Consolidated Financial Statements

Years ended December 31, 2015 and 2014

Dated: February 25, 2016

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THE RIGHT TIME

Management's Responsibility for Financial Statements

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

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

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

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

/s/ Timothy L. Lukenda

TIMOTHY L. LUKENDA
President and Chief Executive Officer

/s/ Elaine E. Everson

ELAINE E. EVERSON
Vice President and
Chief Financial Officer

February 25, 2016

Independent Auditors' Report

To the Shareholders of Extendicare Inc.

We have audited the accompanying consolidated financial statements of Extendicare Inc. ("Extendicare" or the "Company"), which comprise the consolidated statements of financial position as at December 31, 2015, and December 31, 2014, and the consolidated statements of earnings (loss), comprehensive income (loss), changes in equity (deficiency), and cash flows for the years ended December 31, 2015 and 2014, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Extendicare as at December 31, 2015, and December 31, 2014, and the financial performance and its cash flows for the years ended December 31, 2015 and 2014, in accordance with International Financial Reporting Standards.

(signed KPMG LLP)

Chartered Professional Accountants,
Licensed Public Accountants

Toronto, Canada
February 25, 2016

Consolidated Statements of Financial Position

As at December 31

(in thousands of Canadian dollars)	*notes*	**2015**	2014
			(recast note 29)
Assets			
Current assets			
Cash and short-term investments		**103,622**	35,495
Restricted cash		**2,509**	1,085
Accounts receivable	*6*	**52,678**	36,775
Income taxes recoverable		**77**	65
Assets held for sale	*20*	**-**	1,254,535
Other current assets	*9*	**52,485**	14,670
Total current assets		**211,371**	1,342,625
Non-current assets			
Property and equipment	*7*	**426,191**	331,134
Goodwill and other intangible assets	*8*	**96,354**	16,227
Other assets	*9*	**283,044**	217,365
Deferred tax assets	*21*	**9,987**	7,935
Total non-current assets		**815,576**	572,661
Total Assets	*27*	**1,026,947**	1,915,286
Liabilities and Equity (Deficiency)			
Current liabilities			
Accounts payable and accrued liabilities		**139,807**	108,905
Income taxes payable		**11,679**	4,043
Long-term debt	*11*	**25,395**	18,828
Liabilities held for sale	*20*	**-**	1,137,774
Provisions	*10*	**41,139**	25,984
Total current liabilities		**218,020**	1,295,534
Non-current liabilities			
Long-term debt	*11*	**428,679**	453,200
Provisions	*10*	**146,975**	114,995
Other long-term liabilities	*12*	**47,983**	38,014
Deferred tax liabilities	*21*	**13,161**	16,047
Total non-current liabilities		**636,798**	622,256
Total liabilities	*27*	**854,818**	1,917,790
Share capital	*13*	**483,385**	482,950
Equity portion of convertible debentures	*11*	**5,573**	5,573
Contributed surplus		**-**	48
Accumulated deficit		**(315,051)**	(503,143)
Accumulated other comprehensive income		**(1,778)**	12,068
Shareholders' Equity (Deficiency)		**172,129**	(2,504)
Total Liabilities and Equity (Deficiency)	*27*	**1,026,947**	1,915,286

See accompanying notes to consolidated financial statements.

Commitments and contingencies (note 22).

Prior year comparative amounts have been reclassified (note 9).

Subsequent events (note 30).

Approved by the Board

Benjamin J. Hutzel
Chairman

Timothy L. Lukenda
President and Chief Executive Officer

Consolidated Statements of Earnings (Loss)

Years ended December 31

(in thousands of Canadian dollars except for per share amounts)	***notes***	**2015**	2014
			(recast note 29)
CONTINUING OPERATIONS			
Revenue			
Long-term care		**594,198**	583,678
Retirement living		**1,238**	-
Home health care		**326,964**	185,491
Health technology services		**36,330**	32,165
Management, consulting and other		**20,879**	14,785
Total revenue	*15, 27*	**979,609**	816,119
Operating expenses		**851,351**	708,096
Administrative costs		**35,066**	28,293
Lease costs		**6,746**	5,064
Total expenses	*16*	**893,163**	741,453
Earnings before depreciation, amortization, loss from asset impairment, disposals and other items		**86,446**	74,666
Depreciation and amortization		**27,281**	23,844
Loss from asset impairment, disposals and other items	*17*	**6,705**	3,254
Earnings before net finance costs and income taxes		**52,460**	47,568
Interest expense		**31,132**	32,905
Accretion of decommissioning provisions		**349**	349
Other accretion		**2,128**	1,827
Gain on foreign exchange and financial instruments	*18*	**(9,741)**	-
Interest revenue		**(8,056)**	(3,835)
Fair value adjustments	*18*	**-**	(296)
Net finance costs		**15,812**	30,950
Earnings before income taxes		**36,648**	16,618
Income tax expense (recovery)			
Current		**12,828**	4,063
Deferred		**696**	1,486
Total income tax expense	*21*	**13,524**	5,549
Earnings from continuing operations		**23,124**	11,069
DISCONTINUED OPERATIONS			
Gain on sale of U. S. operations, net of income taxes	*20*	**205,418**	-
Earnings (loss) from discontinued operations, net of income taxes	*20*	**3,536**	(29,822)
Net earnings (loss)		**232,078**	(18,753)
Basic Earnings (Loss) per Share			
Earnings from continuing operations	*19*	**0.26**	0.13
Net earnings (loss)	*19*	**2.64**	(0.21)
Diluted Earnings (Loss) per Share			
Earnings from continuing operations	*19*	**0.26**	0.13
Net earnings (loss)	*19*	**2.41**	(0.21)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income (Loss)

Years ended December 31

(in thousands of Canadian dollars)	***notes***	**2015**	2014
Net earnings (loss)		**232,078**	(18,753)
Other comprehensive income (loss), net of income taxes			
Items that will not be reclassified to profit or loss:			
Defined benefit plan actuarial losses, net of tax recovery of $764 and $1,124, respectively, for 2015 and 2014	*23*	**(2,119)**	(3,116)
Total items that will not be reclassified to profit or loss		**(2,119)**	(3,116)
Items that are or may be reclassified subsequently to profit or loss:			
Unrealized gain (loss) on available-for-sale securities, net of tax of nil for 2015 and 2014	*14*	**(684)**	3,085
Reclassification of realized gain on available-for-sale securities to earnings, net of tax of nil for 2015 and 2014	*14*	**(2,968)**	(194)
Foreign currency translation adjustment reclassified to gain on sale from U. S. Transaction, net of nil tax	*14*	**(21,979)**	-
Other net change in foreign currency translation adjustment	*14*	**13,904**	14,764
Total items that are or may be reclassified subsequently to profit or loss		**(11,727)**	17,655
Other comprehensive income (loss), net of tax		**(13,846)**	14,539
Total comprehensive income (loss)		**218,232**	(4,214)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Equity (Deficiency)

Years ended December 31

(in thousands of Canadian dollars)	**2015**		2014	
	Number of Shares	***Amount***	*Number of Shares*	*Amount*
Share capital				
Balance at January 1	***88,195,076***	**482,950**	*87,266,511*	476,480
DRIP	***870,004***	**6,526**	*928,565*	6,470
Purchase of shares for cancellation *(note 13)*	***(1,111,789)***	**(6,091)**	-	-
Balance at end of year	***87,953,291***	**483,385**	*88,195,076*	482,950
Equity portion of convertible debentures				
Balance at January 1		**5,573**		5,573
Balance at end of year		**5,573**		5,573
Contributed surplus				
Balance at January 1		**48**		48
Purchase of shares for cancellation in excess of book value		**(48)**		-
Balance at end of year		**-**		48
Accumulated deficit				
Balance at January 1		**(503,143)**		(442,251)
Net earnings (loss)		**232,078**		(18,753)
Dividends declared		**(42,125)**		(42,131)
Purchase of shares for cancellation in excess of book value		**(1,861)**		-
Other		**-**		(8)
Balance at end of year		**(315,051)**		(503,143)
Accumulated other comprehensive income (loss)				
Other comprehensive income (loss):				
Foreign currency translation differences for foreign operations				
Balance at January 1		**14,813**		49
Foreign currency translation adjustment reclassified to gain on sale of U. S. operations *(notes 14 and 20)*		**(21,979)**		-
Other change in the year		**13,904**		14,764
Balance at end of year		**6,738**		14,813
Net change in fair value of available-for-sale financial assets, net of tax				
Balance at January 1		**7,001**		4,110
Unrealized change in the year		**(684)**		3,085
Net change reclassified to profit or loss		**(2,968)**		(194)
Balance at end of year		**3,349**		7,001
Defined benefit plan actuarial losses, net of tax				
Balance at January 1		**(9,746)**		(6,630)
Change in the year		**(2,119)**		(3,116)
Balance at end of year		**(11,865)**		(9,746)
Accumulated other comprehensive income (loss)		**(1,778)**		12,068
Shareholders' equity (deficiency)		**172,129**		(2,504)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended December 31

(in thousands of Canadian dollars)	**2015**	2014
Operating Activities		
Net earnings (loss)	**232,078**	(18,753)
Adjustments for:		
Depreciation and amortization	**27,281**	68,142
Expense for U.S. self-insured liabilities	**29,313**	44,010
Deferred taxes	**(11,880)**	(6,745)
Current taxes	**60,247**	5,316
Gain from sale of U.S. operations *(note 20)*	**(246,759)**	-
Net finance costs	**45,738**	64,418
Loss from asset impairment, disposals and other items	**23,915**	23,218
Gain on derivative financial instruments and foreign exchange	**(9,418)**	(296)
Other	**-**	(43)
	150,515	179,267
Net change in operating assets and liabilities		
Accounts receivable	**30,739**	16,430
Other current assets	**(1,921)**	10,126
Accounts payable and accrued liabilities	**(30,588)**	(19,679)
	148,745	186,144
Payments for U.S. self-insured liabilities	**(42,105)**	(38,091)
Interest paid	**(45,888)**	(61,606)
Interest received	**8,166**	4,415
Income taxes paid	**(16,120)**	(5,255)
Net cash from operating activities	**52,798**	85,607
Investing Activities		
Purchase of property, equipment and software	**(35,478)**	(30,223)
Acquisitions *(notes 5 and 20)*	**(182,967)**	(6,946)
Proceeds from sale of U.S. operations, net of taxes paid and cash disposed *(note 20)*	**150,318**	-
Net proceeds from dispositions	**21,066**	1,912
Decrease (increase) in investments held for self-insured liabilities	**2,968**	(20,458)
Decrease (increase) in other assets *(notes 9 and 20)*	**(15,616)**	5,993
Net cash from investing activities	**(59,709)**	(49,722)
Financing Activities		
Issue of long-term debt, excluding line of credit	**163,341**	149,538
Repayment of long-term debt, excluding line of credit	**(108,402)**	(147,215)
Repayment on line of credit	**-**	(2,303)
Decrease (increase) in restricted cash	**(1,084)**	2,731
Purchase of securities for cancellation	**(7,999)**	-
Dividends paid	**(35,608)**	(35,624)
Financing costs	**(2,953)**	(4,827)
Net cash from financing activities	**7,295**	(37,700)
Increase (decrease) in cash and short-term investments	**384**	(1,815)
Cash and short-term investments at beginning of year	**98,799**	95,999
Foreign exchange gain on cash held in foreign currency	**4,439**	4,615
Cash and short-term investments at end of year	**103,622**	98,799
Less: cash of discontinued operations	**-**	(63,304)
Cash and short-term investments at end of year, continuing operations	**103,622**	35,495

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

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Notes to Consolidated Financial Statements

YEARS ENDED DECEMBER 31, 2015 AND 2014
(Tabular amounts in thousands of Canadian dollars, unless otherwise noted)

1. GENERAL INFORMATION AND NATURE OF THE BUSINESS

Extendicare Inc. ("Extendicare" or the "Company") is a Canadian public company whose common shares (the "Common Shares") trade on the Toronto Stock Exchange (TSX) under the symbol "EXE". Extendicare and its predecessors have been operating since 1968, providing care and services to seniors in North America. The Company completed the sale of substantially all of its U.S. business, the operations of which were conducted through its wholly owned subsidiary, Extendicare Health Services, Inc. (EHSI), effective July 1, 2015, (the "U.S. Sale Transaction") (*note 20*). This transaction was part of the Company's strategic objective to be a leading provider of care and services for seniors focused solely in Canada. In addition, the Company completed the acquisition of a Canadian home health business on April 30, 2015, and four retirement communities during the fourth quarter of 2015 (*note 5*).

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.

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

2. BASIS OF PREPARATION

a) Statement of Compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). These consolidated financial statements were approved by the board of directors of Extendicare Inc. (the "Board") on February 25, 2016.

b) Basis of Measurement

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

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

c) Use of Estimates and Judgement

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

Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The more subjective of such estimates are:

- valuation of purchase price components for acquisitions (*note 5*);
- valuation of deferred consideration (*notes 9 and 24(a)*);
- determination of the recoverable amount of cash generating units (CGUs) subject to an impairment test (*note 20*);
- valuation of indemnification provisions (*notes 10 and 20*);
- valuation of self-insured liabilities (*note 10 and 20*);
- valuation of financial assets and liabilities (*note 24(b)*);
- valuation of share appreciation rights liabilities (*note 12*); and
- accounting for tax uncertainties and the tax rates used for valuation of deferred taxes (*note 21*).

In addition, the assessment of contingencies (*note 22*) is subject to judgements.

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

a) Basis of Consolidation

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

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

b) Foreign Currency

FOREIGN OPERATIONS

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

FOREIGN CURRENCY TRANSACTIONS

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

c) Cash and Short-term Investments

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

d) Property and Equipment

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

Cost includes expenditures that are directly attributable to the acquisition or development of the asset. Property and equipment acquired as a result of a business combination are valued as outlined in *note 3(a)*. Centres that are constructed or that are in progress include all incurred expenditures for the development and other direct costs related to the acquisition of

land, development and construction of the centres, including borrowing costs of assets meeting certain criteria that are capitalized until the centre is completed for its intended use.

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

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

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

The Company acquires in-place leases in connection with the acquisitions of operating retirement communities. These assets are stated at the amounts determined upon acquisition and are amortized on a straight-line basis, based upon a review of the residents' average length of stay. In-place leases are a component of building, and are generally depreciated over a three-year period.

Land improvements	10 to 25 years
Buildings:	
Building components:	
Structure and sprinklers systems	50 years
Roof, windows and elevators	25 years
HVAC and building systems	15 to 25 years
Flooring and interior upgrades	5 to 15 years
In-place leases	1 to 3 years
Building improvements and extensions	5 to 30 years
Furniture and equipment:	
Furniture and equipment	5 to 15 years
Computer equipment	3 to 5 years
Leasehold improvements	Term of the lease and renewal that is reasonably certain to be exercised

e) Government Grants

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

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

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

f) Leases

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

WHEN THE COMPANY IS THE LESSEE

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

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

WHEN THE COMPANY IS THE LESSOR

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

g) Goodwill and Other Intangible Assets

GOODWILL

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

OTHER INTANGIBLE ASSETS

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

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

Customer relationships acquired in connection with the purchase of a Canadian home health care business represent the intangible asset underlying the various contracts in the business. These assets are being amortized over the estimated useful lives over 15 years.

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

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

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

h) Impairment

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

NON-FINANCIAL ASSETS

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

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

The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate

that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. Goodwill and indefinite life intangible assets are allocated to their respective CGUs for the purpose of impairment testing. Indefinite life intangible assets and corporate assets that do not generate separate cash flows and are utilized by more than one CGU, are allocated to each CGU for the purpose of impairment testing and are not tested for impairment separately.

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

FINANCIAL ASSETS

A financial asset (*note 3m*) is any asset that consists of: cash; a contractual right to receive cash or another financial asset, or exchange financial assets or financial liabilities under potentially favourable conditions; an equity instrument of another entity; or certain contracts that will or may be settled in the Company's own equity instruments.

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

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

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

i) Employee Benefits

DEFINED BENEFIT PLANS

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

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

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

DEFINED CONTRIBUTION PLANS

The Company has corporate specific and multi-employer defined benefit pension plans, as well as deferred compensation plans. Multi-employer defined benefit pension plans are accounted for as defined contribution plans as the liability per

employer is not available. Deferred compensation plans are also accounted for as defined contribution plans. Defined contribution plans are post-employment plans where the costs are fixed and there are no legal or constructive obligations to pay further amounts. Obligations for such contributions are recognized as employee benefit expense in net earnings during the periods in which services are rendered by employees.

SHORT-TERM EMPLOYEE BENEFITS

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

j) Share Appreciation Rights Plan

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

k) Provisions

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

SELF-INSURED LIABILITIES

Prior to the U.S. Sale Transaction, Extendicare self-insured certain risks related to general and professional liability. As a result of the U.S. Sale Transaction (*note 20*), the Company no longer self-insured, but retained the associated obligation relating to the self-insured liabilities. The accrual for self-insured liabilities includes the estimated costs of both reported claims and claims incurred but not yet reported. The provision for self-insured liabilities is based on estimates of loss based upon assumptions made by management supported by actuarial projections and the advice of external risk management and legal counsel. The accrual for self-insured liabilities is discounted based on the projected timing of future payment obligations.

DECOMMISSIONING PROVISIONS

Management has determined that future costs could be incurred for possible asbestos remediation of the Company's pre-1980 constructed centres. Although asbestos is currently not a health hazard in any of these centres, appropriate remediation procedures may be required to remove potential asbestos-containing materials, consisting primarily of floor and ceiling tiles, in connection with any major renovation or demolition.

The fair value of the decommissioning provision related to asbestos remediation is estimated by computing the present value of the estimated future costs of remediation based on estimated expected dates of remediation. The computation is based on a number of assumptions, which may vary in the future depending upon the availability of new information, changes in technology and in costs of remediation, and other factors.

The following assumptions were used in calculating the decommissioning provision: Canadian centres − discount rates of 6.75% over an estimated timing of the settlement of the provision of 10 years for an estimated undiscounted cash flow amount to settle the decommissioning provision of approximately $10 million.

INDEMNIFICATION PROVISIONS

Indemnification provisions include management's best estimate of amounts required to indemnify for obligations related to tax and other items, resulting from the sale of U.S. operations.

OTHER PROVISIONS

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

l) Fair Value Measurement

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

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

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the following fair value hierarchy:
Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities;
Level 2 – inputs other than quoted market prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); or
Level 3 – unobservable inputs such as inputs for the asset or liability that are not based on observable market data.

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

m) Financial Instruments

FINANCIAL ASSETS AND LIABILITIES

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

Held-to-maturity Financial Assets

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

Loans and Receivables

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

Financial Assets at FVTPL

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

AFS

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

Financial Liabilities

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

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

Summary of Financial Instruments and Classification

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

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

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

DERIVATIVE FINANCIAL INSTRUMENTS

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

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

Foreign currency forward contracts (FCFCs) are also used to limit the exposure of converting U.S. cash flow into Canadian dollars. These are not designated as fair-value or cash-flow hedges for accounting purposes; therefore, gains or losses

arising from the change in fair values are recognized in net earnings during the year. We currently do not have any FCFC, and the Company does not enter into financial instruments for trading or speculative purposes.

n) Revenue

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

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

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

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

Revenue from our discontinued skilled nursing centre operations in the U.S. was derived from various federal and state medical assistance programs, Managed Care providers, as well as privately from the residents. Outpatient therapy revenue was derived from providing rehabilitation therapy services to outside third parties at clinics. This revenue source was primarily from Managed Care, workers' compensation, self-pay clients and partly from Medicare and Medicaid.

o) Finance Costs and Finance Income

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

p) Income Taxes

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

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

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

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

In assessing whether the deferred tax assets are realizable, management considers whether it is probable (which the Company has defined as "more likely than not") that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in

which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment.

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

q) Discontinued Operations

A discontinued operation is a component of the Company's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale. Classification as a discontinued operation occurs upon disposal or earlier, if the operation meets the criteria to be classified as held for sale. When an operation is classified as a discontinued operation, the comparative statement of earnings and cash flow information is re-presented as if the operation had been discontinued from the start of the comparative period. The U.S. business and senior care operations that were sold on July 1, 2015, were classified as discontinued operations.

4. 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 period ended December 31, 2015.

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

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

IFRS 9 (2014) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2014), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The standard introduces additional changes relating to financial liabilities. It also amends the impairment model by introducing a new 'expected credit loss' model for calculating impairment. IFRS 9 (2014) also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness; however, it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgement to assess the effectiveness of a hedging relationship.
The standard will be effective for annual periods beginning on or after January 1, 2018, and will be applied retrospectively with some exemptions. Early adoption is permitted, and restatement of prior periods is not required. The Company is currently assessing the potential impact of this standard on its consolidated financial statements.

Revenue Recognition

In May 2014, the IASB issued IFRS 15 "Revenue from Contracts with Customers". The new standard provides a comprehensive framework for recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the standard on leases, insurance contracts and financial instruments. IFRS 15 becomes effective for annual periods beginning on or after January 1, 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.

5. ACQUISITIONS

Home Health Acquisition

On April 30, 2015, the Company completed the acquisition of a Canadian home health business (the "Home Health Acquisition"), pursuant to the terms of an acquisition agreement dated January 14, 2015, as amended, for $84.3 million in cash, which included an adjustment for working capital and settlement of amounts held in escrow.

The Home Health Acquisition was financed with a bridge loan of $80 million (the "Bridge Loan") and cash on hand. The Bridge Loan was repaid in full on July 2, 2015, from a portion of the proceeds from the U.S. Sale Transaction (*note 20*), and bore interest at an average interest rate of 5.93% per annum. Financing fees incurred of $1.4 million were recorded as part of the carrying value of the Bridge Loan and amortized using the effective interest method during the 2015 second quarter.

The final purchase price allocation outlined below is based on management's best estimate of fair values.

(in millions of Canadian dollars)	
Net assets acquired:	
Receivables	$ 14.2
Prepaids and other current assets	0.2
Property and equipment	2.7
Intangible assets	42.8
Trade payables and accrued liabilities	(13.2)
Deferred tax liability	(2.7)
Total identifiable net assets acquired	44.0
Goodwill	40.3
Total net assets acquired	$ 84.3
Consideration:	
Cash paid	$ 4.3
Bridge Loan	80.0
Total purchase price (including working capital adjustment)	$ 84.3

The fair value estimate of $2.7 million allocated to property and equipment, primarily consisted of furniture and equipment, leasehold improvements and computer hardware was estimated based on the carrying value approximating the fair value as at the acquisition date based on the nature and the age of these assets.

The fair value estimate of $42.8 million allocated to identifiable intangible assets acquired, primarily consisted of customer relationships, a non-competition agreement and computer software. The Company has estimated the fair value of customer relationships and the non-competition agreement based upon expected discounted cash flows generated from those assets; the estimated useful lives for these assets are 15 years and 5 years, respectively.

The remaining value inherent in this acquisition is recorded as goodwill and comes from the expanded platform, being a national provider of home health care services, future growth opportunities of both government and private-pay businesses, and access to further opportunities in additional provinces.

With respect to the remaining assets acquired and liabilities assumed, the Company has assessed their carrying value to approximate their fair value, based on the nature of those assets and liabilities.

The Company does not have the financial information for the period prior to the acquisition in order to report the pro forma results from January 1, 2015. The Home Health Acquisition contributed revenue of $131.6 million, net operating income of approximately $13.2 million, and additional lease costs of $1.4 million in 2015 for the eight months of ownership.

Acquisition of Retirement Communities

During the 2015 fourth quarter, the Company completed acquisitions of four retirement communities. All of these are accounted for as business combinations. The Company does not have the financial information for the period prior to the acquisitions in order to report the pro forma results from January 1, 2015. These four acquisitions contributed combined revenue of $1.2 million and net operating income of approximately $0.3 million in 2015.

The purchase price allocation for each acquisition outlined below is based on management's estimate of fair values.

Date of acquisition	October 1, 2015	December 1, 2015	December 1, 2015	December 1, 2015	Total
Location	Empire Crossing Ontario	Harvest Ontario	Stonebridge Crossing Saskatchewan	Riverbend Crossing Saskatchewan	
(in millions of Canadian dollars)	(64 suites)	(100 suites)	(116 suites)	(68 suites)	(348 suites)
Net assets acquired:					
Property and equipment	18.9	27.4	34.3	16.0	96.6
Trade payables and accrued liabilities	(0.1)	-	(0.1)	(0.1)	(0.3)
Total net assets acquired	$ 18.8	$ 27.4	$ 34.2	$ 15.9	$ 96.3
Consideration:					
Consideration	20.2	28.4	34.3	16.0	98.9
Income support	(1.3)	(1.0)	-	-	(2.3)
Working capital adjustment	(0.1)	-	(0.1)	(0.1)	(0.3)
Cash paid	$ 18.8	$ 27.4	$ 34.2	$ 15.9	$ 96.3

EMPIRE CROSSING RETIREMENT COMMUNITY

On October 1, 2015, the Company acquired Empire Crossing Retirement Community (Empire Crossing) for $20.2 million in cash, including $1.3 million of income support. Empire Crossing, located in Port Hope, Ontario, is a newly built 64-suite independent/enhanced living community that opened in May 2015. The vendor has provided Extendicare with income support of up to $1.3 million over 24 months, which has been 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

On December 1, 2015, the Company acquired Harvest Retirement Community (Harvest) for $28.4 million. Harvest, located in Tillsonburg, Ontario, is a 64-suite independent/enhanced living community that opened in September 2012, and a newly constructed addition for a further 36 suites completed in December 2015. The vendor has provided Extendicare with income support over 24 months of up to $1.0 million. This amount was held back from the $28.4 million purchase price on closing, and will be released back to Extendicare during the lease-up period on an agreed upon formula.

STONEBRIDGE CROSSING RETIREMENT COMMUNITY AND RIVERBEND CROSSING MEMORY CARE COMMUNITY

On December 1, 2015, the Company acquired two retirement communities in Saskatchewan for an aggregate purchase price of $50.3 million. Stonebridge Crossing, located in Saskatoon, is a newly built 116-suite independent/enhanced living community that opened in December 2012. Riverbend Crossing, located in Regina, is a newly built 68-suite senior care facility specializing in memory care that opened in August 2013.

6. ACCOUNTS RECEIVABLE

	2015	2014
Trade receivables	**38,708**	22,299
Retroactive rate accruals	**2,507**	1,861
Other receivables (*note 9*)	**11,463**	12,615
Accounts receivables - net of allowance (*note 24(a)*)	**52,678**	36,775

7. PROPERTY AND EQUIPMENT

	Land & Land Improvements	Buildings	Furniture & Equipment	Leasehold Improvements	Construction in Progress	Total
Cost or Deemed Cost						
January 1, 2014	169,490	1,188,941	182,412	7,721	6,514	1,555,078
Additions	731	6,155	12,745	136	9,796	29,563
Acquisitions	630	6,316	-	-	-	6,946
Reclassification to assets held for sale *(note 20)*	(146,758)	(874,547)	(124,889)	(5,591)	316	(1,151,469)
Disposals	-	-	(168)	-	-	(168)
Write-off of fully-depreciated assets	(95)	(611)	(11,371)	(16)	-	(12,093)
Impairment loss *(note 20)*	380	(16,602)	-	-	-	(16,222)
Reversal of impairment loss (*note 20*)	-	8,823	-	-	-	8,823
Transfer from construction-in-progress	35	10,523	1,720	(1,906)	(13,344)	(2,972)
Reclass and other	-	(1,267)	(22)	(3)	(599)	(1,891)
Effect of movements in exchange rates	11,788	73,663	11,625	542	101	97,719
December 31, 2014	36,201	401,394	72,052	883	2,784	513,314
Additions	**272**	**2,832**	**6,764**	**91**	**17,325**	**27,284**
Acquisitions *(note 5)*	**8,625**	**86,252**	**3,528**	**943**	**-**	**99,348**
Government funding subsidy *(note 9)*	**-**	**(9,769)**	**-**	**-**	**-**	**(9,769)**
Write-off of fully-depreciated assets	**(92)**	**(7,218)**	**(2,942)**	**254**	**-**	**(9,998)**
Transfer from construction-in-progress	**86**	**3,772**	**345**	**-**	**(4,203)**	**-**
Reclass and other	**232**	**(263)**	**-**	**-**	**-**	**(31)**
Effect of movements in exchange rates	**21**	**1,238**	**2,952**	**15**	**-**	**4,226**
December 31, 2015	**45,345**	**478,238**	**82,699**	**2,186**	**15,906**	**624,374**
Accumulated Depreciation						
January 1, 2014	24,577	269,444	104,047	5,003	-	403,071
Additions	5,739	40,735	17,948	515	-	64,937
Reclassification to assets held for sale *(note 20)*	(29,619)	(180,997)	(80,904)	(5,292)	-	(296,812)
Disposals	-	-	(168)	-	-	(168)
Write-off of fully-depreciated assets	(95)	(611)	(11,371)	(16)	-	(12,093)
Reclass and other	-	(1,252)	(18)	2	-	(1,268)
Effect of movements in exchange rates	2,307	14,358	7,415	433	-	24,513
December 31, 2014	2,909	141,677	36,949	645	-	182,180
Additions	**490**	**14,434**	**8,551**	**268**	**-**	**23,743**
Write-off of fully-depreciated assets	**(92)**	**(7,218)**	**(2,942)**	**254**	**-**	**(9,998)**
Effect of movements in exchange rates	**-**	**354**	**1,899**	**5**	**-**	**2,258**
December 31, 2015	**3,307**	**149,247**	**44,457**	**1,172**	**-**	**198,183**
Carrying amounts						
At December 31, 2014	33,292	259,717	35,103	238	2,784	331,134
At December 31, 2015	**42,038**	**328,991**	**38,242**	**1,014**	**15,906**	**426,191**

The cost of assets included in property and equipment under finance leases was $84.7 million (2014 – $84.4 million) with accumulated depreciation of $29.2 million (2014 – $25.4 million) (*note 11)*.

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 (*note 22*).

Interest capitalized in connection with the construction of a centre is amortized over its estimated useful life.

8. GOODWILL AND OTHER INTANGIBLE ASSETS

	2015	2014
Goodwill		
Balance at beginning of year	**13,056**	70,640
Acquisitions *(note 5)*	**40,320**	-
Other	**-**	(37)
Reclassificiation to assets held for sale (*note 20*)	**-**	(62,491)
Effect of movements in exchange rates	**5**	4,944
Balance at end of year	**53,381**	13,056
Other Intangible Assets		
Gross carrying value at beginning of year	**5,151**	43,896
Additions	**437**	660
Acquisitions *(note 5)*	**42,798**	-
Write-off of fully amortized assets	**(78)**	(15,292)
Reclassificiation to assets held for sale (*note 20*)	**-**	(32,057)
Other	**-**	4,808
Effect of movements in exchange rates	**416**	3,136
Gross carrying value at end of year	**48,724**	5,151
Accumulated amortization at beginning of year	**(1,980)**	(35,307)
Amortization	**(3,538)**	(3,205)
Write-off of fully amortized assets	**78**	15,292
Reclassificiation to assets held for sale (*note 20*)	**-**	23,685
Other	**-**	-
Effect of movements in exchange rates	**(311)**	(2,445)
Accumulated amortization at end of year	**(5,751)**	(1,980)
Net carrying value	**42,973**	3,171
Goodwill and other intangible assets	**96,354**	16,227

9. OTHER ASSETS

	2015	2014
Investments held for self-insured liabilities: available-for-sale securities, at fair value	**176,770**	154,178
Notes, mortgages and amounts receivable	**100,393**	77,857
Deferred consideration	**38,990**	-
Funds held in escrow	**19,376**	-
	335,529	232,035
less: current portion	**52,485**	14,670
	283,044	217,365

Investments Held for Self-insured Liabilities

Extendicare holds investments within the Captive for self-insured liabilities that are subject to insurance regulatory requirements *(note 10)*.

The investment portfolio comprises U.S. dollar-denominated cash and money market funds of $131.7 million (2014 - $127.9 million), and investment-grade corporate and government securities of $45.1 million (2014 - $26.3 million). Certain of these investments in the amount of $86.4 million (US$62.4 million) (December 31, 2014 – $33.4 million or US$28.8 million), have been pledged as collateral for letters of credit issued by the banker of the Captive in favour of ceding companies. As at December 31, 2015, all investments were categorized as available for sale.

Notes, Mortgages and Amounts Receivable

Notes, mortgages and amounts receivable were primarily related to discounted amounts receivable due from government agencies, which represented the Ontario construction funding subsidy for newly constructed nursing centres, totalling $72.4 million (December 31, 2014 - $66.8 million) of which $6.2 million (December 31, 2014 - $4.3 million) is current. The current portion at December 31, 2014 was previously reflected in accounts receivable, and has been reclassified to conform to the presentation in the current period. As each centre was opened, a receivable from the government was

recorded based on applying a discount rate equivalent to the yield on an Ontario government bond for an equivalent duration. Two new Ontario centres were opened in 2013, which qualified for construction funding of $14.30 per bed per day over 25 years (*note 7*); in the 2015 third quarter, the Ministry of Health and Long-Term Care confirmed that the Company is qualified for an increased construction funding subsidy of $3.35 per bed per day as it participated in phase one of the program to redevelop existing class "C" beds in Ontario. As at December 31, 2015, the Company has recorded the present value of this $9.8 million additional funding as an increase to the government notes receivable, with an offset to the cost of the building. This additional funding is anticipated to begin in 2016 once the existing agreements have been formally amended. The Company also receives construction funding of $10.35 per bed per day for 11 previously built centres over 20 years. The amounts were discounted at rates ranging from 3.27% to 6.5%, and were treated as a reduction in the cost of the property and equipment related to the centres (*note 7*). The accretion of the note receivable is recognized in interest revenue as part of net finance costs.

Also included in notes, mortgages and amounts receivable is a $12.0 million receivable as at December 31, 2015, resulting from the U.S. Sale Transaction (*note 20*), which is reflected in other current assets.

Deferred Consideration

As part of the proceeds from the U.S. Sale Transaction, the Company receives an ongoing cash stream for 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 the effective interest method. At December 31, 2015, the current portion of $8.3 million (US$6.0 million) is reflected in other current assets. The foreign exchange impact on this asset is recognized in net earnings (*note 18*).

Funds Held in Escrow

As part of the U.S. Sale Transaction, the Company assumed an obligation of EHSI in connection with the leased centres (*note 20*). As at December 31, 2015, funds held in escrow totalling $19.4 million (US$14.0 million) secure the remaining obligations of $20.8 million (US$15.0 million) assumed on disposition of the U.S. operations (*note 12*). The current portion of $11.1 million (US$8.0 million), reflected in other current assets, was released from escrow in early 2016 to settle the matching liability.

10. PROVISIONS

	Accrual for Self-insured Liabilities	Indemnification Provisions	Decommissioning Provisions	Total
January 1, 2014	115,309	-	28,801	144,110
Provisions recorded	44,010	-	-	44,010
Provisions used	(38,091)	-	-	(38,091)
Reclassification to liabilities held for sale *(note 20)*	-	-	(24,765)	(24,765)
Reclass	281	-	(645)	(364)
Accretion	1,105	-	2,030	3,135
Effect of movements in exchange rates	10,829	-	2,115	12,944
December 31, 2014	133,443	-	7,536	140,979
Less: current portion	25,984	-	-	25,984
	107,459	-	7,536	114,995
January 1, 2015	**133,443**	**-**	**7,536**	**140,979**
Provisions recorded	**29,312**	**34,753**	**350**	**64,415**
Provisions used	**(42,105)**	**(5,945)**	**-**	**(48,050)**
Accretion	**1,355**	**-**	**(80)**	**1,275**
Effect of movements in exchange rates	**26,424**	**3,071**	**-**	**29,495**
December 31, 2015	**148,429**	**31,879**	**7,806**	**188,114**
Less: current portion	**41,139**	**-**	**-**	**41,139**
	107,290	**31,879**	**7,806**	**146,975**

Accrual for Self-insured Liabilities

As a result of the U.S. Sale Transaction, the expense for self-insured liabilities is reflected in 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, neither the accrual for self-

insured liabilities nor the investments held for self-insured liabilities (*note 9*) was classified as net assets of discontinued operations sold.

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

The 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. 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.

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 $42.1 million (US$32.9 million) in excess of the expense for self-insured liabilities of $29.3 million (US$24.1 million) and accretion of $1.4 million (US$1.0 million).

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). 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.

In connection with these provisions, Extendicare holds investments within its Bermuda-based captive insurance company for self-insured liabilities that are subject to insurance regulatory requirements (*note 9*).

Indemnification Provisions

As a result of the U.S. Sale Transaction (*note 20*), the Company has indemnified certain obligations of the U.S. operations, totalling US$25.2 million, related to tax and other items. 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 of US$2.5 million, resulted in a total of $37.8 million (US$27.7 million) being recorded during 2015. After a settlement of $5.9 million (US$4.7 million), the balance as at December 31, 2015, was $31.9 million (US$23.0 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.

Decommissioning Provisions

The decommissioning provisions relate to possible asbestos remediation of Extendicare's pre-1980 constructed centres (*note 3(k)*). Actual amount may differ.

11. LONG-TERM DEBT

	Interest rate	Year of Maturity	**2015**	2014
Canadian Operations				
Convertible unsecured subordinated debentures	6.0%	2019	**123,085**	122,312
CMHC mortgages	2.22% - 7.7%	2016 - 2037	**151,191**	163,672
Non-CMHC mortgages	4.14% - 5.637%	2020 - 2038	**91,668**	93,728
Finance lease obligations	6.41% - 7.19%	2026 - 2028	**95,433**	100,749
			461,377	480,461
Financing costs			**(7,571)**	(9,057)
			453,806	471,404
U.S. Operations				
Finance lease obligations	6.5% - 10.25%	2016 - 2018	**268**	624
Total debt, net of financing costs			**454,074**	472,028
Less: current portion			**25,395**	18,828
Long-term debt, net of financing costs			**428,679**	453,200

Canadian Operations

CONVERTIBLE UNSECURED SUBORDINATED DEBENTURES

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

Interest on the 2019 Debentures is payable semi-annually in March and September. On or after October 1, 2015, but prior to October 1, 2017, these debentures may be redeemed by the Company in whole at any time or in part from time to time, at a price equal to the principal amount thereof plus accrued and unpaid interest, on a notice of not more than 60 days and not less than 30 days prior, provided that the volume-weighted average trading price of the Common Shares on the TSX for the 20 consecutive trading days ending on the fifth trading day immediately preceding the date on which notice of redemption is given is not less than 125% of the conversion price. On and after October 1, 2017, these debentures may be redeemed by the Company in whole at any time or in part from time to time, at a price equal to the principal amount thereof plus accrued and unpaid interest, on a notice of not more than 60 days and not less than 30 days prior.

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

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

Extendicare completed a public offering of convertible unsecured subordinated debentures in June 2007 that matured on June 30, 2014 (the "2014 Debentures"). These were designated as financial liabilities valued at fair value, with changes in fair value recognized in net earnings as part of net finance costs. Fair value was based on the closing price of the publicly traded convertible debentures on each reporting date. The 2014 Debentures were fully repaid in the aggregate principal amount of $113.9 million upon maturity on June 30, 2014. The Company recorded a loss of $0.9 million in 2014 in connection with this settlement (*note 17*).

On June 6, 2014, EHSI obtained a US$100.0 million non-recourse term loan from The PrivateBank and other banks in the syndicate. These proceeds, together with other available cash on hand, were used to fund a US$110.5 million dividend paid by Extendicare's U.S. subsidiaries to their Canadian parent. The payment of this cross-border dividend attracted withholding tax of $6.1 million (US$5.5 million). Extendicare used the proceeds, together with available cash on hand, to repay the principal owing under the 2014 Debentures, in the aggregate principal amount of $113.9 million that matured on June 30, 2014 *(note 20)*.

CMHC MORTGAGES

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

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

NON-CMHC MORTGAGES

The Canadian operations have numerous conventional mortgages on certain long-term care centres, at rates ranging from 4.1% to 5.637%. Some of these mortgages have a requirement to maintain a minimum debt service coverage ratio.

FINANCE LEASE OBLIGATIONS

Extendicare obtained financing of $125.4 million in 2001 from BCP Long-Term Care Facilities Inc. (BCP) to build eight Ontario nursing centres and entered into another arrangement in 2003 with BCP for $14.4 million of financing for an

additional Ontario nursing centre. Extendicare is operating the centres for BCP under 25-year finance lease arrangements at an average effective rate of 6.99%.

Finance lease obligations are payable as follows:

			2015			2014
	Future Minimum Lease Payments	**Interest**	**Present Value of Minimum Lease Payments**	Future Minimum Lease Payments	Interest	Present Value of Minimum Lease Payments
Less than one year	**12,104**	**6,409**	**5,695**	12,104	6,788	5,316
Between one and five years	**48,416**	**21,272**	**27,144**	48,416	23,080	25,336
More than five years	**92,300**	**29,706**	**62,594**	92,300	22,203	70,097
	152,820	**57,387**	**95,433**	152,820	52,071	100,749

U.S. Operations

FINANCE LEASE OBLIGATIONS

Finance lease obligations in the U.S. are related to our health technology operations, totalling $0.3 million, of which $0.2 million is due within a year (2014 – obligations totalling $0.6 million, of which $0.4 million was due within a year).

Other

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" nursing centres in Ontario and is guaranteed by certain Canadian subsidiaries of Extendicare. In February 2015, the RBC Credit Facility was amended to reduce the amount available to $44.8 million from $64.0 million as a result of changes in valuations. 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 amended agreement, up to $42.8 million of the $46.8 million would be available for operating purposes, and the full $46.8 million would be available for letters of credit. As at December 31, 2015, $0.5 million was drawn for letters of credit in connection with our acquired centres (*note 5*). The unutilized portion of the credit facility was $3.5 million as at December 31, 2015.

During 2015, VCPI obtained a credit facility of $2.8 million (US$2.0 million) with The PrivateBank and Trust Company. The VCP Credit Facility renews annually and no amount was drawn as at year end.

LETTERS OF CREDIT

As at December 31, 2015, Extendicare had letters of credit for approximately $43.4 million issued under the RBC Credit Facility. The majority of the letters of credit relate to the $42.8 million issued to secure defined benefit pension plan obligations. This letter of credit renews annually based on an actuarial valuation. The RBC Credit Facility has no financial covenants, but does contain normal and customary terms, including annual re-appraisals of the centres that could limit the maximum amount available.

RESTRICTED CASH

In connection with certain financing, funds totalling $1.6 million as at December 31, 2015 (2014 - $1.1 million), included in restricted cash are designated for future capital expenditures.

FINANCING COSTS

Financing costs are deducted from long-term debt and are amortized using the effective interest method over the expected term of the debt. Financing costs included as part of long-term debt amounted to $7.6 million at December 31, 2015 (2014 – $9.1 million). The decrease of $1.5 million in 2015 related to the amortization charges included in finance costs.

Below is a summary of the financing costs:

	2015	2014
Canadian Operations		
Convertible unsecured subordinated debentures	**2,969**	3,752
CMHC mortgages	**3,388**	3,912
Non-CMHC mortgages	**893**	973
Finance lease obligations	**321**	355
Bridge loan	**-**	65
Total financing costs	**7,571**	9,057
Less: current portion	**1,469**	1,427
	6,102	7,630

PRINCIPAL REPAYMENTS

Principal repayments on long-term debt, exclusive of finance lease obligations, are as follows:

Year	***Amount***
2016	21,015
2017	31,798
2018	18,586
2019	136,161
2020	54,116
2021 and beyond	107,683
	369,359

INTEREST RATES

The weighted average interest rate of all long-term debt at December 31, 2015, was approximately 5.5% (2014 – 5.4%). At December 31, 2015, all the long-term debt was at fixed rates.

12. OTHER LONG-TERM LIABILITIES

	2015	2014
Accrued pension plan obligation *(note 23)*	**38,577**	36,533
Obligations assumed on disposition of U.S. operations	**8,304**	-
Share appreciation rights	**682**	202
Other	**420**	1,279
	47,983	38,014

Obligations Assumed on Disposition of U.S. Operations

On closing of the U.S. Sale Transaction, the Company assumed an obligation, of which $20.8 million (US$15.0 million) remained as at December 31, 2015. This balance will be paid over the next two years. The current portion of $12.5 million (US$9.0 million) is reflected as part of accrued liabilities. To secure this obligation, amounts totalling $19.4 million (US$14.0 million) have been placed in escrow (*note 9*).

Share Appreciation Rights Plan

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

The vesting price represents the price at which the respective SARs were granted, and equates to the minimum Common Share price at which they can be vested. As at December 31, 2015, 774,111 SARs were outstanding (2014 – 1,312,555), with an average remaining contractual life of 1.6 years (2014 – 1.4 years). During 2015, $0.9 million was expensed in net earnings from continuing operations as an increase to the obligation of SARs (2014 – $0.3 million as an increase to obligations of SARs); in addition, at the discretion of the Board and under the terms of the SARs, the vesting of 420,000 rights was accelerated during the year in connection with the U.S. Sale Transaction. The total liability was $1.2 million as at December 31, 2015, with $0.5 million included in accrued liabilities, and $0.7 million in other long-term liabilities. The

total liability was $0.8 million as at December 31, 2014, with $0.4 million included in liabilities held for sale, $0.2 million in other long-term liabilities, and $0.2 million included in accounts payable and accrued liabilities.

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

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

A summary of the SARs issued and outstanding in each of 2015 and 2014 is as follows:

	2015		2014	
	Share Appreciation Rights	**Weighted Average Vesting Price**	Share Appreciation Rights	Weighted Average Vesting Price
Outstanding, beginning of year	**1,312,555**	**$ 7.18**	1,472,499	$ 8.58
Granted	**396,000**	**7.17**	524,000	6.88
Vested	**(439,444)**	**8.11**	(466,333)	10.93
Vested, U.S. Sale Transaction	**(420,000)**	**6.71**	-	-
Forfeited	**(75,000)**	**5.36**	(217,611)	7.87
Outstanding, end of year	**774,111**	**$ 7.08**	1,312,555	$ 7.18

The fair value of SARs was measured based on the Black-Scholes model. The inputs used in the fair value measurement for 2015 and 2014 were as follows:

	2015	2014
Share price	**9.33**	6.54
Volatility	**26.00%**	38.00%
Risk-free interest rate	**0.49% - 0.50%**	0.92% - 1.04%
Strike price	**$6.52 - $7.69**	$6.52 - $8.11
Expected remaining life	**0.6 years - 2.3 years**	0.2 years - 2.4 years

Future Lease Commitments

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

13. SHARE CAPITAL

		2015		2014
	Shares	**Amount**	Shares	Amount
Balance at beginning of year	***88,195,076***	**$ 482,950**	*87,266,511*	$ 476,480
Transactions with shareholders				
DRIP	***870,004***	**6,526**	*928,565*	6,470
Purchase of shares for cancellation in excess of book value	***(1,111,789)***	**(6,091)**	-	-
Balance at end of year	***87,953,291***	**$ 483,385**	*88,195,076*	$ 482,950

Authorized Capital

Extendicare is authorized to issue an unlimited number of Common Shares and that number of preferred shares of Extendicare (the "Preferred Shares"), issuable in series, equal to 50% of the number of Common Shares that are issued and outstanding at the time of the issuance of any series of Preferred Shares, for consideration and on terms and conditions that the Board may determine without the approval of shareholders.

COMMON SHARES

Each Common Share is transferable and represents an equal and undivided beneficial interest in the assets of the Company. Each Common Share entitles the holder to one vote at all meetings of shareholders of the Company. Shareholders are entitled to receive dividends from the Company if, as and when declared by the Board. During 2015 and 2014, the Company declared cash dividends of $0.48 per share.

PREFERRED SHARES

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

Distribution Reinvestment Plan

The Company has a Distribution Reinvestment Plan (DRIP) pursuant to which shareholders who are residents in Canada may elect to reinvest their cash distributions in additional Common Shares on the date of the distribution, at a price equal to 97% of the volume-weighted average trading price of the Common Shares on the TSX for the five trading days immediately preceding the corresponding date of distribution. The Company issued 0.9 million Common Shares at a value of $6.5 million in connection with the DRIP for both 2015 and 2014.

Normal Course Issuer Bid

On December 30, 2015, Extendicare received the approval of the TSX to make a normal course issuer bid (the "2015 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 platforms. The 2015 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 2015 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 2015 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).

14. EQUITY RESERVES

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

	Unrealized Gains/Losses on AFS Securities	Realized Gains/Losses on AFS Securities transferred to net earnings	Total Fair Value Reserve	Translation Reserve	Total Equity Reserves
Balance, January 1, 2014	5,519	(1,409)	4,110	49	4,159
Recognized during the year	3,085	(194)	2,891	14,764	17,655
Balance, December 31, 2014	8,604	(1,603)	7,001	14,813	21,814
Reclassed to gain on U.S. Sale	**-**	**-**	**-**	**(21,979)**	**(21,979)**
Recognized during the year	**(684)**	**(2,968)**	**(3,652)**	**13,904**	**10,252**
Balance, December 31, 2015	**7,920**	**(4,571)**	**3,349**	**6,738**	**10,087**

Fair Value Reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial assets until the investments are derecognized, at which time, the cumulative change in fair value is recognized in net earnings.

Translation Reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations until the operations are derecognized, at which time, cumulative change in foreign currency differences are recognized in net earnings. During 2015, $22.0 million was reclassified to the gain on the U.S. Sale Transaction (*note 20*).

15. REVENUE

	2015	2014
Long-term care	**594,198**	583,678
Retirement living	**1,238**	-
Home health care	**326,964**	185,491
Management, consulting and other	**20,879**	14,785
	943,279	783,954
Health technology services	**36,330**	32,165
Total revenue	**979,609**	816,119

Funding received by Extendicare for its nursing centres and home health care services is regulated by provincial authorities. Revenue from provincial programs represented approximately 70% of Extendicare's long-term care revenue, and approximately 97% of Extendicare's home health care revenue for 2015 (2014 – 70% and 98%, respectively).

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

16. EXPENSES BY NATURE

	2015	2014
Employee wages and benefits	**737,783**	605,550
Food, drugs, supplies and other variable costs	**60,941**	57,585
Property based and other costs	**87,693**	73,254
Total operating expenses and administrative costs	**886,417**	736,389
Lease costs	**6,746**	5,064
Total expenses	**893,163**	741,453

17. LOSS FROM ASSET IMPAIRMENT, DISPOSALS AND OTHER ITEMS

	2015	2014
Acquisition costs	**3,005**	698
Integration costs	**2,351**	-
Proxy contests costs	**1,349**	-
Debenture settlement *(note 11)*	**-**	936
Strategic review	**-**	370
Asset impairment	**-**	1,250
Loss from asset impairment, disposals and other items	**6,705**	3,254

In the 2015 second quarter, the Company completed the Home Health Acquisition (*note 5*). In 2015, the Company incurred advisor fees of $1.8 million in connection with this transaction (2014 – $0.7 million), and a further $2.3 million in connection with the integration of the new business.

In the 2015 fourth quarter, the Company acquired four retirement communities (*note 5*), and in connection thereto incurred transfer tax and advisor fees of $1.2 million.

During the 2015 fourth quarter, the Company incurred proxy contest costs of $1.3 million, including advisory, professional and legal fees.

Impairment

Goodwill of the Company arose from acquisitions, and must be assessed for impairment on an annual basis. Property and equipment must be assessed for impairment when indicators of impairment exist. As a result of the completion of appraisals on certain Class C LTC centres deemed to be a triggering event in the third quarter of 2014, an impairment assessment on property and equipment for the Canadian operations was completed. We performed an impairment assessment as at September 30, 2014, and recognized a net pre-tax impairment loss of $1.2 million on certain properties. There was no such triggering event in 2015. Goodwill which arose from past and present acquisitions is tested for impairment on an annual basis during the third quarter. There were no impairments of goodwill in 2015 and 2014. Please also see *note 20*.

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 the impairment loss were based upon information that was known at the time, along with the future outlook. The Company completes the assessment of fair value using financial performance and current capitalization rates.

18. FINANCE COSTS AND FINANCE INCOME

Foreign Exchange on U.S. Sale

In 2015, the Company recognized foreign exchange gains of $5.8 million on the proceeds received from the U.S. Sale Transaction (*note 20*), of which $1.9 million was realized.

Foreign Exchange on Deferred Consideration

As part of the proceeds from the U.S. Sale Transaction, the Company receives an ongoing cash stream, reflected as deferred consideration (*note 9*). 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.

Convertible Debentures

The fair value adjustment on the 2014 Debentures was a gain of $0.3 million for 2014. This related to the remeasurement of the 2014 Debentures at fair value at the end of each period, and these debentures were fully repaid as at June 30, 2014 (*note 11*).

19. EARNINGS PER SHARE

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

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

	2015	2014
Numerator for Basic and Diluted Earnings per Share		
Earnings from continuing operations		
Net earnings (loss) for basic earnings per share	**232,078**	(18,753)
Less: Earnings (loss) from discontinued operations, net of tax	**208,954**	(29,822)
Earnings from continuing operations for basic earnings per share	**23,124**	11,069
Add: after-tax interest on convertible debt	**7,028**	6,973
Add: after-tax gain on fair value adjustment on financial instruments	**-**	(296)
Earnings from continuing operations for diluted earnings per share	**30,152**	17,746

	2015	2014
Net earnings (loss)		
Net earnings (loss) for basic earnings per share	**232,078**	(18,753)
Add: after-tax interest on convertible debt	**7,028**	6,973
Add: after-tax gain on fair value adjustment on financial instruments	**-**	(296)
Net earnings (loss) for diluted earnings per share	**239,106**	(12,076)
Denominator for Basic and Diluted Earnings per Share		
Weighted average number of shares for basic earnings per share	**87,768,030**	87,735,709
Shares issued if all convertible debt was converted	**11,244,444**	11,244,444
Total for diluted earnings per share	**99,012,474**	98,980,153
Basic Earnings (Loss) per Share *(in dollars)*		
Earnings from continuing operations	**0.26**	0.13
Earnings (loss) from discontinued operations	**2.38**	(0.34)
Net earnings (loss)	**2.64**	(0.21)
Diluted Earnings (Loss) per Share *(in dollars)*		
Earnings from continuing operations	**0.26**	0.13
Earnings (loss) from discontinued operations	**2.15**	(0.34)
Net earnings (loss)	**2.41**	(0.21)

20. DISCONTINUED OPERATIONS

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

The Company completed the sale of substantially all of its U.S. business and senior care operations, effective July 1, 2015, (the "U.S. Sale Transaction") by selling the shares of a subsidiary. Net pre-tax proceeds from the U.S. Sale Transaction were $241.2 million (US$193.4 million), before the final working capital adjustments and indemnification of certain obligations. Net after-tax proceeds from the U.S. Sale Transaction reported on the consolidated statement of cash flow of $150.3 million (US$120.5 million) for 2015, was net of income taxes paid of US$32.2 million, non-cash proceeds of US$6.2 million, an advance of US$6.0 million received from the Purchaser in 2014, a final working capital adjustment of US$4.5 million, and cash disposed of US$24.0 million.

The non-cash proceeds of US$6.2 million represents the net present value ascribed to an ongoing cash stream, relating to certain U.S. skilled nursing centres that were leased prior to the closing, offset in part by obligations assumed that are related to these leases (*notes 9 and 12*). In addition, the Company has indemnified certain obligations of the U.S. operations related to tax and other items. In connection with these items, the Company recorded provisions totalling US$27.7 million, which had a balance of $31.9 million (US$23.0 million) as at December 31, 2015 (*note 10*), and a receivable of $12.0 million (*note 9*) as at December 31, 2015.

Prior to closing of the U.S. Sale Transaction, the Company received an intercompany cross-border dividend of US$87.4 million on June 30, 2015, from EHSI, as part of a pre-closing reorganization (the "Pre-closing Distribution"), including cash of approximately US$83 million and the transfer of 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. The term loan was assumed by the Purchaser on closing.

The U.S. Sale Transaction resulted in a pre-tax gain of $246.8 million (US$180.1 million), before transactions costs, and includes the realization of a foreign currency translation adjustment of $22.0 million, which was previously included in AOCI. Total estimated taxes are $41.3 million (US$33.1 million) of which US$32.2 million was paid as at December 31, 2015, for an after-tax gain of $205.4 million (US$146.9 million).

Excluded from the U.S. Sale Transaction were the 10 U.S. skilled nursing centres (887 beds) that had been classified as held for sale since the end of 2013. One of these centres was sold in the 2015 first quarter, and the remaining centres were disposed of in the 2015 second quarter. Proceeds from the 10 centres were $33.1 million (US$26.8 million), reduced by US$9.8 million for assumption of debt, resulting in net proceeds of approximately US$17 million, or approximately

US$11.1 million after tax. All of the net after-tax cash proceeds related to these 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.

Prior to the sale, the Company classified all of EHSI's operations, which included 156 senior care centres (15,183 beds) owned/leased by EHSI, located in 12 states, as well as the expense for self-insured liabilities incurred by the Captive, as discontinued. The following is a summary of the assets and liabilities held for sale as at December 31, 2014.

Assets of Disposal Group Held for Sale

	December 31, 2014
Cash and short-term investments	63,304
Restricted cash	14,852
Accounts receivable	173,034
Income taxes recoverable	14,848
Other current assets	16,470
Property and equipment	882,414
Goodwill and other intangible assets	65,604
Other non-current assets	24,009
Total assets held for sale	1,254,535

Liabilities of Disposal Group Held for Sale

	December 31, 2014
Accounts payable and accrued liabilities	129,930
Income taxes payable	12,190
Long-term debt	763,725
Provisions	26,007
Other long-term liabilities	13,877
Deferred tax liabilities	192,045
Total liabilities held for sale	1,137,774

Long-term Debt Held for Sale

As a result of the U.S. Sale Transaction, the consolidated long-term debt as at December 31, 2014, did not include long-term debt of EHSI.

As at December 31, 2014, long-term debt held for sale included all of EHSI's debt.

(payable in US$)	2014
Total Debt Held for Sale	
HUD mortgages	628,800
PrivateBank loans	149,612
Note payable	6,961
Finance lease obligations	364
	785,737
Financing Costs	
HUD mortgages	(18,376)
PrivateBank loans	(3,636)
	(22,012)
Total debt held for sale, net of financing costs	763,725

Results of Discontinued Operations

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

	2015	2014
Nursing and assisted living centres revenue	**633,133**	1,312,730
Outpatient therapy revenue	**6,735**	12,907
Management, consulting and other	**15,775**	18,825
Total revenue	**655,643**	1,344,462
Operating expenses	**598,857**	1,190,988
Administrative costs	**24,039**	44,361
Lease costs	**3,173**	6,239
Total expenses	**626,069**	1,241,588
Earnings before depreciation, amortization, loss from asset impairment, disposals and other items	**29,574**	102,874
Depreciation and amortization	**-**	44,298
Provision for U.S. government investigations	**-**	42,240
Loss (gain) from asset impairment, disposals and other items	**12,028**	19,964
Earnings (loss) before net finance costs and income taxes	**17,546**	(3,628)
Net finance costs	**20,508**	33,172
Earnings (loss) before income taxes	**(2,962)**	(36,800)
Income tax expense (recovery)	**(6,498)**	(6,978)
Earnings (loss) from discontinued operations, before gain on U.S. Sale	**3,536**	(29,822)
Gain on U.S. Sale Transaction, net of income taxes	**205,418**	-
Net earnings (loss) from discontinued operations	**208,954**	(29,822)
Cash Flows from Discontinued Operations		
Net cash from operating activities	**3,247**	43,414
Net cash from investing activities	**163,860**	(39,807)
Net cash from financing activities	**(234,519)**	15,280
Foreign exchange gain on cash	**4,108**	4,566
Effect on cash flows	**(63,304)**	23,453

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 in October 2014 to the 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.

As is standard practice in settlements of OIG and DOJ investigations, EHSI has 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 corporate integrity agreement (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 (*see above and note 10*).

Impairment

EHSI assessed goodwill for impairment on an annual basis in the third quarter, and property and equipment for impairment when indicators of impairment existed. In assessing for impairment in the 2014 third quarter, EHSI recognized a net pre-tax loss of $11.4 million (US$10.4 million), consisting of a goodwill impairment of $5.3 million (US$4.8 million), a $14.9 million (US$13.6 million) impairment on certain properties and an $8.8 million (US$8.0 million) reversal of a

previously recorded impairment loss on property and equipment. The amounts were reclassified to discontinued operations in the 2014 fourth quarter.

Lease Transactions and Other Items

As previously announced in November 2014, EHSI entered into an operations transfer agreement to lease all 22 of its owned skilled nursing centres in Pennsylvania (2,502 beds), Delaware (120 beds) and West Virginia (120 beds) to an experienced third-party long-term care operator. EHSI transferred the operations of the first 10 centres in January 2015, and the remaining 12 centres were transferred effective July 1, 2015. In connection with the disposition and transfer of these centres, a pre-tax loss of $1.0 million (US$0.8 million) was recorded in 2015. These arrangements were transferred to the Purchaser when the U.S. Sale Transaction was completed.

EHSI entered into a 10-year operating lease commencing in 2011 for US$0.4 million per annum that expires in January 2021, to operate a 120-bed skilled nursing centre in Lansing, Michigan. The centre was owned by a company controlled by the former shareholders of Tendercare (Michigan) Inc., which included a partial interest of Mr. Lukenda, our President and Chief Executive Officer, and his immediate family. This arrangement was transferred to the Purchaser when the U.S. Sale Transaction was completed.

During 2015, the Company incurred $5.2 million of transaction costs in connection with the U.S. Sale Transaction.

In 2015, certain EHSI loans were terminated, fully repaid or assumed upon the U.S. Sale Transaction; as a result, losses representing the write-off of unamortized deferred finance charges on all these loans totalling $3.4 million (US$2.7 million) were recognized.

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

In addition, the Company incurred charges of $7.5 million for 2015, related to the accrual of employee severance in connection with the U.S. Sale Transaction.

In December 2014, EHSI completed the acquisition of a 108-bed nursing facility in Ohio, which EHSI had previously leased, for $6.9 million (US$6.0 million) (*note 29*). The acquisition was paid for by the assumption of a note payable by Canada to the Purchaser, and was netted against the proceeds upon completion of the U.S. Sale Transaction (*note 20*).

On March 31, 2015, EHSI disposed of a nursing centre in Ohio for proceeds of $5.4 million (US$4.3 million), and reported a pre-tax gain of $1.0 million (US$0.8 million). During the 2015 second quarter, EHSI disposed of the remaining nine skilled nursing centres for proceeds of $27.7 million (US$22.5 million), which resulted in a net pre-tax gain of $3.0 million (US$2.5 million).

21. INCOME TAXES

Tax Recognized in Net Earnings (Loss)

	2015	2014
Current Tax Expense		
Current year	**11,846**	6,098
Sale of U.S. operations	**46,303**	-
Utilization of losses	**(1,474)**	(2,145)
Other prior year adjustments	**3,572**	1,363
	60,247	5,316
Deferred Tax Expense (Recovery)		
Origination and reversal of temporary difference	**(6,172)**	(10,676)
Sale of U.S. operations	**(4,962)**	-
Utilization of losses	**(807)**	2,145
Change in recognized deductible temporary differences	**61**	1,786
	(11,880)	(6,745)
Total tax expense (recovery)	**48,367**	(1,429)
Tax expense from continuing operations	**13,524**	5,549
Tax expense (recovery) from discontinued operations	**34,843**	(6,978)
Total tax expense (recovery)	**48,367**	(1,429)

The Company completed the U.S. Sale Transaction (*note 20*), effective July 1, 2015. Included in the $34.8 million tax expense from discontinued operations was the income tax expense in connection with this transaction of $41.3 million.

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, Extendicare has recorded a provision of $3.6 million for the full amount of the taxes and interest 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.

Tax Recognized in Other Comprehensive Income

	2015			2014		
	Before Tax	**Tax Recovery**	**Net of Tax**	Before Tax	Tax Recovery	Net of Tax
Foreign currency translation differences for foreign operations	**(8,075)**	**-**	**(8,075)**	14,764	-	14,764
Available-for-sale financial assets	**(3,652)**	**-**	**(3,652)**	2,891	-	2,891
Deferred benefit plan actuarial losses	**(2,883)**	**764**	**(2,119)**	(4,240)	1,124	(3,116)
	(14,610)	**764**	**(13,846)**	13,415	1,124	14,539

Effective Tax Rate

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

	2015	2014
Earnings from continuing operations before income taxes	**36,648**	16,618
Income taxes at statutory rates of 26.5%	**9,712**	4,404
Income tax effect relating to the following items:		
Tax rate variance of foreign subsidiaries	**1,129**	535
Non-deductible items	**74**	457
Non-taxable income	**(694)**	(79)
Prior year adjustment	**3,589**	-
Other items	**(286)**	232
	13,524	5,549

Summary of Operating and Capital Loss Carryforwards

At December 31, 2015, Extendicare's U.S. corporate subsidiaries had net operating loss carryforwards available for U.S. state income tax purposes of $7.5 million (US$5.4 million), which expire in the years 2017 through 2033, and had $14.4 million (US$10.4 million) of net operating loss carryforwards available for U.S. federal income tax purposes, which expire in the years 2021 through 2034.

Extendicare's Canadian corporate subsidiaries had $0.5 million of net operating loss carryforwards as at December 31, 2015 (2014 – nil), which expire in 2035, and capital loss carryforwards of $13.7 million (2014 – $7.7 million) available indefinitely to apply against future capital gains.

To the extent that it is more likely than not that the benefit from the tax loss carryforwards will not be realized, no deferred tax asset has been established. 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.

Net deferred tax liabilities decreased in 2015 to $3.2 million from $8.1 million at December 31, 2014, mainly as a result of the reclassification of the balances related to discontinued operations.

Recognized Deferred Tax Assets and Liabilities

Net deferred tax liabilities comprise the following:

	2015	2014
Deferred tax assets	**9,987**	7,935
Deferred tax liabilities	**13,161**	16,047
Deferred tax liabilities, net	**3,174**	8,112

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

	Balance January 1 2015	**Recognized in Net Loss**	**Acquisitions**	**Recognized in Other Comprehensive Income/Other**	**Recognized in Discontinued Operations**	**Balance December 31 2015**
Deferred tax liabilities						
Property and equipment	**26,283**	**(3,997)**	**-**	**105**	**-**	**22,391**
Other	**1,572**	**(3,304)**	**-**	**86**	**3,179**	**1,533**
	27,855	**(7,301)**	**-**	**191**	**3,179**	**23,924**
Deferred tax assets						
Self-insurance reserves	**241**	**(38)**	**-**	**-**	**-**	**203**
Employee benefit accruals	**10,591**	**(888)**	**-**	**774**	**-**	**10,477**
Operating loss carryforwards	**-**	**1,304**	**-**	**97**	**-**	**1,401**
Deferred revenue	**3,632**	**1,630**	**-**	**-**	**-**	**5,262**
Accounts receivable reserves	**149**	**(12)**	**-**	**28**	**-**	**165**
Decommissioning provision	**2,040**	**(69)**	**-**	**-**	**-**	**1,971**
Other	**3,090**	**(9,924)**	**(2,734)**	**200**	**10,639**	**1,271**
	19,743	**(7,997)**	**(2,734)**	**1,099**	**10,639**	**20,750**
Deferred tax liabilities, net	**8,112**	**696**	**2,734**	**(908)**	**(7,460)**	**3,174**

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

22. COMMITMENTS AND CONTINGENCIES

Operating Lease Commitments

At December 31, 2015, the Company was committed under non-cancellable leases requiring future minimum rentals in its continuing operations as follows:

	Operating Leases
2016	3,325
2017	2,683
2018	2,072
2019	1,561
2020	163
2021 and beyond	-
Total minimum payments	9,804

Property and Equipment Commitments

Extendicare is in the process of developing three private-pay retirement centres located in Simcoe, Bolton, and Uxbridge, Ontario, with a total of 304 suites between them. All centres will be under construction in 2016, with Simcoe anticipated to be completed in the fall of 2016; Bolton and Uxbridge during first half of 2017. The outstanding costs to complete these development projects as at December 31, 2015, are estimated to be $62.4 million.

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 the government inspections within any applicable prescribed time period. Extendicare accrues for costs that may result from investigations (or any possible related litigation) to the extent that an outflow of funds is probable and a reliable estimate of the amount of the associated costs can be made.

23. EMPLOYEE BENEFITS

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

Defined Benefit Plans

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

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

	Funded Defined Benefit Plan		Unfunded Supplementary Defined Benefit Plan		Total	
	2015	2014	**2015**	2014	**2015**	2014
Fair value of plan assets	**5,406**	5,653	**-**	-	**5,406**	5,653
Present value of obligations	**7,846**	7,869	**38,431**	36,611	**46,277**	44,480
Deficit	**(2,440)**	(2,216)	**(38,431)**	(36,611)	**(40,871)**	(38,827)

FUNDING

As required by law, the registered defined benefit pension plan benefits are funded through a trust, and the Company is responsible for meeting the statutory obligations for funding this plan. The funding requirement for past service is determined based on separate actuarial valuations for funding purposes, which are completed every three years. The most recent actuarial review will be performed effective October 1, 2015, which will be completed in early 2016.

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

DEFINED BENEFIT OBLIGATIONS

	2015	2014
Present Value of Defined Benefit Obligations		
Accrued benefit obligations		
Balance at beginning of year	**44,480**	40,872
Current service cost	**182**	156
Benefits paid	**(2,775)**	(2,658)
Interest costs	**1,624**	1,786
Actuarial losses	**2,766**	4,324
Balance at end of year	**46,277**	44,480
Plan assets		
Fair value at beginning of year	**5,653**	5,664
Employer contributions	**77**	73
Expected return on assets	**(114)**	85
Actual return on plan assets	**206**	247
Benefits paid	**(416)**	(416)
Fair value at end of year	**5,406**	5,653
Defined benefit obligations	**40,871**	38,827

The expected contribution for the coming year is approximately $2.5 million.

	2015	2014
Reported in Extendicare's Statements of Financial Position		
Current accrued liabilities	**2,294**	2,294
Other long-term liabilities *(note 12)*	**38,577**	36,533
Accrued benefit liability at end of year	**40,871**	38,827

EFFECT OF CHANGES TO DEFINED BENEFIT OBLIGATIONS

	2015	2014
Expense Recognized in Net Earnings (Loss)		
Annual benefit plan expense		
Current service costs	**182**	156
Interest cost	**1,418**	1,539
Plan benefit expense recognized in the year – included in operating expenses and administrative costs	**1,600**	1,695
Actuarial Losses Recognized in Other Comprehensive Income		
Amount accumulated in accumulated deficit at January 1	**(9,746)**	(6,630)
Actuarial loss arising from changes in:		
Discount rate	**-**	(3,366)
Mortality assumption	**-**	183
Other experience	**(2,769)**	(1,141)
Return on assets	**(114)**	85
Income tax recovery on actuarial losses	**764**	1,123
Amount recognized in accumulated deficit at December 31	**(11,865)**	(9,746)

PLAN ASSETS

	2015	2014
Equities	**46%**	45%
Fixed income securities	**35%**	38%
Real estate / commercial mortgage	**19%**	17%
	100%	100%

ACTUARIAL ASSUMPTIONS

	2015	2014
Discount rate for year-end accrued obligation	**3.75%**	3.75%
Discount rate for period expense	**3.75%**	4.50%
Rate of compensation increase	**2.0%**	2.0%
Income Tax Act limit increase	**3.0%**	3.0%
Average remaining service years of active employees	**2**	3

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

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

Changes to the following actuarial assumptions, while holding the other assumptions constant, would have affected the defined benefit obligation and related expense for 2015 by the amounts shown below.

	Increase (Decrease) in Benefit Obligation	Increase (Decrease) in Net Earnings
Discount rate:		
1% increase	(4,451)	(158)
1% decrease	5,303	219
Rate of compensation increase		
1% increase	6	-
1% decrease	(6)	-
Income Tax Act limit increase		
1% increase	-	-
1% decrease	-	-
Mortality rate		
10% increase	(928)	38
10% decrease	1,016	(42)

Defined Contribution Plans

Canada maintains registered savings and defined contribution plans and matches up to 120% of the employees' contributions according to seniority, subject to a maximum based on the salary of the plan participants. Contributions expensed by Canada in 2015 and 2014 were $14.4 million and $13.0 million, respectively.

24. MANAGEMENT OF RISKS AND FINANCIAL INSTRUMENTS

a) Management of Risks

MANAGEMENT OF LIQUIDITY RISK

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

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

As at December 31, 2015	Carrying Amount	Contractual Cash Flows	Less than 1 Year	1-2 Years	2-5 Years	More than 5 Years
Convertible debentures	**123,085**	**156,860**	7,590	7,590	141,680	-
CMHC mortgages	**151,191**	**189,383**	25,034	34,296	65,348	64,705
Non-CMHC mortgages	**91,668**	**149,592**	6,916	6,916	41,669	94,091
Finance lease obligations	**95,433**	**153,114**	12,276	12,190	36,348	92,300
Accounts payable and accrued liabilities	**139,807**	**139,807**	139,807	-	-	-
Operating lease obligations	**-**	**9,804**	3,325	2,683	3,796	-
	601,184	**798,560**	194,948	63,675	288,841	251,096

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

MANAGEMENT OF CREDIT RISK

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

	Carrying Amount	
	2015	2014
Cash and short-term investments	**103,622**	35,495
Restricted cash	**2,509**	1,085
Total receivables, net of allowance *(note 6)*	**52,678**	36,775
Investments held for self-insured liabilities *(notes 9 and 20)*	**176,770**	154,178
Notes, mortgages and amounts receivable *(note 9)*	**73,027**	67,448
Deferred consideration *(note 9)*	**38,990**	-
	447,596	294,981

Cash and Short-term Investments

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

Restricted Cash

The restricted cash is cash held mainly on account of lender capital reserves and for income support (*note 5*) with no credit risk.

Total Receivables, Net of Allowance

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

Receivables from government agencies represent the only concentrated group of accounts receivable for Extendicare. In Canada, Extendicare has receivables primarily from provincial government agencies. Management does not believe there is any credit risk associated with these government agencies other than possible funding delays. Accounts receivable other than from government agencies consist of private individuals that are subject to different economic conditions, none of which represents any concentrated credit risk to the Company.

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

			2015			2014
	Carrying Amount			Carrying Amount		
	U.S. Dollar	**Canadian Dollar**	**Total**	U.S. Dollar	Canadian Dollar	Total
Trade receivables	**8,031**	**30,677**	**38,708**	4,717	17,582	22,299
Retroactive rate receivables	**-**	**2,507**	**2,507**	-	1,861	1,861
Other receivables	**4,545**	**6,918**	**11,463**	3,346	9,269	12,615
	12,576	**40,102**	**52,678**	8,063	28,712	36,775

Receivables from Canadian government agencies, which are included in accounts receivable, notes, mortgages and amounts receivable, represented the only concentrated group of credit risks for the Company. As at December 31, 2015, receivables from government agencies represented approximately 74% of the total receivables (2014 – 78%). Management does not believe that there is significant credit risk associated with these government agencies other than possible funding delays. Management continuously monitors reports from trade associations or notes from provincial or federal agencies that announce possible delays that are rare to occur and usually associated with changes of fiscal intermediaries or changes in information technology or forms.

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

As at December 31, 2015, the Canadian operations had trade receivables of $30.7 million (2014 – $17.6 million), and the continuing U.S. operations (pertaining to VCPI) had trade receivables of $8.0 million (2014 – $4.7 million). All of these receivables were fully performing and collectible in the amounts outlined above. The Canadian operations and VCPI continuously monitor the collection of all trade receivables and assess the collectability and aging of accounts by payor type and on an individual basis.

The Canadian operations incurred a provision for receivable impairment of $1.6 million and $0.7 million for 2015 and 2014, respectively, while VCPI incurred a provision for receivable impairment of $0.2 million for both 2015 and 2014.

The aging analysis of these trade receivables is as follows:

	2015	2014
Current	**28,655**	15,899
Between 30 and 90 days	**6,875**	4,516
Between 90 and 365 days	**4,496**	2,406
Over 365 days	**815**	799
Less: provision for receivable impairment	**(2,133)**	(1,321)
	38,708	22,299

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

	2015	2014
At January 1	**1,321**	20,333
Increase in provision for receivable impairment	**1,774**	18,214
Receivables written off as uncollectible	**(1,038)**	(19,594)
Reclassificiation to assets held for sale (*note 20*)	**-**	(19,393)
Other	**76**	1,761
At December 31	**2,133**	1,321

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

Investments Held for Self-insured Liabilities

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

Notes, Mortgages and Amounts Receivable

Included in notes, mortgages and amounts receivable were $66.2 million (2014 – $62.5 million) of discounted amounts receivable due from government agencies. These represent non-current amounts funded by the Ontario government for a portion of nursing centre construction costs over a 20-year or 25-year period *(note 9)*. The Company does not believe there is any credit exposure for these amounts due from government agencies.

Deferred Consideration

There are significant credit risks associated with the deferred consideration recognized in connection with the U.S. Sale Transaction (note 9). The realization of the cash stream (*note 9*) is 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.

MANAGEMENT OF CURRENCY RISK

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Any cross-border transactions are subject to exchange rate fluctuations that may result in realized gains or losses as and when payments are made.

As a result of the U.S. Sale Transaction, our exposure to foreign currency risk as at December 31, 2015, has been significantly reduced. The following table outlines the net asset exposure to both the U.S. continuing operations and other items retained from the U.S. Sale Transaction (*note 20*).

(in thousands of US$)	**2015**	2014
Assets		
Current assets	**39,534**	1,089,696
Investments held for self-insured liabilities	**127,724**	132,900
Property and equipment, goodwill and other intangibles, and other assets	**36,887**	9,785
Liabilities		
Current liabilities	**60,111**	1,007,557
Indemnification provisions	**23,034**	-
Other long-term liabilities	**84,290**	83,616
Net asset exposure	**36,710**	141,208

Net Earnings Sensitivity Analysis

Prior to the U.S. Sale Transaction, the majority of the Company's operations were conducted in the United States. As at December 31, 2015, U.S. operations accounted for approximately 4% of its revenue from continuing operations in 2015 and 2014.

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

Unfavourable impact	**2015**	2014
Net earnings (loss)	**154**	-
Other comprehensive income	**(521)**	(1,352)

MANAGEMENT OF INTEREST RATE RISK

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

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

In order to meet its monthly dividends, the Company has limited the amount of debt that may be subject to changes in interest rates. As at December 31, 2015, all of our outstanding long-term debt was at fixed rates. We do not enter into financial instruments for trading or speculative purposes.

The interest rate profile of our interest-bearing financial instruments at December 31, 2015 and 2014, was as follows:

	Carrying Amount	
	2015	2014
Fixed-rate instruments:		
Long-term debt[1]	**461,645**	488,046
Long-term debt − held for sale[1] *(note 20)*	**-**	629,164
Less: investments held for self-insured liabilities	**(13,916)**	(9,485)
Net liability in fixed-rate instruments	**447,729**	1,107,725
Variable-rate instruments:		
Long-term debt − held for sale[1] *(note 20)*	**-**	149,612
Total liability in variable-rate instruments	**-**	149,612

[1] Includes current portion and excludes netting of financing costs.

Fair Value Sensitivity Analysis for Variable-rate Instruments

All long-term debt with variable rates are classified as other financial liabilities, which are measured at amortized cost using the effective interest method of amortization; therefore, changes in interest rates would not affect OCI with respect to variable-rate debt. As at December 31, 2015, we did not have any long-term debt with variable rates.

Cash Flow Sensitivity Analysis for Variable-rate Instruments

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

	2015		2014	
Favourable (unfavourable) impact	**100bp Increase**	**100bp Decrease**	100bp Increase	100bp Decrease
Net earnings (loss)	**-**	**-**	(782)	782

b) Fair Values of Financial Instruments

As at December 31, 2015	Loans and Receivables	Available for Sale	Other Financial Liabilities	Total Carrying Amount	Fair Value
Financial assets:					
Cash and short-term investments	**103,622**	**-**	**-**	**103,622**	**103,633**
Restricted cash	**2,509**	**-**	**-**	**2,509**	**2,509**
Invested assets[1]	**442**	**-**	**-**	**442**	**442**
Trade and other receivables	**52,678**	**-**	**-**	**52,678**	**52,678**
Notes, mortgages and amounts receivable[2] [3]	**73,027**	**-**	**-**	**73,027**	**76,496**
Deferred consideration	**38,990**	**-**	**-**	**38,990**	**38,979**
Investments held for self-insured liabilities	**-**	**176,770**	**-**	**176,770**	**176,770**
	271,268	**176,770**	**-**	**448,038**	**451,507**
Financial liabilities:					
Accounts payable	**-**	**-**	**11,497**	**11,497**	**11,497**
Long-term debt excluding convertible debentures[3][4]	**-**	**-**	**338,560**	**338,560**	**374,173**
Convertible debentures	**-**	**-**	**123,085**	**123,085**	**131,876**
	-	**-**	**473,142**	**473,142**	**517,546**

[1] Included in other current assets.

[2] Includes primarily amounts receivable from government.

[3] Includes current portion

[4] Excludes netting of financing costs.

As at December 31, 2014	Loans and Receivables	Available for Sale	Other Financial Liabilities	Total Carrying Amount	Fair Value
Financial assets:					
Cash and short-term investments	35,495	-	-	35,495	35,504
Restricted cash	1,085	-	-	1,085	1,085
Invested assets[(1)]	442	-	-	442	442
Trade and other receivables	36,775	-	-	36,775	36,775
Notes, mortgages and amounts receivable[(2) (3)]	67,448	-	-	67,448	77,163
Investments held for self-insured liabilities	-	154,178	-	154,178	154,178
	141,245	154,178	-	295,423	305,147
Financial liabilities:					
Accounts payable	-	-	4,998	4,998	4,998
Long-term debt excluding convertible debentures[(3)(4)]	-	-	358,773	358,773	393,714
Convertible debentures	-	-	122,312	122,312	127,892
	-	-	486,083	486,083	526,604

[(1)] Included in other current assets.
[(2)] Includes primarily amounts receivable from government.
[(3)] Includes current portion.
[(4)] Excludes netting of financing costs.

BASIS FOR DETERMINING FAIR VALUES

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

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

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

FAIR VALUE HIERARCHY

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

	Level 1	Level 2	Level 3	Total
As at December 31, 2015:				
Investments held for self-insured liabilities	**176,770**	**-**	**-**	**176,770**
Notes, mortgages and amounts receivable	**-**	**76,496**	**-**	**76,496**
Deferred consideration	**-**	**-**	**38,979**	**38,979**
Convertible debentures	**131,876**	**-**	**-**	**131,876**
As at December 31, 2014:				
Investments held for self-insured liabilities	154,178	-	-	154,178
Convertible debentures	127,892	-	-	127,892

25. CAPITAL MANAGEMENT

The completion of the U.S. Sale Transaction facilitated the repositioning of Extendicare as a pure-play Canadian senior care and services company. The Company's objective is to further expand and grow our Canadian operations including growing our long-term care revenue through redevelopment, and exploring opportunities in the private-pay retirement space.

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

Normal Course Issuer Bid

On December 30, 2015, Extendicare received approval of the TSX for the 2015 Bid. To date in 2016, the Company has not acquired any Common Shares for cancellation under the 2015 Bid *(note 13)*. During 2015, the Company had purchased 1,111,789 Common Shares at a weighted average price of $7.20 per share under the 2014 Bid that expired on December 30, 2015.

Capital Structure

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

	2015	2014
Current portion of long-term debt [(1)]	**25,395**	18,828
Long-term debt [(1)]	**428,679**	453,200
Total debt	**454,074**	472,028
Less: cash and short-term investments	**(103,622)**	(35,495)
Net debt	**350,452**	436,533
Share capital	**483,385**	482,950
	833,837	919,483

[(1)] Net of financing costs.

Dividends

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

Financial Covenants

Extendicare is subject to external requirements for certain of its loans on debt service coverage . Management and the Board monitor these covenant ratios on a monthly and quarterly basis, respectively. The Company was in compliance with all these covenants as at December 31, 2015.

26. RELATED PARTY TRANSACTIONS

a) Transactions with Key Management Personnel

Tim Lukenda, Extendicare's President and Chief Executive Officer, and members of his family have a company that owns 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.

b) Compensation of Key Management Personnel

The remuneration of directors and other key management personnel of the Company during the years ended December 31, 2015 and 2014, was as follows:

	2015	2014
Short-term benefits	**5,427**	4,175
Post-employment benefits	**1,448**	235
Share appreciation rights	**704**	335
	7,579	4,745

27. SEGMENTED INFORMATION

Prior to the announcement of the U.S. Sale Transaction, the Company had two reportable operating segments that consisted of its U.S. operations and its Canadian operations. With the reclassification of the U.S. senior care and related operations to discontinued operations, 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; 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. Comparative statements of earnings (loss) have been restated to reflect these changes.

The long-term care segment represents the 58 long-term care centres that the Company owns and operates in Canada. The retirement living segment includes four retirement communities that were acquired during 2015, and will include a further two acquired subsequent to December 31, 2015. The retirement communities provide services to private-pay residents at rates set by Extendicare based on the services provided and market conditions Through the ParaMed Home Health Care division, our home health care operations provide complex nursing care, occupational, physical and speech therapy, and assistance with daily activities to accommodate those living at home.

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

In the U.S., we offer information technology hosting and professional services to long-term and post-acute health care providers through VCPI. Revenue of VCPI included services provided to EHSI of $5.1 million (US$4.1 million) and $9.3 million (US$8.4 million) in 2015 and 2014, respectively. In addition, the company self-insured certain risks related to general and professional liability of its U.S. operations that were sold on July 1, 2015, through the Captive. With the reclassification of the U.S. senior care business to discontinued operations, the expense for self-insured liabilities incurred by the Captive has also been reclassified to discontinued operations; however, the costs to administer and manage the settlement of the remaining claims are reported as continuing operations.

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

(in thousands of Canadian dollars)	Long-term Care	Retirement Living	Home Health Care	Other Canadian Operations	Corporate Canada	Total Canada	Total U.S.	2015 Total
CONTINUING OPERATIONS								
Revenue								
Long-term care	**594,198**	**-**	**-**	**-**	**-**	**594,198**	**-**	**594,198**
Retirement living	**-**	**1,238**	**-**	**-**	**-**	**1,238**	**-**	**1,238**
Home health care	**-**	**-**	**326,964**	**-**	**-**	**326,964**	**-**	**326,964**
Health technology services	**-**	**-**	**-**	**-**	**-**	**-**	**36,330**	**36,330**
Management, consulting and other	**-**	**-**	**-**	**15,543**	**40**	**15,583**	**5,296**	**20,879**
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**
Administrative costs	**-**	**-**	**-**	**-**	**23,246**	**23,246**	**11,820**	**35,066**
Lease costs	**-**	**-**	**4,294**	**-**	**1,661**	**5,955**	**791**	**6,746**
Total expenses	**524,708**	**987**	**294,737**	**7,351**	**24,907**	**852,690**	**40,473**	**893,163**
Earnings (loss) before depreciation, amortization, loss from asset impairment, disposals and other items	**69,490**	**251**	**32,227**	**8,192**	**(24,867)**	**85,293**	**1,153**	**86,446**
Depreciation and amortization	**-**	**-**	**-**	**-**	**23,668**	**23,668**	**3,613**	**27,281**
Loss from asset impairment, disposals and other items	**-**	**-**	**-**	**-**	**6,705**	**6,705**	**-**	**6,705**
Earnings (loss) before net finance costs and income taxes	**69,490**	**251**	**32,227**	**8,192**	**(55,240)**	**54,920**	**(2,460)**	**52,460**
Interest expense	**-**	**-**	**-**	**-**	**31,089**	**31,089**	**43**	**31,132**
Accretion of decommissioning provisions	**-**	**-**	**-**	**-**	**349**	**349**	**-**	**349**
Other accretion	**-**	**-**	**-**	**-**	**773**	**773**	**1,355**	**2,128**
Gain on foreign exchange and financial instruments	**-**	**-**	**-**	**-**	**(5,796)**	**(5,796)**	**(3,945)**	**(9,741)**
Interest revenue	**-**	**-**	**-**	**-**	**(4,407)**	**(4,407)**	**(3,649)**	**(8,056)**
Net finance costs	**-**	**-**	**-**	**-**	**22,008**	**22,008**	**(6,196)**	**15,812**
Earnings (loss) before income taxes	**69,490**	**251**	**32,227**	**8,192**	**(77,248)**	**32,912**	**3,736**	**36,648**
Income tax expense (recovery)								
Current	**-**	**-**	**-**	**-**	**11,973**	**11,973**	**855**	**12,828**
Deferred	**-**	**-**	**-**	**-**	**(740)**	**(740)**	**1,436**	**696**
Total income tax expense	**-**	**-**	**-**	**-**	**11,233**	**11,233**	**2,291**	**13,524**
Earnings (loss) from continuing operations	**69,490**	**251**	**32,227**	**8,192**	**(88,481)**	**21,679**	**1,445**	**23,124**
DISCONTINUED OPERATIONS								
Gain on sale of U.S. operations, net of income taxes	**-**	**-**	**-**	**-**	**-**	**-**	**205,418**	**205,418**
Earnings from discontinued operations, net of income taxes	**-**	**-**	**-**	**-**	**-**	**-**	**3,536**	**3,536**
Net earnings (loss)	**69,490**	**251**	**32,227**	**8,192**	**(88,481)**	**21,679**	**210,399**	**232,078**

(in thousands of Canadian dollars)	Long-term Care	Home Health Care	Other Canadian Operations	Corporate Canada	Total Canada	Total U.S.	2014 Total
							(recast note 29)
CONTINUING OPERATIONS							
Revenue							
Long-term care	583,678	-	-	-	583,678	-	583,678
Home health care	-	185,491	-	-	185,491	-	185,491
Health technology services	-	-	-	-	-	32,165	32,165
Management, consulting and other	-	-	12,800	43	12,843	1,942	14,785
Total revenue	583,678	185,491	12,800	43	782,012	34,107	816,119
Operating expenses	515,128	161,750	6,777	-	683,655	24,441	708,096
Administrative costs	-	-	-	20,630	20,630	7,663	28,293
Lease costs	-	2,848	-	1,536	4,384	680	5,064
Total expenses	515,128	164,598	6,777	22,166	708,669	32,784	741,453
Earnings (loss) before depreciation, amortization, loss from asset impairment, disposals and other items	68,550	20,893	6,023	(22,123)	73,343	1,323	74,666
Depreciation and amortization	-	-	-	20,413	20,413	3,431	23,844
Loss from asset impairment, disposals and other items	-	-	-	3,254	3,254	-	3,254
Earnings (loss) before net finance costs and income taxes	68,550	20,893	6,023	(45,790)	49,676	(2,108)	47,568
Interest expense	-	-	-	32,846	32,846	59	32,905
Accretion of decommissioning provisions	-	-	-	349	349	-	349
Other accretion	-	-	-	722	722	1,105	1,827
Interest revenue	-	-	-	(3,835)	(3,835)	-	(3,835)
Fair value adjustments	-	-	-	(296)	(296)	-	(296)
Net finance costs	-	-	-	29,786	29,786	1,164	30,950
Earnings (loss) before income taxes	68,550	20,893	6,023	(75,576)	19,890	(3,272)	16,618
Income tax expense (recovery)							
Current	-	-	-	4,248	4,248	(185)	4,063
Deferred	-	-	-	1,743	1,743	(257)	1,486
Total income tax expense (recovery)	-	-	-	5,991	5,991	(442)	5,549
Earnings (loss) from continuing operations	68,550	20,893	6,023	(81,567)	13,899	(2,830)	11,069
DISCONTINUED OPERATIONS							
Loss from discontinued operations, net of income taxes	-	-	-	-	-	(29,822)	(29,822)
Net earnings (loss)	68,550	20,893	6,023	(81,567)	13,899	(32,652)	(18,753)

(in thousands of Canadian dollars)	Total Canada	Total U.S.	Eliminations	2015 Total
Assets				
Current assets				
Cash and short-term investments	**94,621**	**9,001**	**-**	**103,622**
Restricted cash	**2,509**	**-**	**-**	**2,509**
Accounts receivable	**65,469**	**12,576**	**(25,367)**	**52,678**
Income taxes recoverable	**-**	**77**	**-**	**77**
Other current assets	**42,492**	**9,993**	**-**	**52,485**
Total current assets	**205,091**	**31,647**	**(25,367)**	**211,371**
Non-current assets				
Property and equipment	**414,779**	**11,412**	**-**	**426,191**
Goodwill and other intangible assets	**95,700**	**654**	**-**	**96,354**
Other assets	**75,593**	**207,451**	**-**	**283,044**
Deferred tax assets	**9,987**	**-**	**-**	**9,987**
Total non-current assets	**596,059**	**219,517**	**-**	**815,576**
Total Assets	**801,150**	**251,164**	**(25,367)**	**1,026,947**
Liabilities and Equity				
Current liabilities				
Accounts payable and accrued liabilities	**134,130**	**31,044**	**(25,367)**	**139,807**
Income taxes payable	**10,616**	**1,063**	**-**	**11,679**
Long-term debt	**25,240**	**155**	**-**	**25,395**
Provisions	**2,664**	**38,475**	**-**	**41,139**
Total current liabilities	**172,650**	**70,737**	**(25,367)**	**218,020**
Non-current liabilities				
Long-term debt	**428,566**	**113**	**-**	**428,679**
Provisions	**39,622**	**107,353**	**-**	**146,975**
Other long-term liabilities	**47,983**	**-**	**-**	**47,983**
Deferred tax liabilities	**11,230**	**1,931**	**-**	**13,161**
Total non-current liabilities	**527,401**	**109,397**	**-**	**636,798**
Total liabilities	**700,051**	**180,134**	**(25,367)**	**854,818**
Share capital	**325,045**	**158,340**	**-**	**483,385**
Equity portion of convertible debentures	**5,573**	**-**	**-**	**5,573**
Accumulated deficit	**(217,446)**	**(97,605)**	**-**	**(315,051)**
Accumulated other comprehensive income (loss)	**(12,073)**	**10,295**	**-**	**(1,778)**
Shareholders' equity	**101,099**	**71,030**	**-**	**172,129**
Total Liabilities and Equity	**801,150**	**251,164**	**(25,367)**	**1,026,947**

Total Capital Expenditures				
Continuing operations	25,454	2,268	-	27,722
Discontinued operations	-	7,756	-	7,756
Total operations	25,454	10,024	-	35,478

(in thousands of Canadian dollars)	Total Canada	Total U.S.	Eliminations	2014 Total
				(recast note 29)
Assets				
Current assets				
Cash and short-term investments	34,837	658	-	35,495
Restricted cash	1,085	-	-	1,085
Accounts receivable	28,712	8,183	(120)	36,775
Income taxes recoverable	-	65	-	65
Assets held for sale	-	1,254,535	-	1,254,535
Other current assets	13,836	834	-	14,670
Total current assets	78,470	1,264,275	(120)	1,342,625
Non-current assets				
Property and equipment	320,384	10,750	-	331,134
Goodwill and other intangible assets	15,642	585	-	16,227
Other assets	63,187	154,178	-	217,365
Deferred tax assets	7,918	17	-	7,935
Total non-current assets	407,131	165,530	-	572,661
Total Assets	485,601	1,429,805	(120)	1,915,286
Liabilities and Equity (Deficiency)				
Current liabilities				
Accounts payable and accrued liabilities	104,195	4,830	(120)	108,905
Income taxes payable	4,043	-	-	4,043
Long-term debt	18,429	399	-	18,828
Liabilities held for sale	-	1,137,774	-	1,137,774
Provisions	-	25,984	-	25,984
Total current liabilities	126,667	1,168,987	(120)	1,295,534
Non-current liabilities				
Long-term debt	452,975	225	-	453,200
Provisions	11,674	103,321	-	114,995
Other long-term liabilities	38,014	-	-	38,014
Deferred tax liabilities	15,630	417	-	16,047
Total non-current liabilities	518,293	103,963	-	622,256
Total liabilities	644,960	1,272,950	(120)	1,917,790
Share capital	287,443	195,507	-	482,950
Equity portion of convertible debentures	5,573	-	-	5,573
Contributed surplus	48	-	-	48
Accumulated deficit	(448,098)	(55,045)	-	(503,143)
Accumulated other comprehensive income (loss)	(4,325)	16,393	-	12,068
Shareholders' equity (deficiency)	(159,359)	156,855	-	(2,504)
Total Liabilities and Equity (Deficiency)	485,601	1,429,805	(120)	1,915,286
Total Capital Expenditures				
Continuing operations	11,046	2,901	-	13,947
Discontinued operations	-	16,276	-	16,276
Total operations	11,046	19,177	-	30,223

28. SIGNIFICANT SUBSIDIARIES

The following is a list of the significant subsidiaries as at December 31, 2015, all of which are 100% directly or indirectly owned by the Company.

	Jurisdiction of Incorportion
Extendicare (Canada) Inc.	Canada
Extendicare Inc.	Canada
Virtual Care Provider, Inc.	Wisconsin
9488642 Canada Inc.	Canada
9488677 Canada Inc.	Canada
Laurier Indemnity Company, Ltd.	Bermuda

29. RECAST OF COMPARATIVE INFORMATION

During the first quarter of 2015, certain costs and transactions previously classified as part of continuing operations were reclassified 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.

The adjustments are summarized as follows:

Consolidated Statement of Financial Position

	As at December 31, 2014		As at December 31, 2014
	As previously reported	Adjustment	As recast
Long-term debt − current	25,789	(6,961)	18,828
Liabilities held for sale	1,130,813	6,961	1,137,774

Consolidated Statement of Earnings (Loss)

	Year ended December 31, 2014		Year ended December 31, 2014
	As previously reported	Adjustment	As recast
Loss from asset impairment, disposals and other items	11,031	(7,777)	3,254
Earnings before net finance costs and income taxes	39,791	7,777	47,568
Earnings before income taxes	8,841	7,777	16,618
Deferred income tax expense	456	1,030	1,486
Total income tax expense	4,519	1,030	5,549
Earnings from continuing operations	4,322	6,747	11,069
Loss from discontinued operations, net of income taxes	(23,075)	(6,747)	(29,822)
Basic and diluted earnings per share from continuing operations	0.05	0.08	0.13
Basic and diluted loss per share on net earnings (loss)	(0.21)	-	(0.21)

30. SUBSEQUENT EVENTS

Acquisition of Retirement Communities

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, Saskatchewan, 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.