DELIVERING ON OUR PROMISE

EXTENDICARE | 2015 ANNUAL REPORT

During 2015, we strategically deployed or committed $305 million of capital in the execution of our Canadian-focused strategy to grow across the continuum of care.

2015

ACHIEVEMENTS

Doubled size of home health care business with completion of acquisition.

Finalized the sale of U.S. business, realizing net cash proceeds of ~$291 million.

Began development of three private-pay retirement communities in Ontario, for completion in late 2016/early 2017.

Acquired four private-pay retirement communities in Ontario and Saskatchewan.

Announced agreement to acquire two private-pay retirement communities in Saskatchewan (completed in February 2016).

CONTENTS

AT A GLANCE

For nearly 50 years, Extendicare's qualified and experienced staff has been helping people live better through a commitment to quality care and service that includes nursing care, home health care, retirement living, and management and consulting services.

EXTENDICARE®
... helping people live better

Esprit LIFESTYLE COMMUNITIES

ParaMed™ Redefining Care

EXTENDICARE assist Management & Consulting Services

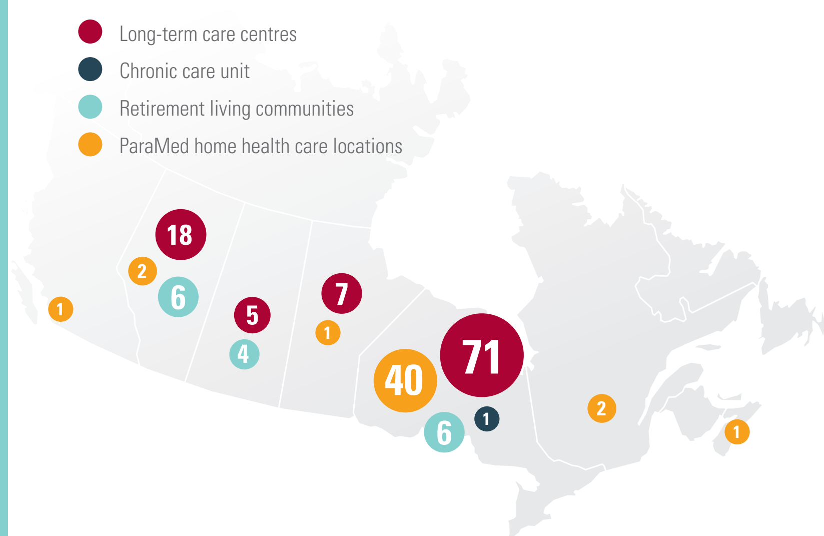
SGP PURCHASING PARTNER NETWORK Better all together

OUR MISSION

Extendicare is about helping people live better.

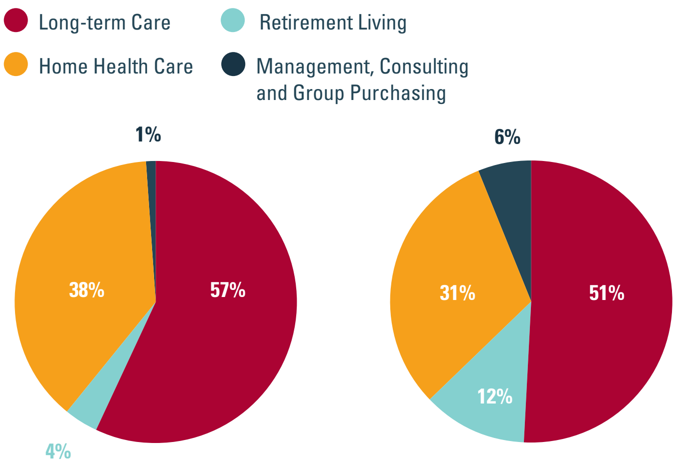
OUR LOCATIONS

Locations as at February 29, 2016



OUR SEGMENTS

Pro forma estimated impact of completed/committed transactions.



Pro forma 2015 stablized revenue from Canadian operations

Pro forma 2015 stablized net operating income from Canadian operations

OUR SCALE

58	6	54	10.7M	36,800
LONG-TERM CARE CENTRES OWNED	RETIREMENT LIVING COMMUNITIES OWNED	EXTENDICARE ASSIST CENTRES UNDER MGMT.	HOME HEALTH CARE HOURS	SGP THIRD-PARTY RESIDENTS SERVED

CONTINUUM OF CARE

We offer a range of services across the spectrum of seniors' care to ensure that Canadian seniors receive the care they need at any stage in their health care journey.

RETIREMENT LIVING
Our Esprit Lifestyle Communities allow residents to enjoy life to its fullest with the comfort of available care.

GROUP PURCHASING SERVICES
SGP Purchasing Partner Network provides group purchasing services to partners of everything from food, clinical supplies, furniture and equipment to maintenance contracts.

LONG-TERM CARE
Extendicare's long-term care services are designed for those who require a higher level of specialized nursing and personal care services.

MANAGEMENT AND CONSULTING SERVICES
Extendicare Assist offers management and consulting services to other health care operators in the areas of clinical care, dietary services, information technology, financial and administrative services, operational reviews and more.

HOME HEALTH CARE
ParaMed Home Health Care helps our clients enjoy greater independence in the home with a high level of care and service that meets exceptional quality standards and exceeds expectations.

LONG-TERM CARE

We own and operate 58 long-term care centres across Ontario, Manitoba, Saskatchewan and Alberta with capacity to provide 24-7 care and support to over 8,100 residents.

>8,100

RESIDENT CAPACITY

All of Extendicare's owned long-term care centres are accredited by Accreditation Canada.

OUR BRAND

EXTENDICARE®
... helping people live better

98%

AVERAGE OCCUPANCY

$201

AVERAGE DAILY REVENUE RATE

81%

ONTARIO PREFERRED ACCOMMODATION AVERAGE OCCUPANCY

+1.5%

YEAR-OVER-YEAR INCREASE IN AVERAGE DAILY RATE

OUR STRATEGY

We are going to build on our strong foundation in long-term care through the redevelopment of our older long-term care centres, and through providing an enhanced mix of preferred accommodations to improve this revenue stream. Our focus continues to be on providing quality care by improving our clinical indicators and improving resident and family satisfaction.

"... customer service was way beyond expectations ... EVERYONE ... was wonderful, patient and caring of their [residents]. My eyes actually misted over on more than a few occasions."

– Long-term care centre family member

RETIREMENT LIVING

Our six private-pay retirement communities in Ontario and Saskatchewan offer independent, enhanced and memory care services.

>500

SUITES

OUR BRAND

Esprit LIFESTYLE COMMUNITIES

348

YEAR-OVER-YEAR INCREASE IN NUMBER OF SUITES

$131

AVERAGE DAILY REVENUE RATE

64%

OVERALL OCCUPANCY (THOSE IN OPERATION DURING 2015)

75%

OVERALL OCCUPANCY (MID-FEBRUARY 2016)

OUR STRATEGY

We will continue to grow in the private-pay retirement market under the Esprit Lifestyle Communities brand, through additional acquisitions and developments, including the completion of three new communities in Ontario. We believe that a joyful retirement comes from extended vitality of the whole self and this will be demonstrated in all of our communities.

"Thank you so much for the wonderful care you are giving our dad. Your staff is a delight, and it was great to get to know them a little. He loves it there, and it really does feel like home."

– Retirement community family member

HOME HEALTH CARE

ParaMed offers a full range of home health care services, which includes personal care, homemaking, therapy and nursing services, such as wound and palliative care to clients in Ontario, British Columbia, Alberta, Manitoba, Quebec and Nova Scotia.

10.7M

HOURS

ParaMed is Accredited with Exemplary Standing by Accreditation Canada.

OUR BRAND

ParaMed™ Redefining Care

1.2%

YEAR-OVER-YEAR INCREASE IN SAME STORE HOURS PER DAY

11,300

NUMBER OF EMPLOYEES

110.5%

YEAR-OVER-YEAR INCREASE IN TOTAL HOURS PER DAY (INCLUDING ACQUISITION)

29,310

SERVICE VOLUME HOURS PER DAY

OUR STRATEGY

We will continue to grow our home health care operations, while changing the mix by increasing revenue in the private-pay home health care market, and expanding the volume of services we deliver. At the same time we will maintain the strong results and reliable, quality service that has made us successful in our government business.

"Who knows what the future holds? There are no guarantees, but I'm walking now, and I have Michael (my ParaMed nurse) to thank for it. I feel blessed."

– ParaMed client

MANAGEMENT AND CONSULTING SERVICES

21%
YEAR-OVER-YEAR INCREASE COMBINED REVENUE

36%
YEAR-OVER-YEAR INCREASE COMBINED NET OPERATING INCOME

OUR BRAND

EXTENDICARE assist
Management & Consulting Services

Extendicare Assist manages 54 senior care and living centres across Ontario, Alberta and Manitoba on behalf of our partners, which include hospitals, municipalities, not-for-profit and for-profit organizations.

GROUP PURCHASING SERVICES

OUR BRAND

SGP | PURCHASING PARTNER NETWORK
Better all together™

SGP Purchasing Partner Network offers cost-effective group purchasing, consulting and education to over 380 third-party member sites representing over 36,800 seniors across Canada.

6,426

BEDS UNDER MANAGEMENT

17.5%

YEAR-OVER-YEAR INCREASE IN BEDS UNDER MGMT.

OUR STRATEGY

We continue to bring on new partners across the country and are standardizing our services to ensure we continually use best practices. We leverage our expertise in owning and operating senior care and living centres to help our diverse range of partners with any challenges they may face.

36,800

THIRD-PARTY RESIDENTS SERVED (AS OF FEB. 2016)

9.2%

YEAR-OVER-YEAR INCREASE IN RESIDENT CAPACITY SERVED

OUR STRATEGY

Our renewed focus on the important relationships we have with our members and suppliers has expanded our growth potential. We are truly better all together as we share the common purpose of providing the right combination of products and services that contribute to increased efficiencies and a higher quality of life for all residents.

LETTER TO SHAREHOLDERS

OUR MISSION

We help our residents and clients live better by promoting quality of life.

We create remarkable moments through highly engaged and motivated team members.

Stakeholders know this because we continuously measure, improve and publicly share our performance.

FELLOW SHAREHOLDERS,

2015 was a transformational year for our business, as we realized our strategic goal of repositioning the Company as a pure-play Canadian care and services provider to the expanding senior care sector. The completion of the sale of our U.S. business in July, for net after-tax proceeds of approximately $291 million, positioned us to take advantage of attractive opportunities to drive shareholder value, particularly in the retirement living space.

During 2015, we strategically deployed or committed $305 million of capital in the execution of our Canadian-focused strategy, delivering on our promise to grow across the continuum of care, through the acquisition of home health care operations and expansion into the private-pay retirement living segment. In April 2015, we acquired a home health care business, bringing together two leading private-sector providers focused on delivering high-quality, person-centred care, and effectively doubled the size of our home health care business and expanded our platform across six provinces.

Seniors and their families are increasingly turning to aging-in-place solutions, and governments are stressing the importance of home health care as a vitally important component of the senior care delivery system in the future. We have aligned our business model to take advantage of this trend, both from shifting government spending patterns and in the context of additional upside opportunities in private-pay home health care.

We continue to execute on our strategy to grow across the continuum of care with investments in retirement living, which further diversifies our revenue in private-pay businesses. We have acquired six retirement communities, with 506 suites, and are developing three additional communities for an additional 304 suites. After completing a branding exercise, we are launching Esprit Lifestyle Communities as the new brand for our retirement business, and we are excited to be growing in this space.

With our leadership position in Canada, a broad footprint in long term care and home health, a growing retirement segment, and management and consulting services highly valued by third-party partners, Extendicare is poised to capitalize on the massive demographic shift under way in our country.

2015 was a transformational year for our business, as we realized our strategic goal of repositioning the Company as a pure-play Canadian care and services provider to the expanding senior care sector.

SOLID GROWTH IN 2015

Extendicare's 2015 revenue grew to $979.6 million, up 20.0% over the prior year. The expansion of our already strong presence in home health care through the acquisition contributed the majority of this growth. We also saw strong same-store revenue growth attributable to our management and consulting services through Extendicare Assist and group purchasing services through SGP Purchasing Partner Network of 21.3%, an improvement of 1.8% in revenue from our long-term care operations due to enhanced funding and higher preferred revenue in our Ontario long-term care operations, and a 1.2% increase in home health care volumes.

Our 2015 Adjusted EBITDA increased by $11.8 million to $86.4 million, representing a margin of 8.8%, and our AFFO from continuing operations increased by $10.2 million to $44.6 million, or $0.51 per share. Our deployment or commitment of $305 million is estimated to contribute $0.20 per share to AFFO, on a leveraged basis, once stabilized net operating income is achieved, which will enable us to reach our short-term goal of solidifying our dividend coverage.

Extendicare is in a strong financial position to continue to grow its AFFO through organic growth and accretive acquisitions across the continuum of care, while maintaining a prudent debt level and dividend payout ratio.

OUR PATH FORWARD

Extendicare is uniquely positioned among Canadian health care investment opportunities to deliver long-term, growing and sustainable value to its shareholders. Diversified both operationally and geographically across Canada, we will continue to pursue opportunities to rebalance our revenue streams across our business segments. In doing so we will achieve a balance between government funded and higher margin privately funded sources of revenue.

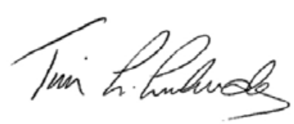
We are going to build on our strong foundation in long-term care through the redevelopment of our long-term care centres, and through providing an enhanced mix of preferred accommodations to improve this revenue stream. We will continue to grow our home health care operations, changing the mix with increased revenues in the private-pay home health care market, and expanding the volume of services delivered through our ParaMed home health care division.

Further growth in private-pay revenue will be supported by additional retirement community acquisitions and developments under our Esprit Lifestyle Communities brand. Extendicare Assist and our SGP Purchasing Partner Network, by delivering expertise to third parties, saw impressive growth this year and we expect to see this growth continue.

We are proud to be at the forefront of senior care across Canada. Working closely with governments, community agencies, researchers, and our care partners, including families, we will diligently address needs, close gaps, solve problems and advance best practices in quality, safety and care. We want to continue to be the health care employer of choice for our over 23,000 employees, and I would like to thank each team member for their contributions and continued commitment to delivering exceptional moments to our clients and customers each and every day.

By doing all of this well, we will be able to deliver consistent and appropriate returns to our shareholders, and we thank you for the belief in us that you have demonstrated by your financial commitment. I am excited by the course we are charting for Extendicare, and I look forward to continued success for Extendicare and all of our stakeholders.

Sincerely,



Timothy L. Lukenda
President and Chief Executive Officer

CORPORATE PROFILE

Extendicare is a leading provider of care and services for seniors throughout Canada. Through our network of 118 operated senior care and living centres (64 owned/54 managed), as well as our home health care operations, we are committed to delivering care and services throughout the health care continuum to meet the needs of a growing seniors' population in Canada. Our qualified and highly trained workforce of 23,000 individuals is dedicated to helping people live better through a commitment to quality service and a passion for what we do.

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

FINANCIAL HIGHLIGHTS

(millions of dollars unless otherwise noted)

Revenue from Continuing Operations

Net Operating Income from Continuing Operations[1]

Adjusted EBITDA from Continuing Operations[1]

Adjusted Funds from Continuing Operations[1]

	2015	2014	2013
Financial Position			
Cash and short-term investments	**103.6**	35.5	96.0
Total assets	**1,026.9**	1,915.3	1,849.1
Long-term debt, including current portion	**454.1**	472.0	1,164.9
Disposal group held for sale:			
Assets held for sale	–	1,254.5	36.4
Liabilities held for sale	–	1,137.8	16.3
Financial Results[1]			
Revenue from continuing operations	**979.6**	816.1	783.8
Net operating income from continuing operations	**128.3**	108.0	106.1
Adjusted EBITDA from continuing operations	**86.4**	74.6	69.5
Adjusted funds from continuing operations	**44.6**	34.4	32.9
Adjusted funds from operations (AFFO)	**50.8**	73.7	71.1
AFFO ($ per basic share)	**0.58**	0.84	0.82
Dividends declared	**42.1**	42.1	52.0
Dividends declared ($ per basic share)	**0.48**	0.48	0.60
Dividend payout ratio (% of AFFO)	**83**	57	73
Weighed average shares:			
Basic (thousands)	**87,768**	87,736	86,738
Diluted (thousands)	**99,012**	98,980	103,708

(1) Refer to non-GAAP measures on page 17.

FORWARD-LOOKING STATEMENTS

Information provided by Extendicare from time to time, including in this Annual Report, contains or may contain forward-looking statements concerning anticipated future events, results, circumstances, economic performance or expectations with respect to Extendicare and its subsidiaries, including, without limitation, statements regarding its business operations, business strategy and financial condition. Please refer to page 16 for a caution to the reader on the reliance of such statements.

Year ended December 31, 2015
Dated: February 25, 2016

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BASIS OF PRESENTATION

This Management's Discussion and Analysis (MD&A) provides information on Extendicare Inc. and its subsidiaries, and unless the context otherwise requires, references to "Extendicare", the "Company", "we", "us" and "our" or similar terms refer to Extendicare Inc., either alone or together with its subsidiaries. Extendicare is a Canadian public company whose common shares (the "Common Shares") trade on the Toronto Stock Exchange (TSX) under the symbol "EXE". The registered office of Extendicare is located at 3000 Steeles Avenue East, Markham, Ontario, Canada, L3R 9W2.

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

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

Extendicare has prepared this MD&A to provide information to assist its current and prospective investors' understanding of Extendicare's financial results for the year ended December 31, 2015. This MD&A should be read in conjunction with Extendicare's audited consolidated financial statements for the years ended 2015 and 2014, and the notes thereto, found in Extendicare's 2015 Annual Report. The accompanying audited consolidated financial statements for the years ended 2015 and 2014, including the notes thereto, have been prepared in accordance with International Financial Reporting Standards (IFRS). These financial statements and notes are available on Extendicare's website at www.extendicare.com. Additional information about Extendicare, including its latest Annual Information Form, can be found on the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com under Extendicare's issuer profile.

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

The discussion and analysis in this MD&A are based upon information available to management as of February 25, 2016. This MD&A should not be considered all-inclusive, as it excludes changes that may occur in general economic, political and environmental conditions. Additionally, other events may or may not occur, which could affect the Company in the future.

Recast of Comparative Information

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

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

FORWARD-LOOKING STATEMENTS

Information provided by Extendicare from time to time, including in this Annual Report, contains or may contain forward-looking statements concerning anticipated future events, results, circumstances, economic performance or expectations with respect to Extendicare and its subsidiaries, including, without limitation, statements regarding Extendicare's business operations, business strategy, growth strategy, results of operations and financial condition; the U.S. Sale Transaction, including statements relating to indemnification provisions, and the net benefit (pre-tax) of an ongoing cash stream relating to certain U.S. skilled nursing centres that were leased prior to the closing of the U.S. Sale Transaction; the acquisition by the Company of a competitor's home health business (the "Home Health Acquisition"), and the acquisition and development of retirement communities, including statements related to the expected annual revenue, net operating income, stabilized net operating income yield, and adjusted funds from operations to be derived from the acquisition. Forward-looking statements can be identified by the expressions "anticipate", "believe", "estimate", "expect", "intend", "objective", "plan", "project", "will" or other similar expressions or the negative thereof. These forward-looking statements reflect the Company's current expectations regarding future results, performance or achievements and are based upon information currently available to the Company and on assumptions that the Company believes are reasonable.

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

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

NON-GAAP MEASURES

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

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

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

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

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

"Adjusted Funds from Operations", or "AFFO", is defined as FFO plus: i) a reversal of the non-cash portion of financing and accretion costs that are deducted in the determination of FFO; ii) the principal portion of government capital funding; iii) amounts received from income support arrangements; and iv) a reversal of income or loss of the Captive that was included in the determination of FFO, as the Captive's operations are funded through investments held for U.S. self-insured liabilities, which are not included in the Company's reported cash and short-term investments. In addition, AFFO is further adjusted to account for the difference in total maintenance capex incurred from the amount deducted in the determination of FFO. Since our actual maintenance capex spending fluctuates on a quarterly basis with the timing of projects and seasonality, the adjustment to AFFO for these expenditures from the amount of depreciation for FFEC already deducted in determining FFO, may result in an increase to AFFO in the interim periods reported.

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

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

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

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

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

BUSINESS STRATEGY

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

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

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

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

SIGNIFICANT 2015 EVENTS AND DEVELOPMENTS

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

U.S. Sale Transaction

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

As previously announced, effective July 1, 2015, the Company, through its subsidiary, Extendicare International Inc. (the "Vendor"), completed the sale of its U.S. business (the "U.S. Sale Transaction"), by the transfer by the Vendor of all of the issued and outstanding shares of Extendicare Holdings, Inc. (EHI), a U.S. subsidiary of the Company that was the holding company of EHSI, which owns and operates the U.S. business, to a group of investors led by Formation Capital, LLC (Formation Capital), a healthcare-focused private investment firm, and an affiliate of Safanad Inc., a global principal investment firm, acting through FC Domino Acquisition LLC (the "Purchaser"), an acquisition company formed by Formation Capital. The U.S. Sale Transaction was completed for a value of US$870 million ($1.1 billion using the noon U.S./Canadian dollar exchange rate of 1.2474 on June 30, 2015), partially settled through the assumption by the Purchaser of mortgage loans and other third-party indebtedness relating to the U.S. business of approximately US$655 million, and working capital and other specified adjustments, resulting in gross proceeds of US$280.8 million representing US$193.4 million received on July 1, 2015, and an intercompany dividend of US$87.4 million received as part of a pre-closing reorganization on June 30, 2015 (the "Pre-closing Distribution"). In addition to final working capital adjustments, the Company has indemnified certain obligations of the U.S. operations related to tax and other items. The Company estimates these items to be a potential net liability of US$15.9 million, and has recorded provisions totalling US$25.2 million and a potential receivable of approximately US$9.3 million. Total estimated taxes of the U.S. Sale Transaction are US$33.1 million, resulting in net after-tax proceeds of approximately US$231.8 million, including the Pre-closing Distribution. The U.S. Sale Transaction resulted in an after-tax gain of $205.4 million (US$146.9 million), before transactions costs, and includes the realization of a foreign currency translation adjustment of $22.0 million, previously recognized in accumulated other comprehensive income.

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

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

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

Further information relating to the U.S. Sale Transaction, including a summary of the conditions of closing, is available in the Company's related material change report dated November 17, 2014, filed on SEDAR at www.sedar.com under Extendicare's issuer profile.

Home Health Acquisition

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

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

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

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

Expansion into Private-pay Retirement Segment

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

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

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

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

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

RETIREMENT ACQUISITIONS

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

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

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

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

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

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

RETIREMENT DEVELOPMENT PROJECTS

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

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

BUSINESS OVERVIEW

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

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

All of Extendicare's non-managed centres are either owned or leased under finance lease arrangements. Nine of our centres in Ontario are operated under 25-year finance lease arrangements, with full ownership obtained at the end of the lease term. We believe that ownership of our centres provides financial and strategic advantages.

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

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

(1) Extendicare operates nine long-term care centres (1,155 LTC beds and 76 retirement suites) in Ontario under 25-year finance lease arrangements maturing beginning in 2026 through to 2028, with full ownership obtained at the end of the respective lease terms.

The following reflects the change in operating capacity of our Canadian senior care centres during 2015 and 2014.

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

Operating Segments

Prior to the announcement of the U.S. Sale Transaction, the Company had two reportable operating segments that consisted of its U.S. operations and its Canadian operations. With the reclassification of the U.S. senior care and related operations to discontinued operations, and the recent expansion into the private-pay retirement segment, the Company reports the following segments within its Canadian operations: i) long-term care; ii) retirement living; iii) home health care; and iv) management and group purchasing as "other Canadian operations"; and v) the Canadian corporate functions and any eliminations as "corporate Canada". The Company continues to segment its U.S. operations as one segment, with the continuing operations consisting of VCPI and the Captive, and the discontinued operations consisting of the U.S. senior care and related businesses conducted through EHSI that were sold on or before July 1, 2015.

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

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

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

In Canada, provincial legislation and regulations closely control all aspects of operation and funding of long-term care centres, including the fee structure, subsidies, the adequacy of physical centres, standards of care and accommodation, equipment and personnel. A substantial portion of the long-term care fees paid to providers of these services are funded by provincial programs, with a portion to be paid by the resident. Nobody is refused access to long-term care because of financial difficulty. A government subsidy, generally based on an income test, is available for residents who are unable to afford the resident co-payment. In Alberta, designated supportive living offers services similar to that of a retirement community, and was introduced by Alberta Health Services (AHS) as an alternative setting for residents not yet requiring the needs of a more expensive LTC centre. The designated supportive living operations are licensed, regulated and funded by AHS, in a similar manner to LTC centres, including a fixed-fee structure determined by the government.

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

The following summarizes the composition of the owned/leased LTC centres operated by Extendicare in Ontario, as at December 31, 2015.

		Composition of Beds				
Ontario Owned/Leased	No. of Centres	Private up to $25.00 premium	Private $18.00 premium	Semi-private $8.00 premium	Basic/Other	Total
"New"	13	1,099	–	–	748	1,847
"C"	21	–	476	1,400	1,411	3,287
	34	1,099	476	1,400	2,159	5,134

RETIREMENT LIVING

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

HOME HEALTH CARE

Extendicare provides home health care services through its ParaMed division. ParaMed's professionals and staff members are skilled in providing complex nursing care, occupational, physical and speech therapy, and assistance with daily activities to accommodate clients of all ages living at home. Revenue from these operations represented 36.9% and 33.4% of consolidated revenue from continuing operations for the three and twelve months ended December 31, 2015, respectively (2014 – 22.7%). The Home Health Acquisition contributed revenue of approximately $49.1 million and $131.6 million for quarter and year ended December 31, 2015, resulting in the increased contribution to revenue from this operating segment.

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

OTHER CANADIAN OPERATIONS

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

Management Services

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

Group Purchasing Services

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

U.S. CONTINUING OPERATIONS

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

Virtual Care Provider, Inc. (VCPI)

Since 2001, Extendicare has offered information technology hosting and professional services to long-term and post-acute health care providers across the U.S. through VCPI. VCPI provides a full continuum of information technology services, including hosting and application support from its data centre in Milwaukee, Wisconsin, facility technology installation and management, network management services and professional consulting services. VCPI provided services to approximately 2,032 clients at the end of December 2015, compared to approximately 2,132 at the end of December 2014, which included EHSI centres. The decline in clients served reflects the impact of the U.S. Sale Transaction as not all of the new operators of the EHSI centres have continued with VCPI. VCPI's revenue for 2015 was US$28.4 million compared to US$29.1 million in 2014, and included internal revenue provided to EHSI of US$4.1 million and US$8.4 million, respectively. Following the U.S. Sale Transaction completed on July 1, 2015, VCPI provided transitional services of approximately US$2.5 million to the Purchaser, and provided services of approximately US$1.3 million under new contracts with the new operators of the EHSI centres.

Captive Insurance Company

Prior to the U.S. Sale Transaction, Extendicare self-insured certain risks related to general and professional liability of its disposed U.S. operations through the Captive. With the classification of the U.S. senior care operations as discontinued operations, the expense for self-insured liabilities incurred by the Captive has also been reclassified to discontinued operations. However, the obligation to settle any claims incurred prior to the closing of the U.S. Sale Transaction, including claims incurred but yet to be reported, remains with Extendicare within the Captive. The majority of the risks that Extendicare self-insured are long-term in nature, and accordingly, claim payments for any particular policy year can occur over a long period of time. In addition, through the Captive, the Company maintains third-party liability insurance on a “claims made” basis, as opposed to “occurrence based” coverage, meaning that some level of coverage may continue to be required and expenses incurred until the claims have been resolved. The costs of the third-party insurance, along with the costs to administer and manage the settlement of the claims, have not been classified as discontinued and are included in the continuing administrative costs of the U.S. operations.

As at December 31, 2015, the accrual for U.S. self-insured general and professional liabilities was $148.4 million (US$107.2 million) and the investments held for U.S. self-insured liabilities totalled $176.8 million (US$127.7 million). Our earnings (loss) from discontinued operations for the 2015 fourth quarter, includes a release of reserves in the amount of $5.2 million (US$3.9 million), as a result of an independent actuarial review conducted at year end. The provisions recorded for our professional liability risks are based upon management’s best available information, including actuarial estimates. The Captive is currently appropriately capitalized, but there can be no assurance that it will remain appropriately capitalized in the future should claims against the Company increase significantly. For further information on our self-insured liabilities, refer to the discussion under the heading “Accrual for U.S. Self-insured Liabilities” found within the “Liquidity and Capital Resources” section of this MD&A.

KEY PERFORMANCE INDICATORS

In addition to those measures identified under the heading “Non-GAAP Measures”, management uses certain key performance indicators in order to compare the financial performance of Extendicare’s continuing operations between periods. In addition, we assess the operations on a same-store basis between the reported periods. Such performance indicators may not be comparable to similar indicators presented by other companies. Set forth below is an analysis of the key performance indicators and a discussion of significant trends when comparing Extendicare’s financial results from continuing operations.

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

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

“Census” is defined as the number of residents occupying beds (or suites in the case of a retirement community) over a period of time;

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

“Non same-store” or **“NSS”**, in the context of comparing our 2015 and 2014 results from continuing operations in this document, refers to the Home Health Acquisition that was completed April 30, 2015, and the Retirement Acquisitions completed in the 2015 fourth quarter;

“Occupancy” is measured as the percentage of census relative to the total available resident capacity. Total operational resident capacity is the number of beds (or suites in the case of a retirement community) available for occupancy multiplied by the number of days in the period; and

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

Long-term Care

Funding received by Extendicare for its long-term care centres is regulated by provincial authorities (rather than federal authorities), who often set the rates following consultation with the providers and their industry associations. This type of system reduces the potential for a single change or event to significantly affect the reimbursement or regulatory environment for Extendicare. For more information on government funding in Canada, including recent developments and their impact or expected impact on Extendicare, please see “Update of Regulatory and Funding Changes Affecting Results”.

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

Extendicare's average occupancy was 98.1% this quarter compared to 98.2% in the 2014 fourth quarter, and was unchanged at 97.9% for the 2015 year compared to 2014. In terms of the quarterly trends throughout the year, slightly lower occupancy levels are to be expected during the winter months as a result of flu outbreaks, which could lead to temporary freezes on admissions.

In Ontario, overall funding is occupancy-based, but once the average occupancy level of 97% or higher for the year is achieved, operators receive funding based on 100% occupancy. For 2015, all of Extendicare's LTC centres in Ontario achieved the 97% occupancy threshold, with an overall average of 98.2% (2014 – 98.0% with all but one achieving the threshold).

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

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

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

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

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

Retirement Living

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

Home Health Care

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

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

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

IMPACT OF U.S. DOLLAR AND FOREIGN CURRENCY TRANSLATION

Impact on Financial Statements

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

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

Changes in the exchange rates used to translate the results of the U.S. operations to Canadian dollars can affect the comparison of the consolidated results. The following table illustrates the positive/(negative) effect of changes in the average exchange rates used in translating the U.S. results for the quarter and year ended December 31, 2015, and for the 2014 year.

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

DIVIDEND POLICY

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

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

Taxability of Dividends

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

2015 SELECTED ANNUAL INFORMATION

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

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

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

Financial Position – The selected information provided for each of the years under the heading "Financial Position", reflects only those operations identified as held for sale at the end of each of the respective periods, in accordance with IFRS. The assets held for sale of $36.4 million, as at December 31, 2013, related to 11 U.S. skilled nursing centres held for sale and one closed centre. The assets held for sale of $1,254.5 million, as at December 31, 2014, related to the operations in connection with the U.S. Sale Transaction and the remaining 10 U.S. skilled nursing centres, all of which were sold by July 1, 2015.

The closing rates used to translate the assets and liabilities of our U.S. operations were 1.3840 at December 31, 2015, 1.1601 at December 31, 2014, and 1.0636 at December 31, 2013. Total assets at the end of 2014 of $1,915.3 million increased by $66.2 million from the end of 2013, reflecting the impact of a weaker Canadian dollar, which increased the assets of our U.S. operations by $117.8 million, and was partially offset by the impact of depreciation and impairment charges on the balance of property and equipment and goodwill. Total assets at the end of 2015 of $1,026.9 million declined by $888.3 million from the end of 2014, primarily as a result of the sale of substantially all of our U.S. operations, with a total asset balance of $1,254.5 million at the end of 2014, net of the related proceeds received.

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

2015 SELECTED QUARTERLY INFORMATION

The following is a summary of selected quarterly financial information.

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

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

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

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

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

- Ontario long-term care funding tied to flow-through envelopes requires revenue be deferred until it is matched with the related costs for resident care in the periods in which the costs are incurred, resulting in a fluctuation in revenue and operating expenses by quarter, and they are generally at their lowest in the first quarter and at their highest in the fourth quarter;
- Ontario long-term care providers generally receive annual flow-through funding increases and CMI adjustments effective April 1st and accommodation funding increases effective July 1st, and Alberta long-term care providers generally receive annual inflationary rate increases and acuity-based funding adjustments on April 1st, and accommodation funding increases effective July 1st;
- maintenance capex spending, which impacts our AFFO, fluctuates on a quarterly basis with the timing of projects and seasonality, and is generally at its lowest in the first quarter and its highest in the fourth quarter;
- utility costs are generally at their highest in the first quarter and their lowest in the second and third quarters, and can vary by as much as $1.5 million to $2.0 million; and
- foreign currency exchange rate fluctuations between the U.S. and Canadian dollars and impact on translation of our U.S. operations from U.S. dollars to Canadian dollars; for example, in 2015 our earnings from continuing operations were favourably impacted by net foreign exchange gains of $6.5 million and $3.3 million in the third and fourth quarters, respectively, as a result of U.S. proceeds and deferred consideration received in respect of the disposal or our U.S. operations in July.

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

ADJUSTED FUNDS FROM OPERATIONS

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

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

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

(2) Excludes current income tax with respect to items that are excluded from the computation of AFFO from continuing operations, such as the gains or losses on foreign exchange, financial instruments, asset impairment, disposals and other items, and provisions for prior period tax reassessments.

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

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

AFFO 2015 Fourth Quarter Financial Review

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

	Three months ended December 31						
			2015			2014	Total
(thousands of dollars unless otherwise noted)	**Canada**	**U.S.**	**Total**	Canada	U.S.	Total	Change
AFFO (continuing operations)	**9,076**	**615**	**9,691**	7,665	2,939	10,604	(913)
Discontinued operations	**–**	**(80)**	**(80)**	–	8,813	8,813	(8,893)
AFFO	**9,076**	**535**	**9,611**	7,665	11,752	19,417	(9,806)
Maintenance capex (continuing operations)	**6,713**	**780**	**7,493**	5,806	546	6,352	1,141
Discontinued operations	**–**	**–**	**–**	–	3,547	3,547	(3,547)
Maintenance capex	**6,713**	**780**	**7,493**	5,806	4,093	9,899	(2,406)
Average U.S./Canadian dollar exchange rate			**1.3342**			1.1351	

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

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

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

AFFO 2015 Financial Review

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

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

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

AFFO from continuing operations was $44.6 million ($0.508 per basic share) in 2015 compared to $34.4 million in 2014 ($0.392 per basic share). Excluding the impact of the $2.8 million reinsurance premium refund included in Adjusted EBITDA in 2014, AFFO from continuing operations improved by $13.0 million, and included an increase in Adjusted EBITDA of $14.6 million, lower net finance costs of $7.3 million, and income support of $0.5 million, partially offset by higher current income taxes of $5.8 million, an increase in maintenance capex of $2.2 million, and the reversal of the Captive's AFFO of $1.6 million. Net finance costs were favourably impacted by $3.6 million (US$2.8 million) of interest income realized in 2015 in connection with the U.S. Sale Deferred Consideration, and lower interest expense due to the redemption of convertible debentures in 2014. Current income taxes for 2015 were $9.9 million compared to $4.1 million in 2014, representing 19.4% and 11.9% of pre-tax FFO from continuing operations, respectively. Current income taxes in 2014 were partially sheltered by non-capital loss carryforwards, which decreased current taxes by approximately $2.0 million, thereby reducing the effective current tax rate in 2014 to 11.9% from 17.7%. A discussion of Adjusted EBITDA from continuing operations and net finance costs can be found under the heading "2015 Financial Review".

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

The determination of FFO includes a deduction for current income tax expense, and does not include deferred income tax expense. As a result, the effective tax rates on our FFO can be impacted by: adjustments to our estimates of annual deferred timing differences, particularly when dealing with cash-based tax items versus accounting accruals; changes in the proportion of earnings between taxable and non-taxable entities; book-to-file adjustments for prior year filings; cross-border dividends; and the ability to utilize loss carryforwards. The effective tax rate on FFO for 2015 at 19.4% was slightly below our anticipated range of between 20% and 25% primarily due to the impact of deferred timing differences.

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

Reconciliation of Net Cash from Operating Activities to AFFO

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

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

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

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

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

2015 FOURTH QUARTER FINANCIAL REVIEW

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

	Three months ended December 31						
			2015			2014	Total
(thousands of dollars)	**Canada**	**U.S.**	**Total**	Canada	U.S.	Total	Change
Revenue	**259,138**	**11,715**	**270,853**	203,027	9,809	212,836	58,017
Operating expenses	**229,760**	**6,809**	**236,569**	177,303	6,220	183,523	53,046
Net operating income	**29,378**	**4,906**	**34,284**	25,724	3,589	29,313	4,971
Administrative costs	**6,459**	**2,868**	**9,327**	5,062	(41)	5,021	4,306
Lease costs	**1,682**	**208**	**1,890**	1,094	175	1,269	621
Adjusted EBITDA	**21,237**	**1,830**	**23,067**	19,568	3,455	23,023	44
Depreciation and amortization	**6,835**	**852**	**7,687**	5,797	883	6,680	1,007
Loss (gain) from asset impairment, disposals and other items	**3,414**	**–**	**3,414**	(626)	–	(626)	4,040
Earnings before net finance costs and income taxes	**10,988**	**978**	**11,966**	14,397	2,572	16,969	(5,003)
Interest expense	**7,964**	**7**	**7,971**	7,496	16	7,512	459
Interest income	**(1,550)**	**(1,854)**	**(3,404)**	(906)	–	(906)	(2,498)
Accretion	**286**	**354**	**640**	273	284	557	83
Loss (gain) on foreign exchange	**691**	**(3,945)**	**(3,254)**	–	–	–	(3,254)
Net finance costs (income)	**7,391**	**(5,438)**	**1,953**	6,863	300	7,163	(5,210)
Earnings from continuing operations before income taxes	**3,597**	**6,416**	**10,013**	7,534	2,272	9,806	207
Income tax expense (recovery)							
Current	**718**	**494**	**1,212**	880	(46)	834	378
Deferred	**850**	**923**	**1,773**	1,114	(115)	999	774
Total income tax expense (recovery)	**1,568**	**1,417**	**2,985**	1,994	(161)	1,833	1,152
Earnings from continuing operations	**2,029**	**4,999**	**7,028**	5,540	2,433	7,973	(945)
Gain on sale of U.S. operations, net of taxes	**–**	**749**	**749**	–	–	–	749
Earnings from discontinued operations	**–**	**2,768**	**2,768**	–	1,235	1,235	1,533
Net earnings	**2,029**	**8,516**	**10,545**	5,540	3,668	9,208	1,337
Earnings from continuing operations	**2,029**	**4,999**	**7,028**	5,540	2,433	7,973	(945)
Add (Deduct) [(1)]**:**							
Loss (gain) on foreign exchange	**829**	**(2,900)**	**(2,071)**	–	–	–	(2,071)
Loss (gain) from asset impairment, disposals and other items	**2,530**	**–**	**2,530**	(548)	–	(548)	3,078
Earnings from continuing operations before separately reported gains/losses, net of taxes	**5,388**	**2,099**	**7,487**	4,992	2,433	7,425	62

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

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

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

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

Three months ended December 31 *(thousands of dollars)*	Long-term Care	Retirement Living	Home Health Care	Other Canadian Operations	Corporate Canada	Total Canada	Total U.S.	Total
2015 – Same-Store								
Revenue	**154,188**	**–**	**50,943**	**3,725**	**6**	**208,862**	**11,715**	**220,577**
Operating expenses	**137,587**	**–**	**45,316**	**1,909**	**–**	**184,812**	**6,809**	**191,621**
Net operating income	**16,601**	**–**	**5,627**	**1,816**	**6**	**24,050**	**4,906**	**28,956**
Net operating income margin (%)	***10.8%***	**–**	***11.0%***	***48.8%***	***100.0%***	***11.5%***	***41.9%***	***13.1%***
2015 – Non Same-Store								
Revenue	**–**	**1,238**	**49,038**	**–**	**–**	**50,276**	**–**	**50,276**
Operating expenses	**–**	**987**	**43,961**	**–**	**–**	**44,948**	**–**	**44,948**
Net operating income	**–**	**251**	**5,077**	**–**	**–**	**5,328**	**–**	**5,328**
Net operating income margin (%)	**–**	***20.3%***	***10.4%***	**–**	**–**	***10.6%***	**–**	***10.6%***
2015 – Total								
Revenue	**154,188**	**1,238**	**99,981**	**3,725**	**6**	**259,138**	**11,715**	**270,853**
Operating expenses	**137,587**	**987**	**89,277**	**1,909**	**–**	**229,760**	**6,809**	**236,569**
Net operating income	**16,601**	**251**	**10,704**	**1,816**	**6**	**29,378**	**4,906**	**34,284**
Net operating income margin (%)	***10.8%***	***20.3%***	***10.7%***	***48.8%***	***100.0%***	***11.3%***	***41.9%***	***12.7%***
2014 – Total								
Revenue	152,066	–	47,477	3,479	5	203,027	9,809	212,836
Operating expenses	134,363	–	41,110	1,830	–	177,303	6,220	183,523
Net operating income	17,703	–	6,367	1,649	5	25,724	3,589	29,313
Net operating income margin (%)	*11.6%*	–	*13.4%*	*47.4%*	*100.0%*	*12.7%*	*36.6%*	*13.8%*
Change in Total								
Revenue	2,122	1,238	52,504	246	1	56,111	1,906	58,017
Operating expenses	3,224	987	48,167	79	–	52,457	589	53,046
Net operating income	(1,102)	251	4,337	167	1	3,654	1,317	4,971

Consolidated Net Operating Income

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

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

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

Home health care operations – net operating income increased by $4.3 million to $10.7 million this quarter, representing an increase in revenue of $52.5 million, partially offset by higher costs of $48.2 million. The Home Health Acquisition contributed $49.1 million to revenue and $5.1 million to net operating income this quarter. Net operating income from same-store operations declined by $0.8 million despite an increase in service volumes, due in part to timing of cost incurred during the year for staff training and year end accrual adjustments. Same-store revenue increased by $3.4 million and included funding to support an increase in government-funded wage increases for personal support workers (PSWs), estimated at approximately $2.0 million, with the balance of the $1.4 million improvement primarily due to a 3.9% increase in service volumes this quarter. Higher labour costs accounted for $3.7 million of the increase in same-store operating costs of $4.2 million.

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

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

Administrative and Lease Costs

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

Consolidated Adjusted EBITDA

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

Depreciation and Amortization

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

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

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

Net Finance Costs (Income)

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

Income Taxes

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

Discontinued Operations

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

2015 FINANCIAL REVIEW

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

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

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

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

							Years ended December 31
			2015			2014	Total
(thousands of dollars)	Canada	U.S.	Total	Canada	U.S.	Total	Change
Earnings (loss) from continuing operations before income taxes	**32,912**	**3,736**	**36,648**	19,890	(3,272)	16,618	20,030
Add (Deduct):							
Depreciation and amortization	**23,668**	**3,613**	**27,281**	20,413	3,431	23,844	3,437
Net finance costs	**22,008**	**(6,196)**	**15,812**	29,786	1,164	30,950	(15,138)
Loss from asset impairment, disposals and other items	**6,705**	**–**	**6,705**	3,254	–	3,254	3,451
Adjusted EBITDA	**85,293**	**1,153**	**86,446**	73,343	1,323	74,666	11,780
Add (Deduct):							
Administrative costs	**23,246**	**11,820**	**35,066**	20,630	7,663	28,293	6,773
Lease costs	**5,955**	**791**	**6,746**	4,384	680	5,064	1,682
Net operating income	**114,494**	**13,764**	**128,258**	98,357	9,666	108,023	20,235

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

Years ended December 31 *(thousands of dollars)*	Long-term Care	Retirement Living	Home Health Care	Other Canadian Operations	Corporate Canada	Total Canada	Total U.S.	Total
2015 – Same-Store								
Revenue	**594,198**	**–**	**195,385**	**15,543**	**40**	**805,166**	**41,626**	**846,792**
Operating expenses	**524,708**	**–**	**172,087**	**7,351**	**–**	**704,146**	**27,862**	**732,008**
Net operating income	**69,490**	**–**	**23,298**	**8,192**	**40**	**101,020**	**13,764**	**114,784**
Net operating income margin (%)	***11.7%***	**–**	***11.9%***	***52.7%***	***100.0%***	***12.5%***	***33.1%***	***13.6%***
2015 – Non Same-Store								
Revenue	**–**	**1,238**	**131,579**	**–**	**–**	**132,817**	**–**	**132,817**
Operating expenses	**–**	**987**	**118,356**	**–**	**–**	**119,343**	**–**	**119,343**
Net operating income	**–**	**251**	**13,223**	**–**	**–**	**13,474**	**–**	**13,474**
Net operating income margin (%)	**–**	***20.3%***	***10.0%***	**–**	**–**	***10.1%***	**–**	***10.1%***
2015 – Total								
Revenue	**594,198**	**1,238**	**326,964**	**15,543**	**40**	**937,983**	**41,626**	**979,609**
Operating expenses	**524,708**	**987**	**290,443**	**7,351**	**–**	**823,489**	**27,862**	**851,351**
Net operating income	**69,490**	**251**	**36,521**	**8,192**	**40**	**114,494**	**13,764**	**128,258**
Net operating income margin (%)	***11.7%***	***20.3%***	***11.2%***	***52.7%***	***100.0%***	***12.2%***	***33.1%***	***13.1%***
2014 – Total								
Revenue	583,678	–	185,491	12,800	43	782,012	34,107	816,119
Operating expenses	515,128	–	161,750	6,777	–	683,655	24,441	708,096
Net operating income	68,550	–	23,741	6,023	43	98,357	9,666	108,023
Net operating income margin (%)	*11.7%*	–	*12.8%*	*47.1%*	*100.0%*	*12.6%*	*28.3%*	*13.2%*
Change in Total								
Revenue	10,520	1,238	141,473	2,743	(3)	155,971	7,519	163,490
Operating expenses	9,580	987	128,693	574	–	139,834	3,421	143,255
Net operating income	940	251	12,780	2,169	(3)	16,137	4,098	20,235

Consolidated Revenue

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

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

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

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

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

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

Consolidated Operating Expenses

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

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

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

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

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

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

Consolidated Net Operating Income

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

Administrative and Lease Costs

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

Consolidated Adjusted EBITDA

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

Depreciation and Amortization

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

Loss from Asset Impairment, Disposals and Other Items

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

Net Finance Costs

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

Income Taxes

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

Discontinued Operations

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

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

OTHER SIGNIFICANT DEVELOPMENTS

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

Continuing Operations

CREDIT FACILITY

Extendicare has a demand credit facility with the Royal Bank of Canada (the "RBC Credit Facility") that is secured by 13 class "C" LTC centres in Ontario and is guaranteed by certain Canadian subsidiaries of Extendicare. In February 2015, the RBC Credit Facility was amended to reduce the amount available to $44.8 million from $64.0 million, as a result of changes in valuations. Under the terms of the February 2015 agreement, up to $39.8 million would be available for operating purposes, and the full $44.8 million would be available for letters of credit. In July 2015, the RBC Credit Facility was further amended to increase the amount available to $46.8 million from $44.8 million, as a result of changes in valuations. Under the terms of the July 2015 agreement, up to $42.8 million is available for operating purposes, and the full $46.8 million is available for letters of credit.

As at December 31, 2015, Extendicare had letters of credit totalling approximately $43.4 million issued under the RBC Credit Facility, of which $42.8 million secure our defined benefit pension plan obligations. This letter of credit renews annually based on an actuarial valuation, and increased in May 2015 from $39.8 million, primarily due to lower discount rates and a weaker Canadian dollar. The RBC Credit Facility has no financial covenants, but does contain normal and customary terms including annual re-appraisals of the centres that could limit the maximum amount available.

2014 CANADIAN MORTGAGE REFINANCINGS

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

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

TAX RULES AND REGULATIONS

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

Discontinued Operations

2014 SETTLEMENT OF U.S. GOVERNMENT INVESTIGATIONS

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

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

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

FINANCING ACTIVITY

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

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

DIVESTITURES AND DISPOSAL GROUP HELD FOR SALE

Assets to be disposed of are recorded at the lower of the carrying value or estimated fair value net of disposal costs. For further information, refer to *note 20* of the audited consolidated financial statements.

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

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

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

Legal Proceedings and Regulatory Actions

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

UPDATE OF REGULATORY AND FUNDING CHANGES AFFECTING RESULTS

In Canada, provincial legislation and regulations closely control all aspects of operation and funding of long-term care centres and publicly funded home health care services, including the fee structure, subsidies, the adequacy of physical centres, standards of care and accommodation, equipment and personnel. A substantial portion of the fees paid to providers of these services are funded by provincial programs, with a portion to be paid by the residents or clients. Each province has a different system for managing the services provided. In some provinces, the government has delegated responsibility for the funding and administration of long-term care programs to regional health authorities. As a result, there can be significant variability in the regulations governing the provision of and reimbursement for care from location to location.

In most provinces, a license must be obtained from the applicable provincial ministry of health in order to operate either a long-term care centre or a retirement centre. In general, there has not been any issuance of new LTC licenses across the country because of the funding implications for governments. In addition to the license procedure, or in some cases in place of, operators in Alberta, Manitoba, Ontario and Saskatchewan are required to sign service contracts that incorporate service expectations with the provincial government or regional health authority. In Ontario, the *Long-Term Care Homes Act, 2007* (the "LTC Act 2007"), that was proclaimed into force on July 1, 2010, provides for, among other things: new licensing procedures that include more rigorous standards for license review (including public hearings); fixed license terms of up to 30 years, after which a new license may or may not be issued; the revocation of a license for continued non-compliance; more onerous duties imposed on long-term care operators; unannounced annual inspections; and a more comprehensive enforcement regime. Long-term care operators will be given notification of whether or not a new license will be issued at least three years before the end of the license term.

Ontario Redevelopment Program

On February 27, 2015, the Ministry of Health and Long-Term Care (the "MOHLTC") released updates to its plan to redevelop approximately 31,000 older long-term care beds by the end of 2025. The new per diem construction funding subsidy includes: an increase to the base rate from $13.30 to $16.65 per bed for large centres of 161 beds or more; an incremental per diem of $1.50 per bed for small centres with up to 96 beds; an incremental per diem of $0.75 per bed for medium centres with 97 to 160 beds; and a per diem of up to $0.38 per bed for those centres eligible for enhanced transition support. In addition, LTC centres are no longer required to meet Leadership in Energy and Environmental Design, or LEED, construction standards; however, those that achieve LEED Silver status will continue to receive a per diem premium of $1.00 per bed. The MOHLTC has indicated that the increased construction funding subsidy will apply retroactively to qualified operators who participated in phase one of the redevelopment program launched in 2009. Extendicare constructed two centres (436 beds) under phase one of the program that currently receive a construction subsidy of $14.30 per bed, and which have been confirmed as being eligible to receive an increase in the per diem construction subsidy to $17.65 per bed, representing an additional $0.5 million per annum. As a result, in the 2015 third quarter, the Company recorded an increase of $9.8 million in the balance of government notes receivable, representing the present value of this additional funding, with an offset to the cost of the buildings. This additional funding is anticipated to begin sometime in 2016 once the existing agreements have been amended. Refer to *note 9* of the audited consolidated financial statements, for additional information.

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

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

Ontario Long-term Care Funding

Ontario is Extendicare's largest market for its senior care services. Funding for Ontario long-term care centres is based on reimbursement for the level of care assessed to be required by the residents, in accordance with scheduled rates. The MOHLTC allocates funds through "funding envelopes", specifically: nursing and personal care (NPC); programs and support services (PSS); and accommodation (which includes a sub-envelope for raw food). The funding for the NPC and

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

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

On July 1st each year, the MOHLTC generally implements annual accommodation funding increases to the per diem rates provided to long-term care providers. The July 1, 2015 funding enhancements increased the daily rates for the non flow-through component of the accommodation envelope by $0.81 (1.5%) and by $0.16 (2.0%) for the flow-through food component. Extendicare estimates that this enhanced funding represents additional annual revenue of approximately $1.8 million in total, of which approximately $0.3 million is flow-through funding (July 2014 – $0.8 million in total).

In addition, LTC operators in Ontario are permitted to designate up to 60% of the resident capacity of a centre as preferred accommodation at higher fixed rates that vary according to the structural classification of the LTC centre. For beds that are not classified as "New" or "A" beds, the maximum preferred accommodation premiums are $8.00 per day for a semi-private room and $18.00 per day for a private room. Since July 2012, the MOHLTC has introduced modest annual increases to the preferred accommodation premiums for "New" and "A" beds by $1.00 per day for semi-private accommodation and $1.75 per day for private accommodation, bringing the maximum to $12.00 per day and $25.00 per day, respectively, effective July 1, 2015. These increases are only applicable to newly admitted residents to beds that are classified as "New" or "A". As at December 31, 2015, Extendicare had 13 "New" LTC centres (1,847 beds) in Ontario, of which 1,099 beds offered preferred accommodation in the form of private rooms. We will benefit from this premium increase for preferred accommodation over time as new residents are admitted.

Alberta Long-term Care Legislation and Funding

Alberta is Extendicare's second largest market for its senior care services. Since April 2010, AHS has been using an activity-based funding system for continuing care centres that includes the measurement of a resident's acuity through the use of a resident assessment instrument – minimum data set, or RAI-MDS, to determine the resident's level of care and resources required. However, AHS continues to adjust the formulas and the accountabilities. The funding model includes a separate pool for quality incentives funding (QIF) that represents a "quality bonus" awarded to centres meeting or exceeding a set of pre-determined quality criteria. The QIF program was implemented on April 1, 2011, and was used to determine an operator's eligibility for 0.2% of its government funding, based on four pre-determined quality indicators. However, the QIF program has been placed on hold since fiscal 2013, pending further development. The Alberta Continuing Care Association is actively engaged in discussions with the Alberta Government and AHS to further increase care funding to accommodate expenses within continuing care, and to revise the existing funding model used within continuing care. It was anticipated that a revised care funding model would be implemented for fiscal 2016/2017; however, the new provincial government has not communicated any changes to date.

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

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

Ontario Home Health Care Legislation and Funding

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

In October 2012, the MOHLTC implemented a new model for home health care that does not involve a competitive bidding process. All Community Care Access Centre (CCAC) home health care contracts within the province concluded on September 30, 2012, and new open-ended, flexible CCAC home health care contracts commenced on October 1, 2012. ParaMed signed new open-ended contracts for all of its existing CCAC contracts. The agreements provide for six months' notice to providers for termination of a contract, and operators are to provide the CCAC with twelve months' notice of intention to give up a contract. The new service delivery model places greater emphasis on quality of care and value than past arrangements, with service providers' performance evaluated based on these elements. Performance against an established set of indicators will guide decisions during future contract discussions.

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

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

2014 ONTARIO BUDGET – HOME HEALTH CARE

As part of its July 2014 budget, the Ontario government announced a government-funded increase in the minimum wage for personal support workers, or PSWs, in the publicly funded home and community care sector by $4.00 per hour over three years (2014 – $1.50, 2015 – $1.50 and 2016 – $1.00) to a minimum of $16.50 per hour. In June 2015, the government announced revisions to years two and three of the PSW wage enhancement initiative, which included establishing a new minimum base rate of $15.50 per hour as of April 1, 2015, and $16.50 per hour as of April 1, 2016, and limiting the eligibility for the April 1, 2015, wage increase to a maximum of $19.00 per hour. For example, a qualifying PSW earning $18.00 per hour would receive a $1.00 per hour increase effective April 1, 2015, rather than the full $1.50. In addition, the government is funding an additional 22.7% of the wage increase to cover incremental benefit costs. The first year of the government's wage enhancement initiative, which was a flat $1.50 per hour to all qualifying PSWs, was implemented in September 2014, retroactive to April 1, 2014. We estimate that the April 1, 2014, funding increase of $1.50 in base wages and associated benefit costs increased our revenue and labour costs by approximately $5.7 million for the nine months ended December 31, 2014, and by approximately $7.5 million for the twelve months ended March 31, 2015. Implementation of the second year of the wage initiative was delayed until August 2015, retroactive to April 1, 2015. We estimate that the April 1, 2015, funded wage enhancement has further increased our revenue and labour costs by approximately $9.0 million for the nine months ended December 31, 2015, of which approximately $3.3 million related to the operations of the Home Health Care Acquisition.

LIQUIDITY AND CAPITAL RESOURCES

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

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

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

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

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

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

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

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

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

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

Net cash from financing activities was a source of cash of $7.3 million in 2015 compared to a use of cash of $37.7 million in 2014. The activity for 2015, included the issuance of long-term debt of $163.3 million, partially offset by repayments of long-term debt of $108.4 million, cash dividends of $35.6 million and Common Shares acquired for cancellation under a normal course issuer bid at a cost of $8.0 million. The activity for 2014, related primarily to cash dividends paid of $35.6 million and financing costs of $4.8 million, partially offset by a release of restricted cash of $2.7 million. For information on the change in long-term debt, refer to "Liquidity and Capital Resources – Long-term Debt".

With respect to our continuing operations, net cash from financing activities was a use of cash of $65.9 million in 2015 compared to a use of cash of $170.6 million in 2014. The activity for 2015, included cash dividends of $35.6 million, scheduled debt repayments of $20.3 million, and the acquisition of Common Shares for cancellation at a cost of $8.0 million. The activity for 2014, related primarily to scheduled debt repayments of $133.9 million (including $113.9 million to settle the 2014 Debentures) and cash dividends of $35.6 million.

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

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

Capital Structure

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

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

Share Information *(thousands)*	**January 31, 2016**	**December 31, 2015**	December 31, 2014
Common Shares (TSX symbol: EXE)[(1)]	**88,023.2**	**87,953.3**	88,195.1

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

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

DISTRIBUTIONS

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

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

There are a number of factors that affect the quarterly funds generated for distribution that our Board takes into consideration in determining the monthly distributions for the year. Factors affecting quarterly trends in earnings are discussed under the headings "2015 Selected Quarterly Information", "Adjusted Funds from Operations", "2015 Fourth Quarter Financial Review" and "2015 Financial Review".

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

NORMAL COURSE ISSUER BID

On December 30, 2015, Extendicare received the approval of the TSX to make a normal course issuer bid (the "Bid") to purchase for cancellation up to 8,610,000 Common Shares (approximately 10% of the public float) through the facilities of the TSX, and on alternative Canadian trading systems. The Bid commenced on January 5, 2016, and provides Extendicare with flexibility to repurchase Common Shares for cancellation until January 4, 2017, or on such earlier date as the Bid is complete. Subject to the TSX's block purchase exception, on any trading day, purchases under the Bid will not exceed 59,253 Common Shares. The price that Extendicare will pay for any Common Shares purchased under the Bid will be the prevailing market price at the time of purchase and any Common Shares purchased will be cancelled. To date in 2016, the Company has not acquired any Common Shares for cancellation under the Bid.

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

ACCRUAL FOR U.S. SELF-INSURED LIABILITIES

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

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

As at December 31, 2015, the accrual for self-insured general and professional liabilities was $148.4 million (US$107.2 million) compared to $133.4 million (US$115.0 million) at the beginning of the year. The decline of US$7.8 million reflected claim payments of US$32.9 million in excess of the expense for self-insured liabilities of US$24.1 million and accretion of US$1.0 million. The current period net expense of $29.3 million (US$24.1 million), represents an expense recorded prior to the completion of the U.S. Sale Transaction in July 2015, of $34.5 million (US$27.9 million), and a release of reserves of $5.2 million (US$3.8 million) recorded in the 2015 fourth quarter, following the completion of our annual independent actuarial review, which confirmed the adequacy of the reserves.

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

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

Most of the risks that Extendicare self-insures are long-term in nature, and accordingly, claim payments for any particular policy year occur over a long period of time. However, management estimates and allocates a current portion of the accrual for self-insured liabilities on the statement of financial position. As at December 31, 2015, management estimated that approximately $41.1 million of the accrual for self-insured general and professional liabilities will be paid within the next year. The timing of payments is not directly within management's control; therefore, estimates could change in the future.

Within our Bermuda-based captive insurance company, we hold investments sufficient to support the accrual for self-insured liabilities and to meet the required statutory solvency and liquidity ratios. These invested funds are reported in other assets and totalled $176.8 million (US$127.7 million) as at December 31, 2015, compared to $154.2 million (US$132.9 million) at December 31, 2014. Management believes there are sufficient cash resources to meet estimated current claims payment obligations.

LONG-TERM DEBT

Continuity of Long-term Debt

The following summarizes the changes in the carrying amounts of long-term debt for each of 2015 and 2014, broken out between continuing and discontinued operations. The continuity of long-term debt for the 2014 year has been recast to reflect the reclassification of a note payable in the amount of $7.0 million (US$6.0 million) to discontinued operations from continuing operations (see "Basis of Presentation – Recast of Comparative Information").

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

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

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

Long-term Debt Maturities and Weighted Average Interest Rates

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

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

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

The table below presents the principal, or notional, amounts and related weighted average interest rates by year of maturity, of the Company's long-term debt obligations as at December 31, 2015.

(millions of dollars unless otherwise noted)	2016	2017	2018	2019	2020	After 2020	**Total**	Fair Value
Canadian Operations								
Convertible debentures (at face value)								
Fixed rate	–	–	–	126.5	–	–	**126.5**	131.9
Average interest rate	–	–	–	6.00%	–	–	**6.00%**	
Long-term debt								
Fixed rate	21.0	31.8	18.6	9.7	54.1	107.7	**242.9**	260.4
Average interest rate	4.50%	4.24%	4.65%	4.85%	4.64%	5.34%	**4.52%**	
Finance lease obligations								
Fixed rate	5.7	6.1	6.5	7.0	7.5	62.6	**95.4**	113.5
Average interest rate	7.00%	7.00%	7.00%	7.00%	7.00%	6.99%	**6.99%**	
U.S. Continuing Operations (1)								
Finance lease obligations								
Fixed rate	0.2	0.1	–	–	–	–	**0.3**	0.2
Average interest rate	9.57%	9.78%	–	–	–	–	**9.10%**	

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

OTHER CONTRACTUAL OBLIGATIONS

The table below provides summary information relating to the contractual obligations, other than long-term debt, as at December 31, 2015. Due to the uncertainty as to the timing of payments to be made with respect to certain obligations, the table excludes our accrual for self-insured liabilities of $148.4 million and our decommissioning provisions of $7.8 million. In addition, the table excludes our defined benefit pension plan obligations, which are described more fully below.

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

Defined Benefit Pension Plan Obligations

The contractual obligations table excludes our defined benefit pension plan obligations. The accrued benefit liability on our statement of financial position as at December 31, 2015, was $40.9 million (2014 – $38.8 million). We currently have defined benefit registered and supplementary plans covering certain executives, both of which have been closed to new entrants since 2000. The registered defined benefit plan was in an actuarial deficit of $2.5 million with plan assets of $5.4 million and accrued benefit obligations of $7.9 million as at December 31, 2015 (2014 – an actuarial deficit of $2.2 million with plan assets of $5.7 million and accrued benefit obligations of $7.9 million). The accrued benefit obligations of the supplementary plan were $38.4 million as at December 31, 2015 (2014 – $36.6 million). We do not set aside assets in connection with the supplementary plan and the benefit payments will be paid from cash from operations. The benefit obligations under the supplementary plan are secured by a letter of credit totalling $42.8 million as at December 31, 2015 (2014 – $39.8 million). This letter of credit renews annually based on an actuarial valuation of the pension obligations, and increased to $42.8 million effective May 1, 2015, primarily due to lower discount rates and a weaker Canadian dollar. The annual benefit payments under the supplementary pension plan to be funded from cash from operations over the next five years are expected to be in the range of $2.2 million to $2.5 million, and the annual contributions to the registered pension plan over the next five years are expected to be less than $0.1 million. Since the majority of our accrued benefit obligations represent our obligation under our non-registered supplementary plan, which is not required to be funded, changes in future market conditions are not expected to have a material adverse effect on our cash flow requirements with respect to our pension obligations, or on our pension expense.

Future Liquidity and Capital Resources

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

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

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

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

RELATED PARTY TRANSACTIONS

Tim Lukenda, Extendicare's President and Chief Executive Officer, and members of his family have a company that owns a long-term care centre and a retirement centre, in which Mr. Lukenda has an approximate 7.1% direct and indirect interest, and with which Extendicare has an ongoing relationship through the provision of management services to the LTC centre in Ontario, Canada. Mr. Lukenda's employment contract provides a mechanism and process that effectively removes him from the decision-making process in situations where a conflict of interest may arise on any matter between the two companies.

RISKS AND UNCERTAINTIES

General Business Risks

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

Risks Related to Growth Activities

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

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

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

Risks Related to Government Funding and Regulatory Changes

Extendicare's earnings are highly reliant on government funding and reimbursement programs, and the effective management of staffing and other costs of operations, which are strictly monitored by government regulatory authorities. Given that we operate in a labour-intensive industry, where labour costs account for a significant portion of our operating costs (approximately 85% in 2015), government funding constraints could have a significant adverse effect on our results from operations and cash flows. Management is unable to predict whether governments will adopt changes in their funding and reimbursement programs, and if adopted and implemented, what effect such changes will have on the Company.

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

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

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

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

Risks Related to Liability and Insurance

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

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

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

Company. Claims against the Company, regardless of their merit or eventual outcome, may also have a material adverse effect on the ability of the Company to attract residents, expand the business of the Company or maintain favourable standings with regulatory authorities.

Risks Related to Tax Rules and Regulations

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

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

Risks Related to Financing

DEBT FINANCING

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

Extendicare's RBC Credit Facility is a demand facility that is secured by 13 class "C" graded LTC centres in Ontario and is guaranteed by certain Canadian subsidiaries of the Company. The RBC Credit Facility provides a line of up to $42.8 million for operating purposes, including letters of credit, and an additional $5.0 million (for a maximum of $46.8 million) for letters of credit. As at December 31, 2015, Extendicare had letters of credit totalling $43.4 million issued under the RBC Credit Facility, of which $42.8 million secured our defined benefit pension plan obligations. The RBC Credit Facility has no financial covenants but contains normal and customary terms including annual re-appraisals of the centres that could limit the maximum level of the line of credit and other restrictions on the Canadian entities making certain payments, investments, loans and guarantees. A demand for repayment of amounts drawn on the line of credit could inhibit the flow of cash dividends by Extendicare on a temporary or more permanent basis until alternative financing is obtained.

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

DEBT COVENANTS

The Company is in compliance with all of its financial covenants as at December 31, 2015. However, there can be no assurance that future covenant requirements will be met. The Company's bank lines and other debt may be affected by its ability to remain in compliance. If the Company does not remain in compliance with its financial covenants, its ability to amend the covenants or refinance its debt may be affected.

CREDIT AND INTEREST RATES

The Company has limited the amount of debt that may be subject to changes in interest rates. All of the long-term debt of the Company is at fixed rates as at December 31, 2015. The Company primarily finances its senior care centres through fixed-rate mortgages and considers securing interest rate swap agreements for any variable-rate debt. The Company maintains risk management control systems to monitor interest rate risk attributable to its outstanding or forecasted debt obligations as well as any offsetting hedge positions. The Company does not enter into financial instruments for trading or speculative purposes.

Risks Related to Foreign Currency Rate Fluctuations

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

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

Risks of Property Ownership

REAL PROPERTY OWNERSHIP

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

Extendicare owns, or operates under finance lease arrangements whereby ownership transfers at the end of the lease term, 100% of its senior care centres, excluding those operated under management contracts. Senior care centres are limited in terms of alternative uses; therefore, their values are directly driven by the cash flow from operations. All but four of the sixty-two properties owned at December 31, 2015, are government-funded senior care centres. Therefore, the value of the real property depends, in part, on government funding and reimbursement programs. The Company's income and funds available for distribution would be adversely affected if governments reduced their funding or reimbursement programs. In addition, overbuilding in any of the market areas of the Company could cause its properties and centres to experience decreased occupancy or depressed margins, which could adversely affect the business, operating results and financial condition of the Company. Moreover, certain significant expenditures involved in real property investments, such as real estate taxes, maintenance costs and mortgage payments, represent liabilities that must be met regardless of whether the property is producing any income.

Real property investments are relatively illiquid, thereby limiting the ability of the Company to vary its portfolio promptly in response to changed economic or investment conditions. There is a risk that the Company would not be able to sell its assets or that it may realize sale proceeds of less than the current book value of its properties.

CAPITAL INTENSIVE INDUSTRY

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

ACCOUNTING POLICIES AND ESTIMATES

Critical Accounting Policies and Estimates

A full discussion of Extendicare's critical accounting policies and estimates is provided in *note 3* of the audited consolidated financial statements for the year ended December 31, 2015, and under the heading "Future Changes in Accounting Policies" that follows this section.

Management considers an understanding of Extendicare's accounting policies to be essential to an understanding of its financial statements because their application requires significant judgement and reliance on estimations of matters that are inherently uncertain. The following are subject to judgments and key sources of estimation uncertainty that the Company believes could have the most significant impact on the amounts recognized in the consolidated financial statements: the valuation of purchase price components for acquisitions; the valuation of deferred consideration; the determination of the recoverable amount of cash generating units subject to an impairment test; the valuation of indemnification provisions; the valuation of the U.S. self-insured liabilities; the assessment of contingencies; the valuation of financial assets and liabilities; the valuation of share appreciation rights liabilities; and the accounting for tax uncertainties and the tax rates used for valuation of deferred tax assets. The recorded amounts for such items are based on management's best available information and are subject to assumptions and judgement, which may change as time progresses; accordingly, actual results could differ from those estimated.

VALUATION OF PURCHASE PRICE COMPONENTS FOR ACQUISITIONS

Upon the acquisition of businesses, we estimate the fair value of the acquired tangible assets (land, building and furniture, fixtures and equipment) and identifiable intangible assets and liabilities (including in-place leases and customer relationships) and the value of the differential between stated and market interest rates on long-term liabilities assumed at acquisition. The excess fair value of consideration given over the fair value of the identifiable net assets acquired is recorded as goodwill, with any negative goodwill being recognized in net earnings on the acquisition date.

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

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability assuming that market participants act in their economic best interests. The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. The techniques used to estimate future cash flows will vary from one situation to another depending on the circumstances surrounding the asset or liability in question. Management assesses fair value based on estimated discounted cash flow projections and available market information (including the historical operating results and anticipated trends, local markets and economic conditions).

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

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

VALUATION OF DEFERRED CONSIDERATION

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

VALUATION OF CASH GENERATING UNITS AND IMPAIRMENT

Non-financial assets consist of property and equipment, intangible assets with finite lives, intangible assets with indefinite lives and goodwill. Property plant and equipment represents approximately 42% of our total assets as at December 31, 2015, and goodwill and other intangibles represent approximately 9%. A CGU is defined to be the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets. The Company has identified each individual centre as a CGU.

Goodwill and indefinite-life intangibles are tested annually, except in the year of acquisition, and other assets are assessed for impairment when indicators of impairment exist. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated annually at the same time or more frequently if warranted. An impairment loss is recognized in net earnings if the carrying amount of an asset or its related CGU, or group of assets on the same basis as evaluated by management, exceeds its estimated recoverable amount. The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell.

The determination of recoverable amounts can be significantly impacted by estimates related to current market valuations, current and future economic conditions in the geographical markets of each CGU, and management's strategic plans within each of its markets. Estimates and assumptions used in the determination of any impairment loss are based upon information that is known at the time, along with future outlook. When impairment tests are performed, the estimated useful lives of the assets are reassessed, with any change accounted for prospectively. Actual results can differ from these estimates, and can have either a positive or negative impact on the estimate, and impact whether an impairment situation exists.

VALUATION OF INDEMNIFICATION PROVISIONS

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

SELF-INSURED LIABILITIES OF DISCONTINUED OPERATIONS

The accrual for U.S. self-insured liabilities of our former U.S. operations is based on management's best estimate of the ultimate cost to resolve general and professional liability claims, including both known claims and claims that have been incurred but not yet reported by the end of the reporting period. The Company estimates the value of losses that may occur within its self-insured retention levels, based upon individual assessment of the settlement, using historical information and industry data, supported by actuarial projections, advice from legal counsel, consultants and external risk management. Actual results can differ materially from the estimates made due to a number of factors including the assumptions used by management and other market forces.

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

At December 31, 2015, the accrual for self-insured general and professional liabilities was $148.4 million compared to $133.4 million at the beginning of the year. Changes in the level of retained risk and other significant assumptions that underlie management's estimates could have a material effect on the future carrying value of the self-insured liabilities. For example a 1% variance in the accrual for U.S. self-insured liabilities at December 31, 2015, would have impacted our net earnings by approximately $1.5 million. For further information refer to the discussion under the heading "Liquidity and Capital Resources – Accrual for U.S. Self-Insured Liabilities".

TAX UNCERTAINTIES

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

DEFERRED TAX ASSETS AND LIABILITIES

The Company uses the asset and liability method of accounting for deferred income taxes, which takes into account the differences between financial statement treatment and tax treatment of certain transactions, assets and liabilities. Deferred tax assets and liabilities are recognized to reflect the expected future tax consequences attributed to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and operating loss and tax credit carryforwards. With respect to the Company's investment in its foreign subsidiaries, the Company uses the tax rate applicable to dividend distributions, which is based on management's judgement on when the temporary difference will reverse. Deferred tax assets and liabilities are measured using the substantively enacted tax rates anticipated to apply in the periods that the temporary differences are expected to be recovered or settled. In assessing whether the deferred tax assets are realizable, management considers whether it is probable (which the Company has defined as "more likely than not") that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. At December 31, 2015, operating loss carryforwards of $10.8 million in the U.S. and capital loss carryforwards of $11.7 million in Canada have not been tax benefited.

Future Changes in Accounting Policies

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

LEASES

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

FINANCIAL INSTRUMENTS

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

REVENUE RECOGNITION

In May 2014, the IASB issued IFRS 15 “Revenue from Contracts with Customers”. The new standard provides a comprehensive framework for recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the standard on leases, insurance contracts and financial instruments. IFRS 15 becomes effective for annual periods beginning on or after January 1, 2018, and is to be applied retrospectively. Early adoption is permitted. The Company is currently assessing the potential impact of the new standard on its consolidated financial statements.

Disclosure Controls and Procedures

Management is responsible for establishing and maintaining a system of disclosure controls and procedures (DC&P) to provide reasonable assurance that all material information relating to the Company is gathered and reported to senior management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), on a timely basis so that appropriate decisions can be made regarding public disclosure.

An evaluation of the effectiveness of the DC&P was conducted as at December 31, 2015, by management under the supervision of the Company’s CEO and CFO. Based on this evaluation, the CEO and CFO have concluded that as at December 31, 2015, our disclosure controls and procedures, as defined by National Instrument 52-109, *Certification of Disclosures in Issuers’ Annual and Interim Filings*, are effective.

Internal Control over Financial Reporting

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

Management, under the supervision of the Company’s CEO and CFO, has evaluated the effectiveness of our ICFR using the 2013 Integrated Control framework as published by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management has concluded that our ICFR was effective and that there were no material weaknesses in our ICFR as at December 31, 2015.

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

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

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

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

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

ADDITIONAL INFORMATION

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

CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2015 and 2014
Dated: February 25, 2016

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.

Timothy L. Lukenda
President and Chief Executive Officer

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.

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
Assets			*(recast note 29)*
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
CONTINUING OPERATIONS			*(recast note 29)*
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

		2015		2014
(in thousands of Canadian dollars)	***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.

Years ended December 31, 2015 and 2014

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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 (*notes 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 3(m))* 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
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**

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.	Total
								2015
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**

							2014
(in thousands of Canadian dollars)	Long–term Care	Home Health Care	Other Canadian Operations	Corporate Canada	Total Canada	Total U.S.	Total
CONTINUING OPERATIONS							*(recast note 29)*
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**

				2014
(in thousands of Canadian dollars)	Total Canada	Total U.S.	Eliminations	Total
Assets				*(recast note 29)*
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 previously reported	Adjustment	As at December 31, 2014 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 As previously reported	Adjustment	Year ended December 31, 2014 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.

THREE-YEAR SUMMARY

(unaudited) (thousands of dollars unless otherwise noted)	2015	2014	2013
Financial Position			
Property and equipment	**426,191**	331,134	1,152,007
Total assets	**1,026,947**	1,915,286	1,849,088
Assets of disposal group held for sale	–	1,254,535	36,418
Liabilities of disposal group held for sale	–	1,137,774	16,356
Long-term debt, including current portion	**454,074**	472,028	1,164,836
Shareholders' equity (deficiency)	**172,129**	(2,504)	37,379
Number of shares outstanding (year end)	**87,953,291**	88,195,076	87,266,511
Financial Results			
Revenue from continuing operations			
Canadian operations			
Long-term care	**594,198**	583,678	568,870
Retirement living	**1,238**	–	–
Home health care	**326,964**	185,491	174,087
Management, consulting and other	**15,583**	12,843	10,004
U.S. operations–other	**41,626**	34,107	30,848
	979,609	816,119	783,809
Net operating income from continuing operations [1]			
Canadian operations			
Long-term care	**69,490**	68,550	70,120
Retirement living	**251**	–	–
Home health care	**36,521**	23,741	21,982
Management, consulting and other	**8,232**	6,066	5,111
U.S. operations – other	**13,764**	9,666	8,884
	128,258	108,023	106,097
Adjusted EBITDA [1]	**86,446**	74,666	69,553
Earnings from continuing operations before separately reported items [1]	**23,931**	13,188	9,141
Gain on sale of U.S. operations, net of income taxes	**205,418**	–	–
Net earnings (loss)	**232,078**	(18,753)	5,283
AFFO (continuing operations) [1]	**44,602**	34,357	32,851
AFFO [1]	**50,828**	73,692	71,114
AFFO per basic share *($)*	**0.58**	0.84	0.82
Dividends declared per share *($)*	**0.48**	0.48	0.60
Dividend payout ratio (% of AFFO)	**83**	57	73
Average U.S./Canadian dollar exchange rate	**1.2787**	1.1045	1.0299
Other Information			
Number of senior care and living centres operated *(year end)*			
Owned/leased [2]	**62**	58	58
Managed	**54**	46	35
	116	104	93
Operational resident capacity of senior care and living centres *(year end)*			
Owned/leased [2]	**8,464**	8,116	8,119
Managed	**6,426**	5,470	4,360
	14,890	13,586	12,479
Average occupancy of long-term care centres (owned/leased) (%)	**97.9**	97.9	97.7
Average occupancy of retirement living communities (%)	**64.1**	–	–
ParaMed home health care hours of service	**8,873,000**	5,082,000	4,911,000
Number of employees *(year end)*	**23,000**	16,800	16,500
Senior care operations	**11,700**	11,400	11,100
Home health care operations	**11,300**	5,400	5,400

(1) Refer to discussion of non-GAAP measures on page 17.

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

CORPORATE INFORMATION

EXTENDICARE INC. BOARD OF DIRECTORS

Benjamin J. Hutzel HR/GN
Chairman of the Board

Frederic A. Waks A
Vice Chairman of the Board,
President and Chief Executive Officer
of Trinity Development Group Inc.

Timothy L. Lukenda
President and Chief Executive Officer

Margery O. Cunningham A
Vice President, Avalere Health

Sandra L. Hanington A, QC
President and Chief Executive Officer
of the Royal Canadian Mint

Alan R. Hibben A
Corporate Director and Advisor

Donna E. Kingelin HR/GN, QC
Principal of Kingswood Consulting

Gail Paech QC
President and Chief Executive Officer
of Associated Medical Services Inc.

Alan D. Torrie HR/GN
President and Chief Executive Officer
of Morneau Shepell Inc.

Honorary Directors

George A. Fierheller
Dr. Seth. B. Goldsmith
Alvin G. Libin
J. Thomas MacQuarrie, QC

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

OFFICERS AND EXECUTIVES

Extendicare Inc.

3000 Steeles Ave. East, Suite 103, Markham, Ontario, L3R 9W2

Timothy L. Lukenda
President and Chief Executive Officer

Elaine E. Everson
Vice President and Chief Financial Officer

Jillian E. Fountain
Corporate Secretary

Extendicare (Canada) Inc.

3000 Steeles Ave. East, Suite 103, Markham, Ontario, L3R 9W2

Timothy L. Lukenda
Chairman and Chief Executive Officer

Elaine E. Everson
Vice President and Chief Financial Officer

Jillian E. Fountain
Corporate Secretary

Deborah Bakti
Vice President, Human Resources and
SGP Purchasing Partner Network

Michael A. Harris
Vice President, Western LTC Operations

Gary M. Loder
Vice President, Extendicare Assist
Managed Homes and Consulting

Mark A. Lugowski
Vice-President, Esprit Lifestyle Communities

Richard Luneburg
Vice President, ParaMed Home Health Care

Christina L. McKey
Vice President, Eastern LTC Operations

A. Paula Neves
Vice President, Quality and Healthcare Innovation

SECURITYHOLDER INFORMATION

Extendicare Inc.

3000 Steeles Ave. East, Suite 103,
Markham, Ontario, Canada L3R 9W2
Tel: (905) 470-4000
Fax: (905) 470-5588

www.extendicare.com

Transfer Agent

Computershare Trust Company of Canada

Tel: (800) 564-6253
Fax: (866) 249-7775

Email: service@computershare.com
www.computershare.com

Exchange Listings/Trading Profile

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

2015 EXE Common Share Activity
High: $9.95; Low: $6.21
Close: $9.65; Volume: 55,601,029

Shareholder Inquiries/ Investor Relations

Jillian Fountain
Corporate Secretary
Tel: (905) 470-5534
Fax: (905) 470-4003

Email: jfountain@extendicare.com

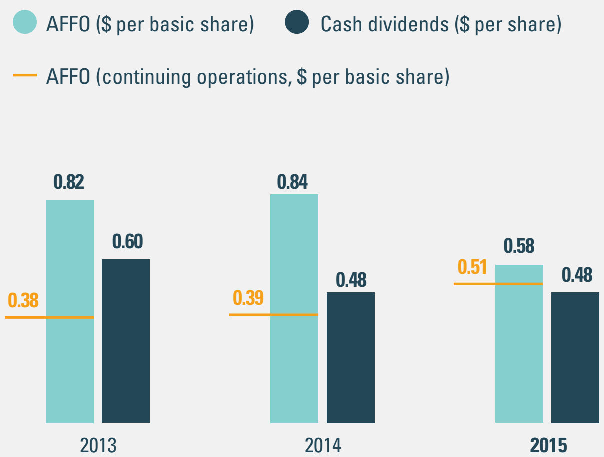
Annual Meeting

Shareholders are invited to attend the Annual and Special Meeting of Extendicare Inc. on May 26, 2016, at 10:30 a.m., at the Royal York Hotel, Toronto, Ontario, Canada.

Published Information

Extendicare's 2015 Annual Report is available for viewing or printing on its website at www.extendicare.com, together with news releases, quarterly reports and other filings with the securities commissions. Printed copies of the annual report are available upon request to the Corporate Secretary.

EXTENDICARE AFFO AND CASH DIVIDENDS

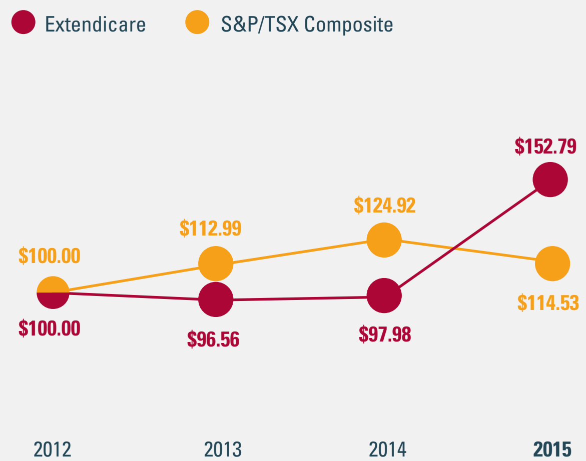


2013	2014	2015
73%	57%	**83%**

Payout ratio

TOTAL RETURN SHARE PRICE PERFORMANCE

(assuming $100 investments is made at December 31, 2012)



EXTENDICARE®
... helping people live better

3000 Steeles Avenue East, Suite 103
Markham, Ontario, Canada L3R 9W2

Tel: (905) 470 4000 Fax: (905) 470 5588

www.extendicare.com