.00 per hour would receive a \$1.00 per hour increase effective April 1, 2015, rather than the full \$1.50. In addition, the government is funding an additional 22.7% of the wage increase to cover incremental benefit costs. The first year of the government's wage enhancement initiative, which was a flat \$1.50 per hour to all qualifying PSWs, was implemented in September 2014, retroactive to April 1, 2014. We estimate that the April 1, 2014, funding increase of \$1.50 in base wages and associated benefit costs increased our revenue and labour costs by approximately \$5.7 million for the nine months ended December 31, 2014, and by approximately \$7.5 million for the twelve months ended March 31, 2015. Implementation of the second year of the wage initiative was delayed until August 2015, retroactive to April 1, 2015. We estimate that the April 1, 2015, funded wage enhancement has further increased our revenue and labour costs by approximately \$9.0 million for the nine months ended December 31, 2015, of which approximately \$3.3 million related to the operations of the Home Health Care Acquisition.

LIQUIDITY AND CAPITAL RESOURCES

The following table summarizes the sources and uses of cash between our continuing and discontinued operations for each of 2015 and 2014.

<i>(thousands of dollars unless otherwise noted)</i>	2015			2014		
	Continuing	Discontinued	Total	Continuing	Discontinued	Total
Cash provided by operating activities, before working capital changes and interest and income taxes	86,446	64,069	150,515	74,623	104,644	179,267
Net change in operating assets and liabilities						
Accounts receivable	4,065	26,674	30,739	1,922	14,508	16,430
Other current assets	(3,655)	1,734	(1,921)	(548)	10,674	10,126
Accounts payable and accrued liabilities	(9,815)	(20,773)	(30,588)	(5,450)	(14,229)	(19,679)
	(9,405)	7,635	(1,770)	(4,076)	10,953	6,877
Interest and taxes paid						
Interest paid	(28,230)	(17,658)	(45,888)	(31,494)	(30,112)	(61,606)
Interest received	8,038	128	8,166	3,816	599	4,415
Income taxes paid	(7,298)	(8,822)	(16,120)	(676)	(4,579)	(5,255)
Payments for U.S. self-insured liabilities	–	(42,105)	(42,105)	–	(38,091)	(38,091)
	(27,490)	(68,457)	(95,947)	(28,354)	(72,183)	(100,537)
Net cash from operating activities	49,551	3,247	52,798	42,193	43,414	85,607
Net cash from investing activities	(223,569)	163,860	(59,709)	(9,915)	(39,807)	(49,722)
Net cash from financing activities	(65,863)	73,158	7,295	(170,554)	132,854	(37,700)
Net cash from discontinued operations	307,677	(307,677)	–	117,574	(117,574)	–
Foreign exchange gain on U.S. cash held	331	4,108	4,439	49	4,566	4,615
Increase (decrease) in cash and short-term investments	68,127	(63,304)	4,823	(20,653)	23,453	2,800
Cash and short-term investments at beginning of year	35,495	63,304	98,799	56,148	39,851	95,999
Cash and short-term investments at end of year	103,622	–	103,622	35,495	63,304	98,799
Average U.S./Canadian dollar exchange rate			1.2787			1.1045

As at December 31, 2015, Extendicare had cash and short-term investments of \$103.6 million compared with \$98.8 million at the beginning of the year. Cash from continuing operations increased by \$68.1 million from \$35.5 million to \$103.6 million, reflecting the improvement in earnings and net proceeds from the sale of the discontinued operations, partially offset by cash used for acquisitions and for financing.

Net cash from operating activities was a source of cash of \$52.8 million in 2015 compared to \$85.6 million in 2014, representing a decrease of \$32.8 million, due to a \$40.2 million decline in operating cash from discontinued operations, partially offset by operating cash from continuing operations. The favourable change in operating cash from continuing operations reflects the improvement in earnings, partially offset by an unfavourable net change in operating assets and liabilities, largely due to the timing of payments.

Net cash from investing activities was a use of cash of \$59.7 million in 2015 compared to a use of cash of \$49.7 million in 2014, for an increase in use of cash of \$10.0 million between periods, representing an increase of \$213.6 million from continuing operations, partially offset by \$203.6 million from discontinued operations. The increase in use of cash from continuing operations related primarily to the Retirement Acquisitions of \$98.6 million, the Home Health Acquisition of \$84.3 million, an increase of \$13.8 million in purchases of property, equipment and software, and an increase of \$16.9 million in other assets related primarily to cash held as security on obligations associated with the U.S. Sale Deferred Consideration in the amount of \$19.4 million (US\$14.0 million). The favourable change from discontinued operations of \$203.6 million included net proceeds from the U.S. Sale Transaction of \$150.3 million and the sale of other assets of \$21.1 million during 2015, a change in investments held for U.S. self-insured liabilities of \$23.4 million, and a reduction of \$8.5 million in purchases of property, equipment and software.

The following table summarizes the components of our property, equipment and software expenditures between our continuing and discontinued operations for each of 2015 and 2014.

(thousands of dollars)	2015			2014		
	Continuing	Discontinued	Total	Continuing	Discontinued	Total
Growth capex						
Canadian operations	12,208	—	12,208	608	—	608
U.S. operations	569	23	592	578	1,596	2,174
Growth capex	12,777	23	12,800	1,186	1,596	2,782
Maintenance capex						
Canadian operations	13,246	—	13,246	10,438	—	10,438
U.S. operations	1,699	7,733	9,432	2,323	14,680	17,003
Maintenance capex	14,945	7,733	22,678	12,761	14,680	27,441
	27,722	7,756	35,478	13,947	16,276	30,223

Purchases of property, equipment and software, excluding acquisitions, were \$35.5 million in 2015 compared to \$30.2 million in 2014. Growth capex, representing building improvements or capital costs aimed at earnings growth, was \$12.8 million in 2015 compared to \$2.8 million. Maintenance capex, representing costs to sustain and upgrade existing property and equipment assets, was \$22.7 million in 2015 compared to \$27.4 million in 2014 period.

Maintenance capex from continuing operations of \$15.0 million in 2015 and \$12.8 million in 2014, represented 1.5% and 1.6% of revenue from continuing operations, respectively. It is our intention to spend approximately 1.5% of revenue annually on maintenance capex, which is consistent with our objective to maintain and upgrade our centres. Of the \$12.8 million in growth capex from continuing operations incurred in 2015, approximately \$9.0 million related to the three retirement communities currently under development in Ontario, and approximately \$2.1 million related to the purchase of land in connection with the proposed redevelopment of an Ontario LTC class "C" centre.

We are projecting to spend in the range of \$13 million to \$16 million in maintenance capex in 2016, and in the range of \$35 million to \$40 million in growth capex related primarily to the three retirement development projects.

Net cash from financing activities was a source of cash of \$7.3 million in 2015 compared to a use of cash of \$37.7 million in 2014. The activity for 2015, included the issuance of long-term debt of \$163.3 million, partially offset by repayments of long-term debt of \$108.4 million, cash dividends of \$35.6 million and Common Shares acquired for cancellation under a normal course issuer bid at a cost of \$8.0 million. 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. 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 from financing activities was a use of cash of \$65.9 million in 2015 compared to a use of cash of \$170.6 million in 2014. The activity for 2015, included cash dividends of \$35.6 million, scheduled debt repayments of \$20.3 million, and the acquisition of Common Shares for cancellation at a cost of \$8.0 million. The activity for 2014, related primarily to scheduled debt repayments of \$133.9 million (including \$113.9 million to settle the 2014 Debentures) and cash dividends of \$35.6 million.

With respect to our discontinued operations, net cash from financing activities was a source of cash of \$73.2 million in 2015 compared to \$132.9 million in 2014. The activity for 2015, related primarily to the issuance of debt of \$83.3 million, largely to finance a portion of the intercompany payments, partially offset by debt repayments of \$8.1 million. The activity for 2014, related primarily to the issuance of debt of \$149.2 million (largely to finance the settlement of the 2014 Debentures through intercompany payments) and a release of restricted cash of \$3.1 million, partially offset by debt repayments of \$15.6 million and financing costs of \$3.8 million.

Net cash from discontinued operations reflects the intercompany movements of cash between the discontinued and continuing operations, including the net proceeds from the U.S. Sale Transaction in 2015. The \$307.7 million of cash received from the discontinued operations in 2015, related primarily to the proceeds from the U.S. Sale Transaction, net of taxes paid and cash disposed, of \$150.3 million (US\$120.5 million), the Pre-closing Distribution of US\$83.0 million, and other dividends of US\$20.4 million received during the year. The \$117.6 million of cash received from discontinued operations in 2014 included an intercompany dividend of US\$110.5 million to finance the settlement of the 2014 Debentures.

Capital Structure

The following table summarizes the continuity of our shareholders' equity for each of 2015 and 2014.

<i>(thousands of dollars unless otherwise noted)</i>	2015	2014	
Shareholders' Equity (Deficiency)			
Common Shares	483,385	482,950	
Equity portion of convertible debentures	5,573	5,573	
Contributed surplus	—	48	
	488,958	488,571	
Accumulated deficit at beginning of year	(503,143)	(442,251)	
Net earnings (loss) for the year	232,078	(18,753)	
Dividends declared	(42,125)	(42,131)	
Purchase of Common Shares in excess of book value and other	(1,861)	(8)	
Accumulated deficit at end of year	(315,051)	(503,143)	
Accumulated other comprehensive income (loss)	(1,778)	12,068	
Shareholders' equity (deficiency)	172,129	(2,504)	
U.S./Canadian dollar exchange rate at end of year	1.3840	1.1601	
	January 31, 2015	December 31, 2015	December 31, 2014
Share Information <i>(thousands)</i>			
Common Shares (TSX symbol: EXE) ⁽¹⁾	88,023.2	87,953.3	88,195.1

(1) Closing market value per the TSX on January 31, 2016, was \$9.20.

The closing rates used to translate assets and liabilities of the U.S. operations were 1.3840 at December 31, 2015, and 1.1601 at December 31, 2014. As a result of the U.S. Sale Transaction, we realized \$22.0 million of a foreign currency translation adjustment as part of the gain on sale that had previously been recognized in accumulated other comprehensive income. Going forward, every one-cent increase (decrease) in the Canadian dollar against the U.S. dollar would have a minimal impact, approximately \$0.5 million, on the net assets of our continuing U.S. operations.

DISTRIBUTIONS

In 2015, we generated AFFO of \$50.8 million and declared monthly dividends of \$0.04 per share, totalling \$42.1 million, which were paid out from February 17, 2015 to January 15, 2016. The portion distributed in cash was \$35.6 million, and \$6.5 million was by way of shares issued under a distribution reinvestment plan. A total of 870,004 Common Shares were issued in 2015 through the distribution reinvestment plan.

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.

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 "2015 Selected Quarterly Information", "Adjusted Funds from Operations", "2015 Fourth Quarter Financial Review" and "2015 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 Extencicare, debt covenants and obligations, and any other factors deemed relevant by the Board. If our Board determines that it would be in Extencicare'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 30, 2015, Extendicare received the approval of the TSX to make a normal course issuer bid (the "Bid") to purchase for cancellation up to 8,610,000 Common Shares (approximately 10% of the public float) through the facilities of the TSX, and on alternative Canadian trading systems. The Bid commenced on January 5, 2016, and provides Extendicare with flexibility to repurchase Common Shares for cancellation until January 4, 2017, or on such earlier date as the Bid is complete. Subject to the TSX's block purchase exception, on any trading day, purchases under the Bid will not exceed 59,253 Common Shares. The price that Extendicare will pay for any Common Shares purchased under the Bid will be the prevailing market price at the time of purchase and any Common Shares purchased will be cancelled. To date in 2016, the Company has not acquired any Common Shares for cancellation under the Bid.

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

ACCRUAL FOR U.S. SELF-INSURED LIABILITIES

As a result of the sale of our U.S. senior care operations, our expense for self-insured liabilities was 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 within 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, 2015, the accrual for self-insured general and professional liabilities was \$148.4 million (US\$107.2 million) compared to \$133.4 million (US\$115.0 million) at the beginning of the year. The decline of US\$7.8 million reflected claim payments of US\$32.9 million in excess of the expense for self-insured liabilities of US\$24.1 million and accretion of US\$1.0 million. The current period net expense of \$29.3 million (US\$24.1 million), represents an expense recorded prior to the completion of the U.S. Sale Transaction in July 2015, of \$34.5 million (US\$27.9 million), and a release of reserves of \$5.2 million (US\$3.8 million) recorded in the 2015 fourth quarter, following the completion of our annual independent actuarial review, which confirmed the adequacy of the reserves.

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. The results of independent actuarial reviews conducted in the second and third quarters necessitated the strengthening of reserves primarily due to adverse development of our Pennsylvania-based claims.

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, 2015, management estimated that approximately \$41.1 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 \$176.8 million (US\$127.7 million) as at December 31, 2015, compared to \$154.2 million (US\$132.9 million) at December 31, 2014. 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 2015 and 2014, broken out between continuing and discontinued operations. The continuity of long-term debt for the 2014 year has been recast to reflect the reclassification of a note payable in the amount of \$7.0 million (US\$6.0 million) to discontinued operations from continuing operations (see "Basis of Presentation – Recast of Comparative Information").

(millions of dollars)	2015			2014		
	Continuing	Discontinued	Total	Continuing	Discontinued	Total
Long-term debt at beginning of year, prior to financing costs	481.1	785.7	1,266.8	614.2	590.8	1,205.0
Issue of long-term debt						
Bridge Loan	80.0	—	80.0	—	—	—
Notes payable/other	—	83.3	83.3	0.3	7.0	7.3
Mortgages	—	—	—	—	142.2	142.2
Net repayment of EHSI Credit Facility	—	—	—	—	(2.3)	(2.3)
Repayment of long-term debt	(20.3)	(8.1)	(28.4)	(20.0)	(13.3)	(33.3)
Repayment of Bridge Loan	(80.0)	—	(80.0)	—	—	—
Settlement of 2014 Debentures at face value	—	—	—	(113.9)	—	(113.9)
Revaluation of convertible debentures carried at fair value and accretion	0.8	—	0.8	0.4	—	0.4
Change due to period-end foreign exchange rate	—	61.0	61.0	0.1	61.3	61.4
U.S. Sale Transaction	—	(921.9)	(921.9)	—	—	—
	461.6	—	461.6	481.1	785.7	1,266.8
Financing costs at end of year	(7.5)	—	(7.5)	(9.1)	(22.0)	(31.1)
Long-term debt at end of year	454.1	—	454.1	472.0	763.7	1,235.7
Less: portion classified as liabilities of disposal group held for sale	—	—	—	—	(763.7)	(763.7)
Less: current portion	(25.4)	—	(25.4)	(18.8)	—	(18.8)
	428.7	—	428.7	453.2	—	453.2

Long-term debt of the continuing operations totalled \$454.1 million as at December 31, 2015, compared with \$472.0 million as at December 31, 2014, representing a decline of \$17.9 million primarily due to scheduled debt repayments. Prior to completion of the U.S. Sale Transaction on July 1, 2015, EHSI had issued \$83.3 million of debt to finance the Pre-closing Distribution.

Details of the components, terms and conditions of long-term debt are provided in *note 11* of the audited consolidated financial statements. Extendicare and its subsidiaries are in compliance with all of their respective financial covenants as at December 31, 2015.

Long-term Debt Maturities and Weighted Average Interest Rates

Management has limited the amount of debt that may be subject to changes in interest rates, and all of the long-term debt that was outstanding at December 31, 2015, was at fixed rates. References to long-term debt maturities, interest rates and coverage ratios in the following discussion are with respect to the Company's continuing operations.

The weighted average interest rate of our long-term debt outstanding as at December 31, 2015, was 5.5%, compared to 5.4% at December 31, 2014. The weighted average term to maturity of our long-term debt was 9.0 years as at December 31, 2015, compared to 9.9 years at the end of 2014. Excluding our finance lease obligations, the weighted average term to maturity of our long-term debt was 8.4 years as at December 31, 2015, compared to 9.2 years at the end of 2014.

In addition, the consolidated interest coverage ratio for the trailing twelve months ended December 31, 2015, was 3.7 times, and was 4.1 times after excluding the Bridge Loan finance costs of \$2.2 million of (2014 – 2.6 times). Interest coverage is defined as Adjusted EBITDA divided by net interest, which represents interest expense net of interest revenue.

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, 2015.

<i>(millions of dollars unless otherwise noted)</i>	2016	2017	2018	2019	2020	After 2020	Total	Fair Value
Canadian Operations								
Convertible debentures (at face value)								
Fixed rate	—	—	—	126.5	—	—	126.5	131.9
Average interest rate	—	—	—	6.00%	—	—	6.00%	
Long-term debt								
Fixed rate	21.0	31.8	18.6	9.7	54.1	107.7	242.9	260.4
Average interest rate	4.50%	4.24%	4.65%	4.85%	4.64%	5.34%	4.52%	
Finance lease obligations								
Fixed rate	5.7	6.1	6.5	7.0	7.5	62.6	95.4	113.5
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	0.2	0.1	—	—	—	—	0.3	0.2
Average interest rate	9.57%	9.78%	—	—	—	—	9.10%	

(1) U.S. dollar denominated debt is translated to Canadian dollars at a rate of 1.3840.

OTHER CONTRACTUAL OBLIGATIONS

The table below provides summary information relating to the contractual obligations, other than long-term debt, as at December 31, 2015. 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 \$148.4 million and our decommissioning provisions of \$7.8 million. In addition, the table excludes our defined benefit pension plan obligations, which are described more fully below.

<i>(millions of dollars)</i>	2016	2017	2018	2019	2020	After 2020	Total
Canadian Operations							
Operating lease obligations	3.3	2.7	2.1	1.5	0.2	—	9.8
Purchase obligations	39.4	23.0	—	—	—	—	62.4
	42.7	25.7	2.1	1.5	0.2	—	72.2

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, 2015, was \$40.9 million (2014 – \$38.8 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 \$2.5 million with plan assets of \$5.4 million and accrued benefit obligations of \$7.9 million as at December 31, 2015 (2014 – an actuarial deficit of \$2.2 million with plan assets of \$5.7 million and accrued benefit obligations of \$7.9 million). The accrued benefit obligations of the supplementary plan were \$38.4 million as at December 31, 2015 (2014 – \$36.6 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 \$42.8 million as at December 31, 2015 (2014 – \$39.8 million). This letter of credit renews annually based on an actuarial valuation of the pension obligations, and increased to \$42.8 million effective May 1, 2015, primarily due to lower discount rates and a weaker Canadian dollar. The annual benefit payments under the supplementary pension plan to be funded from cash from operations over the next five years are expected to be in the range of \$2.2 million to \$2.5 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.

Future Liquidity and Capital Resources

As at December 31, 2015, Extendicare's consolidated cash on hand totalled \$103.6 million, of which \$94.6 million was held by our Canadian operations, and \$9.0 million was held by our continuing U.S. operations. Cash on hand at December 31, 2015, excludes restricted cash of \$2.5 million, funds held in escrow of \$19.4 million (US\$14.0 million) to secure certain obligations assumed in connection with the U.S. Sale Transaction, and \$176.8 million (US\$127.7 million) of investments held by our Captive to support the accrual for U.S. self-insured liabilities of \$148.4 million (US\$107.2 million).

As discussed under the heading "Significant 2015 Events and Developments – Expansion into Private-pay Retirement Segment", the Company acquired two retirement communities on February 22, 2016, for approximately \$40.5 million in cash, of which \$2.0 million had been paid as a deposit at December 31, 2015. This is in addition to the four retirement communities acquired during the 2015 fourth quarter for approximately \$98.6 million. The purchase price for each of these acquisitions was initially paid in cash with an intention to finance up to 65% as stabilized occupancy is achieved.

In addition, the estimated cost of the three retirement communities under development is approximately \$81 million, including lease-up amounts to achieve stabilized NOI and imputed cost of capital, of which approximately \$9.0 million has been incurred to date. We expect to be able to leverage up to 65% of the development costs during construction, with the balance to be paid from cash on hand.

Management is confident that cash from operating activities, proceeds from the U.S. Sale Transaction and future debt financings, will be available and sufficient to support Extendicare's ongoing business operations, 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 a long-term care centre and a retirement centre, in which Mr. Lukenda has an approximate 7.1% direct and indirect interest, and with which Extendicare has an ongoing relationship through the provision of management services to the LTC centre in Ontario, Canada. 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.

RISKS AND UNCERTAINTIES

General Business Risks

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

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

The success of the business acquisition 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.

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 operating costs (approximately 85% in 2015), 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 Funding 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 various government funding programs. Long-term care centres must comply with applicable regulations that, depending on the jurisdiction in which they operate, may relate to such things as staffing levels, resident care standards, occupational health and safety, resident confidentiality, billing and reimbursement, along with environmental and other standards. The government review process is intended to determine compliance with survey and certification requirements, and other applicable laws. Remedies for survey deficiencies can be levied based upon the scope and severity of the cited deficiencies. Remedies range from the assessment of fines to the withdrawal of payments under the government funding programs. Should a deficiency not be addressed through a plan of correction, a centre can be decertified from the funding program. Extendicare makes every effort to avoid and mitigate notices of deficiencies through quality assurance strategies. As well, all efforts are undertaken to correct all legitimate problem areas that have been identified through regulatory inspections.

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

Non-compliance with applicable laws and licensure requirements governing long-term care could result in adverse consequences, including severe penalties, which may include criminal sanctions and fines, civil monetary penalties and fines, administrative and other sanctions, including exclusion from participation in government 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

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

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

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

Risks Related to Tax Rules and Regulations

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

During the 2015 third quarter, Extendicare recorded a provision of \$3.6 million for the full amount of taxes in dispute, including interest, in respect of a CRA reassessment. The Company has filed a notice of objection to appeal, and if successful in defending its position, in whole or in part, some or all of the provision will be reversed. For further information refer to *note 21* of the audited consolidated financial statements

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 \$42.8 million for operating purposes, including letters of credit, and an additional \$5.0 million (for a maximum of \$46.8 million) for letters of credit. As at December 31, 2015, Extendicare had letters of credit totalling \$43.4 million issued under the RBC Credit Facility, of which \$42.8 million secured our defined benefit pension plan obligations. The RBC Credit Facility has no financial covenants but contains normal and customary terms including annual re-appraisals of the centres that could limit the maximum level of the line of credit and other restrictions on the Canadian entities making certain payments, investments, loans and guarantees. A demand for repayment of amounts drawn on the line of credit could inhibit the flow of cash dividends by Extendicare on a temporary or more permanent basis until alternative financing is obtained.

The Company cannot predict whether future financing will be available, what the terms of such future financing will be (including, whether it will result in a higher cost of borrowing) or whether its existing debt agreements will allow for the timely arrangement and implementation of such future financing. If the Company were unable to obtain additional financing or refinancing when needed or on satisfactory terms, it could have a material adverse effect on the business, 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, 2015. However, there can be no assurance that future covenant requirements will be met. The Company's bank lines and other debt may be affected by its ability to remain in compliance. If the Company does not remain in compliance with its financial covenants, its ability to amend the covenants or refinance its debt may be affected.

CREDIT AND INTEREST RATES

The Company has limited the amount of debt that may be subject to changes in interest rates. All of the long-term debt of the Company is at fixed rates as at December 31, 2015. 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

As a result of the sale of substantially all of our U.S. operations in 2015, the impact of a one-cent change in the Canadian dollar against the U.S. dollar would have a minimal impact on our financial results from continuing operations (less than \$0.1 million on net earnings), and would impact our total assets and total liabilities as at December 31, 2015, by approximately \$1.8 million and \$1.3 million, respectively.

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

Risks 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.

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. All but four of the sixty-two properties owned at December 31, 2015, are government-funded senior care centres. Therefore, the value of the 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 intends to spend approximately 1.5% of revenue in annual maintenance capex to sustain and upgrade its existing centres. In addition, the Company invests in enhancements at existing centres aimed at earnings growth. In Ontario, Extendicare owns 21 LTC centres with 3,287 class "C" beds, which would be eligible for redevelopment under the government's program to redevelop older long-term care beds in the province (see "Ontario Redevelopment Program" under the heading "Update of Regulatory and Funding Changes Affecting Results"). 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, 2015, 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. The following are subject to judgments and key sources of estimation uncertainty that the Company believes could have the most significant impact on the amounts recognized in the consolidated financial statements: the valuation of purchase price components for acquisitions; the valuation of deferred consideration; the determination of the recoverable amount of cash generating units subject to an impairment test; the valuation of indemnification provisions; the valuation of the U.S. 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.

VALUATION OF PURCHASE PRICE COMPONENTS FOR ACQUISITIONS

Upon the acquisition of businesses, we estimate the fair value of the acquired tangible assets (land, building and furniture, fixtures and equipment) and identifiable intangible assets and liabilities (including in-place leases and customer relationships) and the value of the differential between stated and market interest rates on long-term liabilities assumed at acquisition. The excess 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.

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. The techniques used to estimate future cash flows will vary from one situation to another depending on the circumstances surrounding the asset or liability in question. Management assesses fair value based on estimated discounted cash flow projections and available market information (including the historical operating results and anticipated trends, local markets and economic conditions).

As discussed below under the heading "Valuation of Cash Generating Units and Impairment", an impairment loss is recognized when the carrying amount of an asset is not recoverable. The impairment loss is determined as the excess of the carrying value over its estimated recoverable amount.

Intangible assets with indefinite lives are also required to be assessed at a minimum annually, comparing the estimated recoverable amount to the carrying value to determine if an impairment loss is required to be recognized.

VALUATION OF DEFERRED CONSIDERATION

As part of the proceeds from the U.S. Sale Transaction, the Company receives an ongoing cash stream over a period of 15 years relating to certain U.S. skilled nursing centres that were leased prior to the closing. The present value ascribed to these proceeds is reflected as deferred consideration of \$39.0 million (US\$28.0 million), and it is recorded at amortized cost, accreted using effective interest method. There are significant credit risks associated with the realization of this cash stream attributable to factors outside of Extendicare's control that could materially impact the amounts that are expected to be received by the Company. Collection is contingent on the operating performance of the U.S. skilled nursing centres, which can be impacted by U.S. funding, and the U.S. regulatory environment.

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. Property plant and equipment represents approximately 42% of our total assets as at December 31, 2015, and goodwill and other intangibles represent approximately 9%. 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.

Goodwill and indefinite-life intangibles are tested annually, except in the year of acquisition, and other assets are assessed for impairment when indicators of impairment exist. 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.

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. When impairment tests are performed, the estimated useful lives of the assets are reassessed, with any change accounted for prospectively. Actual results can differ from these estimates, and can have either a positive or negative impact on the estimate, and impact whether an impairment situation exists.

VALUATION OF INDEMNIFICATION PROVISIONS

As a result of the U.S. Sale Transaction, the Company has indemnified certain obligations of the U.S. operations related to tax and other items based on management's best estimate of the ultimate costs of such obligations. The indemnification provisions totalled \$31.9 million (US\$23.0 million) as at December 31, 2015. The estimates of these items are revised every period, and are reflected as part of loss from asset impairment, disposals and other items in discontinued operations. During the second half of 2015, the increase in estimate for these items totalled US\$2.5 million. 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.

SELF-INSURED LIABILITIES OF DISCONTINUED OPERATIONS

The accrual for U.S. self-insured liabilities of our former U.S. operations 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, 2015, the accrual for self-insured general and professional liabilities was \$148.4 million compared to \$133.4 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 U.S. self-insured liabilities at December 31, 2015, would have impacted our net earnings by approximately \$1.5 million. For further information refer to the discussion under the heading "Liquidity and Capital Resources – Accrual for U.S. 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, 2015, operating loss carryforwards of \$10.8 million in the U.S. and capital loss carryforwards of \$11.7 million in Canada have not been tax benefited.

Future Changes in Accounting Policies

The following new standards, amendments to standards and interpretations, are effective for future annual periods, and have not been applied in preparing the financial results for the year ended December 31, 2015. These accounting standards are summarized below, and are more fully described in *note 4* of the audited consolidated financial statements.

Leases

On January 16, 2016, the International Accounting Standards Board (IASB) published IFRS 16 "Leases". The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 supersedes IAS 17 "Leases" and related interpretations and is effective for periods beginning on or after January 1, 2019, with earlier adoption permitted if IFRS 15 "Revenue from Contracts with Customers" has also been applied. The Company is currently assessing the potential impact of this standard on its 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, 2018, 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

Management is responsible for establishing and maintaining a system of disclosure controls and procedures (DC&P) to provide reasonable assurance that all material information relating to the Company is gathered and reported to senior management, including the Chief Executive Officer (CEO) and 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, 2015, 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, 2015, 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

Management is also responsible for establishing and maintaining adequate internal controls over financial reporting (ICFR) to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial reports for external purposes in accordance with IFRS.

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, 2015.

In designing such controls, it should be recognized that due to inherent limitations, any controls, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and may not prevent or detect misstatements. Additionally, management is required to use judgement in evaluating controls and procedures.

Except as noted below, there were no changes in the Company's ICFR during the 2015 fourth quarter that have materially affected, or are reasonably likely to materially affect, the Company's ICFR.

In accordance with the provisions of National Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings*, management, including the CEO and CFO, have limited the scope of their design of the Company's DC&P and ICFR to exclude controls, policies and procedures of the home health care business acquired on April 30, 2015, referred to as the Home Health Acquisition.

The Home Health Acquisition's contribution to the Company's consolidated financial statements for the quarter and year ended December 31, 2015 was approximately 18.1% and 13.4% of consolidated revenue from continuing operations, respectively, and approximately 14.8% and 10.3% of consolidated net operating income from continuing operations, respectively. Additionally, at the time of the acquisition, the current assets and current liabilities of the acquired operations were approximately 6% and 5% of consolidated current assets and liabilities, excluding those designated as held for sale, respectively, and its long-term assets and long-term liabilities were approximately 13% and less than 1% of consolidated long-term assets and long-term liabilities, respectively.

The scope limitation is primarily based on the time required to assess the DC&P and ICFR of the operations of the Home Health Acquisition in a manner consistent with the Company's other operations. The assessment on the design effectiveness of DC&P and internal controls over financial reporting is on track for completion by the second quarter of 2016 and the assessment of operating effectiveness will be completed by fourth quarter of 2016. Further details related to the Home Health Acquisition are disclosed under the heading "Significant 2015 Events and Developments – Home Health Acquisition" and in *note 5* of the audited consolidated financial statements.

ADDITIONAL INFORMATION

Additional information about Extendicare, including its latest Annual Information Form, may be found on the SEDAR website at www.sedar.com under Extendicare's issuer profile 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.