Interim Condensed Consolidated Financial Statements

Q1 2024

Extendicare Inc.
Dated: May 15, 2024

Extendicare Inc.
Interim Condensed Consolidated Financial Statements

Three months ended March 31, 2024 and 2023

Extendicare Inc.
Interim Condensed Consolidated Statements of Financial Position
(Unaudited)

(thousands of dollars)	***notes***	**March 31, 2024**	**December 31, 2023**
Assets			
Current assets			
Cash and cash equivalents		**90,546**	75,184
Restricted cash		**788**	729
Accounts receivable		**101,465**	88,370
Income taxes recoverable		**916**	2,656
Other assets		**19,129**	20,199
Total current assets		**212,844**	187,138
Non-current assets			
Property and equipment	***3***	**298,399**	295,897
Goodwill and other intangible assets	***4***	**123,839**	124,307
Other assets		**35,038**	34,977
Deferred tax assets		**5,457**	5,885
Investment in joint ventures	***5***	**25,432**	24,527
Total non-current assets		**488,165**	485,593
Total assets		**701,009**	672,731
Liabilities and Equity			
Current liabilities			
Accounts payable and accrued liabilities		**236,778**	203,259
Income taxes payable		**2,651**	3,248
Long-term debt	***6***	**19,978**	19,879
Total current liabilities		**259,407**	226,386
Non-current liabilities			
Long-term debt	***6***	**310,106**	314,637
Provisions		**10,439**	10,343
Other long-term liabilities		**22,329**	23,351
Deferred tax liabilities		**8,464**	10,094
Total non-current liabilities		**351,338**	358,425
Total liabilities		**610,745**	584,811
Share capital	***8***	**468,750**	467,347
Equity portion of convertible debentures		**7,085**	7,085
Contributed surplus		**10,977**	13,087
Accumulated deficit		**(390,626)**	(393,471)
Accumulated other comprehensive loss		**(5,922)**	(6,128)
Shareholders' equity		**90,264**	87,920
Total liabilities and equity		**701,009**	672,731

See accompanying notes to the unaudited interim condensed consolidated financial statements.
Commitments and Contingencies (*Note 12),* Subsequent Events *(Notes 12, 16).*

Extendicare Inc.
Interim Condensed Consolidated Statements of Earnings
(Unaudited)

		Three months ended March 31,	
(thousands of dollars except for per share amounts)	***notes***	**2024**	**2023**
Revenue		**367,095**	324,712
Operating expenses		**322,352**	280,148
Administrative costs		**14,611**	13,586
Total expenses	***9***	**336,963**	293,734
Earnings before depreciation, amortization, and other		**30,132**	30,978
Depreciation and amortization		**8,155**	7,351
Other expense	***10***	**1,906**	3,618
Share of profit from investment in joint ventures	***5***	**(1,130)**	—
Earnings before net finance costs and income taxes		**21,201**	20,009
Net finance costs	***11***	**3,608**	4,243
Earnings before income taxes		**17,593**	15,766
Current income tax expense		**5,773**	3,846
Deferred income tax (recovery) expense		**(1,276)**	340
Total income tax expense		**4,497**	4,186
Net earnings		**13,096**	11,580
Basic Earnings per Share			
Net earnings		**$0.16**	$0.14
Diluted Earnings per Share			
Net earnings		**$0.15**	$0.14

See accompanying notes to the unaudited interim condensed consolidated financial statements.

Extendicare Inc.
Interim Condensed Consolidated Statements of Comprehensive Income
(Unaudited)

	Three months ended March 31,	
(thousands of dollars)	**2024**	**2023**
Net earnings	**13,096**	11,580
Other Comprehensive Income, Net of Taxes		
Items that will not be reclassified to profit or loss:		
Defined benefit plan actuarial gains (losses)	**280**	(712)
Tax (expense) recovery on changes in defined benefit plan	**(74)**	189
Other comprehensive income (loss), net of taxes	**206**	(523)
Total comprehensive income	**13,302**	11,057

See accompanying notes to the unaudited interim condensed consolidated financial statements.

Extendicare Inc.
Interim Condensed Consolidated Statements of Changes in Equity
(Unaudited)

(thousands of dollars, except for number of shares)	***notes***	***Number of Shares***	**Share Capital**	**Equity Portion of Convertible Debentures**	**Contributed Surplus**	**Accumulated Deficit**	**Accumulated Other Comprehensive Loss**	**Shareholders' Equity**
Balance at January 1, 2023		*84,728,744*	475,415	7,085	10,619	(384,620)	(7,798)	100,701
Share-based compensation	*7*	*178,702*	1,761	—	(1,648)	(237)	—	(124)
Net earnings		—	—	—	—	11,580	—	11,580
Dividends declared	*8*	—	—	—	—	(10,178)	—	(10,178)
Other comprehensive loss		—	—	—	—	—	(523)	(523)
Balance at March 31, 2023		*84,907,446*	477,176	7,085	8,971	(383,455)	(8,321)	101,456

(thousands of dollars, except for number of shares)	***notes***	***Number of Shares***	**Share Capital**	**Equity Portion of Convertible Debentures**	**Contributed Surplus**	**Accumulated Deficit**	**Accumulated Other Comprehensive Loss**	**Shareholders' Equity**
Balance at January 1, 2024		***83,158,315***	**467,347**	**7,085**	**13,087**	**(393,471)**	**(6,128)**	**87,920**
Share-based compensation	***7***	***225,383***	**1,403**	**—**	**(2,110)**	**(263)**	**—**	**(970)**
Net earnings		**—**	**—**	**—**	**—**	**13,096**	**—**	**13,096**
Dividends declared	***8***	**—**	**—**	**—**	**—**	**(9,988)**	**—**	**(9,988)**
Other comprehensive income		**—**	**—**	**—**	**—**	**—**	**206**	**206**
Balance at March 31, 2024		***83,383,698***	**468,750**	**7,085**	**10,977**	**(390,626)**	**(5,922)**	**90,264**

See accompanying notes to the unaudited interim condensed consolidated financial statements.

Extendicare Inc.
Interim Condensed Consolidated Statements of Cash Flows
(Unaudited)

		Three months ended March 31,	
(thousands of dollars)	***notes***	**2024**	**2023**
Operating Activities			
Net earnings		**13,096**	11,580
Adjustments for:			
Share-based compensation		**(970)**	(124)
Depreciation and amortization	***3, 4***	**8,155**	7,351
Net finance costs	***11***	**3,608**	4,243
Current taxes		**5,773**	3,846
Deferred taxes		**(1,276)**	340
Defined benefit plan expenses		**249**	311
Defined benefit plan contributions		**(441)**	(1,096)
Share of profit from investment in joint venture	***5***	**(1,130)**	—
		27,064	26,451
Net change in operating assets and liabilities			
Accounts receivable		**(13,095)**	(12,464)
Other assets		**861**	1,333
Accounts payable and accrued liabilities		**30,480**	(37,103)
		45,310	(21,783)
Interest paid, net		**(1,263)**	(1,158)
Income taxes paid, net		**(4,631)**	(7,198)
Net cash from (used in) operating activities		**39,416**	(30,139)
Investing Activities			
Purchase of property, equipment and other intangible assets	***3, 4***	**(9,359)**	(33,467)
Change in other assets		**468**	842
Distributions from investment in joint venture	***5***	**225**	—
Net cash used in investing activities		**(8,666)**	(32,625)
Financing Activities			
Issuance of long-term debt	***6***	**—**	16,605
Repayment of long-term debt and lease liabilities	***6***	**(5,146)**	(5,371)
Change in restricted cash		**(59)**	(142)
Dividends paid	***8***	**(9,988)**	(10,167)
Financing costs	***6***	**(195)**	(3)
Net cash (used in) from financing activities		**(15,388)**	922
Increase (decrease) in cash and cash equivalents		**15,362**	(61,842)
Cash and cash equivalents at beginning of period		**75,184**	167,281
Cash and cash equivalents at end of period		**90,546**	105,439

See accompanying notes to the unaudited interim condensed consolidated financial statements.

1. GENERAL INFORMATION AND NATURE OF THE BUSINESS

The common shares (the "Common Shares") of Extendicare Inc. ("Extendicare" or the "Company") are listed on the Toronto Stock Exchange ("TSX") under the symbol "EXE". The Company and its predecessors have been in operation since 1968. The Company is a leading provider of care and services for seniors across Canada, operating under the Extendicare, ParaMed, Extendicare Assist and SGP Purchasing Partner Network ("SGP") brands and is committed to delivering quality care throughout the health continuum to meet the needs of a growing seniors population. The registered office of the Company is located at 3000 Steeles Avenue East, Suite 400, Markham, Ontario, Canada, L3R 4T9.

2. BASIS OF PREPARATION

a) Statement of Compliance

The unaudited interim condensed consolidated financial statements (the "consolidated financial statements") have been prepared in accordance with IAS 34 *Interim Financial Reporting* as issued by the International Accounting Standards Board, and were approved by the board of directors (the "Board") of the Company on May 15, 2024.

The consolidated financial statements do not include all of the information required for full annual consolidated financial statements, and should be read in conjunction with the Company's 2023 annual audited consolidated financial statements. These consolidated financial statements follow the same accounting policies and methods of application as the consolidated financial statements for the year ended December 31, 2023.

b) Basis of Measurement

The 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) Accounting Standards Adopted during the Period

During the three months ended March 31, 2024, the Company adopted the following amendment to IFRS Accounting Standards as issued by the International Accounting Standards Board:

CLASSIFICATION OF LIABILITIES AS CURRENT OR NON-CURRENT

On January 1, 2024, the Company adopted IAS amendments to IAS 1 *Presentation of Financial Statements*, which clarified the criteria of classification of liabilities as current or non-current. The adoption of these amendments to IAS 1 did not have a material impact on the consolidated financial statements.

3. PROPERTY AND EQUIPMENT

	Land & Land Improve-ments	Buildings & Leasehold Improvements	Right-of-use Assets	Furniture & Equipment	Construction in Progress ("CIP")	Projects in Progress ("PIP")	Total
Cost							
January 1, 2023	37,188	335,268	105,992	66,413	120,665	11,083	676,609
Additions	628	2,252	1,251	5,969	62,951	10,600	83,651
Derecognition	—	(1)	(803)	(80)	—	—	(884)
Sale of assets to joint venture *(Note 5)*	—	—	—	—	(150,573)	—	(150,573)
Transfers	948	6,782	—	6,536	—	(14,266)	—
December 31, 2023	38,764	344,301	106,440	78,838	33,043	7,417	608,803
Additions	**48**	**703**	**332**	**255**	**5,276**	**2,183**	**8,797**
Derecognition	**—**	**—**	**(148)**	**—**	**—**	**—**	**(148)**
Transfers	**—**	**2,533**	**—**	**314**	**—**	**(2,847)**	**—**
March 31, 2024	**38,812**	**347,537**	**106,624**	**79,407**	**38,319**	**6,753**	**617,452**

	Land & Land Improve-ments	Buildings & Leasehold Improvements	Right-of-use Assets	Furniture & Equipment	CIP	PIP	Total
Accumulated Depreciation and Impairment Losses							
January 1, 2023	6,081	198,910	48,218	34,681	—	—	287,890
Depreciation	531	11,153	5,932	8,023	—	—	25,639
Derecognition	—	(1)	(577)	(45)	—	—	(623)
December 31, 2023	6,612	210,062	53,573	42,659	—	—	312,906
Depreciation	**146**	**2,664**	**1,455**	**1,946**	**—**	**—**	**6,211**
Derecognition	**—**	**—**	**(64)**	**—**	**—**	**—**	**(64)**
March 31, 2024	**6,758**	**212,726**	**54,964**	**44,605**	**—**	**—**	**319,053**
Carrying Amounts							
December 31, 2023	32,152	134,239	52,867	36,179	33,043	7,417	295,897
March 31, 2024	**32,054**	**134,811**	**51,660**	**34,802**	**38,319**	**6,753**	**298,399**

4. GOODWILL AND OTHER INTANGIBLE ASSETS

	Goodwill	Operational Entitlements	Software and Other Intangible Assets	Total
Cost				
January 1, 2023	45,850	—	86,442	132,292
Additions	—	20,809	13,020	33,829
December 31, 2023	45,850	20,809	99,462	166,121
Additions	**—**	**—**	**1,476**	**1,476**
March 31, 2024	**45,850**	**20,809**	**100,938**	**167,597**

	Goodwill	Operational Entitlements	Software and Other Intangible Assets	Total
Accumulated Amortization				
January 1, 2023	—	—	35,228	35,228
Amortization	—	550	6,036	6,586
December 31, 2023	—	550	41,264	41,814
Amortization	**—**	**330**	**1,614**	**1,944**
March 31, 2024	**—**	**880**	**42,878**	**43,758**
Carrying Amounts				
December 31, 2023	45,850	20,259	58,198	124,307
March 31, 2024	**45,850**	**19,929**	**58,060**	**123,839**

5. JOINT VENTURES

Axium Extendicare LTC II LP

Axium Extendicare LTC II LP (“Axium JV II”) owns 19 Class A long-term care (“LTC”) homes located in Ontario and six homes in Manitoba, consisting of approximately 3,000 funded LTC beds, and one LTC home under construction. The Company has a 15% managed interest in the joint venture, with the remaining 85% interest owned by Axium LTC Limited Partnership (with its affiliates, “Axium”). Extendicare is operating the homes in consideration for a customary management fee.

Axium Extendicare LTC LP

Axium Extendicare LTC LP ("Axium JV") is jointly redeveloping certain of Extendicare's existing Ontario Class C homes. Axium owns an 85% interest and Extendicare has the remaining 15% managed interest. The Company has undertaken all development activities in respect of the joint venture homes and will operate the homes upon completion of construction. In 2023, Extendicare sold four of its redevelopment projects to Axium JV (the "Axium Transaction").

On April 22, 2024, the Company completed the sale of its Orleans, Ontario 256 funded LTC beds currently under construction, to Axium JV (*Note 16*). Axium JV owns five LTC homes located in Ontario, one of which is operational and four of which are under construction.

The Company has accounted for its investments in the joint ventures above using the equity method:

	March 31, 2024	December 31, 2023
Interest in Axium JV II - 15% ownership	**17,546**	16,637
Interest in Axium JV - 15% ownership	**7,886**	7,890
Total	**25,432**	24,527

The assets and liabilities of the joint ventures for the periods below including fair value adjustments at acquisition and a reconciliation to the carrying amount of Extendicare's interest are as follows:

	March 31, 2024	December 31, 2023
Current assets (including cash and cash equivalents - $33,099)	**53,858**	41,873
Non-current assets	**634,789**	607,142
Total assets	**688,647**	649,015
Current liabilities (Current portion of long-term debt - $70,597)	**208,371**	195,841
Long-term debt	**315,953**	292,362
Total liabilities	**524,324**	488,203
Total net assets (100%)	**164,323**	160,812
Company share of net assets (15%)	**25,432**	24,527
Carrying amount of investment in joint ventures	**25,432**	24,527

	March 31, 2024	December 31, 2023
Investment in joint ventures as at January 1	**24,527**	—
Investment in joint ventures	**—**	25,373
Distributions from investment in joint ventures	**(225)**	(866)
Share of profit from investment in joint ventures	**1,130**	20
Investment in joint ventures as at end of period	**25,432**	24,527

Financial information of the joint ventures for the period are as follows:

	Three months ended March 31,	
	2024	2023
Revenue	**96,236**	—
Operating expenses	**83,050**	—
Administrative costs	**69**	—
Earnings before depreciation, amortization, and net finance costs	**13,117**	—
Depreciation and amortization	**3,144**	—
Net finance costs	**2,443**	—
Net income (100%)	**7,530**	—
Company share of net income (15%)	**1,130**	—

6. LONG-TERM DEBT

	Interest Rate	Year of Maturity	March 31, 2024	December 31, 2023
Convertible unsecured subordinated debentures	5.00%	2025	**125,161**	124,867
CMHC mortgages, fixed rate	2.65% - 7.70%	2026 - 2037	**39,017**	39,878
CMHC mortgage, variable rate	Variable	2027	**20,356**	20,507
Non-CMHC mortgages and loans	3.49% - 5.64%	2025 - 2038	**98,468**	99,499
Lease liabilities	3.53% - 5.50%	2024 - 2029	**49,676**	52,447
Total debt			**332,678**	337,198
Deferred financing costs			**(2,594)**	(2,682)
Total debt, net of deferred financing costs			**330,084**	334,516
Less: current portion			**(19,978)**	(19,879)
Long-term debt			**310,106**	314,637

Principal Repayments

	Convertible Debentures	Mortgages and Loans Regular	Mortgages and Loans Maturity	Lease Liabilities	Total
2024 remaining	—	6,191	—	11,693	17,884
2025	126,500	7,489	17,109	15,107	166,205
2026	—	7,565	—	14,089	21,654
2027	—	6,086	43,466	7,259	56,811
2028	—	5,712	—	2,046	7,758
Thereafter	—	56,350	7,873	6,670	70,893
Total debt principal and lease liability repayments	126,500	89,393	68,448	56,864	341,205
Unamortized accretion of 2025 convertible debentures	(1,339)	—	—	—	(1,339)
Interest on lease liabilities	—	—	—	(7,188)	(7,188)
Principal and lease liabilities, after accretion and interest	125,161	89,393	68,448	49,676	332,678

Long-term Debt Continuity

	March 31, 2024	December 31, 2023
As at January 1	**334,516**	383,974
Issuance of long-term debt	**—**	38,962
New lease liabilities	**332**	1,251
Accretion and other	**294**	1,148
Repayments	**(2,043)**	(7,983)
Payment of lease liabilities	**(3,103)**	(12,306)
Increase in deferred financing costs	**(195)**	(85)
Amortization of deferred financing costs and other	**283**	1,805
Assumed debt related to the Axium Transaction *(Note 5)*	**—**	(72,250)
As at end of period	**330,084**	334,516

Construction Facilities

	March 31, 2024	December 31, 2023
Construction facilities	**92,500**	92,500
Amount drawn down, end of period	**—**	—
Construction facilities available	**92,500**	92,500

In December 2023, the Company secured a $92.5 million construction facility in connection with its 256-bed LTC redevelopment project in Orleans, Ontario. The facility bears interest at a fixed rate of 5.72%, includes a construction period that commences after the initial drawdown and converts to a 25-year non-revolving term loan no later than 30 months after the initial drawdown. Interest is capitalized during construction. During the first quarter of 2024, the Company entered into an agreement of purchase and sale to sell this redevelopment project to, and have the related construction facility assumed by, Axium JV, subject to customary closing conditions, including receipt of regulatory approvals (*Note 12*).

CMHC Mortgages

The Company has one variable rate mortgage, insured through the Canada Mortgage and Housing Corporation ("CMHC") program, that is secured by a Canadian financial institution at a variable rate based on the lender's cost of funds plus 225 basis points. In the first quarter of 2024, the Company extended the maturity date of the mortgage to July 1, 2027.

Credit Facilities

The Company has two demand credit facilities totalling $112.3 million. One is secured by 14 Class C LTC homes in Ontario and the other is secured by the assets of the home health care business. Neither of these facilities has financial covenants but do contain normal and customary terms. As at March 31, 2024, $27.3 million of the facilities secure the Company's defined benefit pension plan obligations (December 31, 2023 – $27.3 million), $10.9 million secures the Company's obligation to fund capital contributions to the joint ventures in connection with construction of LTC redevelopment projects within the joint ventures (December 31, 2023 – $8.0 million), and $6.1 million was used in connection with obligations relating to LTC homes (December 31, 2023 – $6.1 million), leaving $68.0 million unutilized (December 31, 2023 – $70.9 million).

Financial Covenants

The Company is subject to debt service coverage covenants on certain of its mortgages and loans. The Company was in compliance with all of these covenants as at March 31, 2024.

7. SHARE-BASED COMPENSATION

Equity-settled Long-term Incentive Plan

The Company's long-term incentive plan ("LTIP") provides for a share-based component of executive and director compensation designed to encourage a greater alignment of the interests of the Company's executives and directors with its shareholders, in the form of deferred share units ("DSUs") for non-employee directors and preferred share units ("PSUs") for employees.

DSUs and PSUs granted under the LTIP do not carry any voting rights. DSUs vest immediately upon grant and PSUs vest with a term of not less than 24 months and not more than 36 months from the date of grant. The Company settled PSUs as follows:

	PSUs	
	Three months ended March 31,	
(number of units)	**2024**	**2023**
Settled in Common Shares issued from treasury	**225,383**	178,702
Settled in cash	**250,721**	164,650
PSUs settled during the period	**476,104**	343,352

The Company's DSUs and PSUs were an expense of $0.9 million for the three months ended March 31, 2024 (three months ended March 31, 2023 – $0.9 million), recorded in administrative costs.

The carrying amounts of the Company's DSUs and PSUs are recorded in the consolidated statements of financial position as follows:

	March 31, 2024	**December 31, 2023**
Contributed surplus – DSUs	**6,565**	6,240
Contributed surplus – PSUs	**4,412**	6,847
Total	**10,977**	13,087

As at March 31, 2024, an aggregate of 3,659,228 (December 31, 2023 – 3,884,611) Common Shares were reserved and available for issuance pursuant to the LTIP.

DSU and PSU activity was as follows:

	DSUs		PSUs	
(number of units)	**Three months ended March 31, 2024**	**Year ended December 31, 2023**	**Three months ended March 31, 2024**	**Year ended December 31, 2023**
Units outstanding, beginning of period	**857,813**	670,671	**1,486,841**	1,302,586
Granted	**28,752**	133,874	**498,848**	541,178
Reinvested dividend equivalents	**14,486**	53,268	**24,374**	102,286
Change due to performance and forfeiture	**—**	—	**10,482**	(100,194)
Settled	**—**	—	**(476,104)**	(359,015)
Units outstanding, end of period	**901,051**	857,813	**1,544,441**	1,486,841
Weighted average fair value of units granted during the period at grant date	**$7.70**	$6.64	**$7.90**	$6.35

DSUs are fair valued at the date of grant using the previous day's closing trading price of the Common Shares. The grant date values of PSUs awarded were based on the fair values of one award comprised of two equal components being the adjusted funds from operations ("AFFO") and total shareholder return ("TSR"). The fair values of the AFFO component were measured using the previous day's closing trading price of the Common Shares. The fair values of the TSR component were measured using the Monte Carlo simulation method.

PSUs granted and the assumptions used to determine the grant date values are as follows:

	Three months ended March 31, 2024			**Year ended December 31, 2023**
Grant date	**March 19, 2024**	November 21, 2023	August 22, 2023	March 14, 2023
Vesting date	**March 19, 2027**	March 14, 2026	March 14, 2026	March 14, 2026
PSUs granted	**495,269**	9,288	2,088	529,802
Fair value of AFFO component	**$3.81**	$3.25	$3.30	$3.16
Fair value of TSR component	**$4.09**	$3.34	$3.25	$3.19
Grant date fair value	**$7.90**	$6.59	$6.55	$6.35
Expected volatility of the Company's Common Shares	**18.43 %**	18.48 %	17.79 %	19.18 %
Expected volatility of the Index	**15.85 %**	16.94 %	16.06 %	16.43 %
Risk-free rate	**3.94 %**	4.32 %	4.68 %	3.50 %
Dividend yield	**nil**	nil	nil	nil

8. SHARE CAPITAL

Common Shares

Each Common Share is transferable, represents an equal and undivided beneficial interest in the assets of the Company and entitles the holder to one vote at all meetings of shareholders of the Company. Shareholders are entitled to receive dividends from the Company when declared by the Board. During the three months ended March 31, 2024 and 2023, the Company declared cash dividends of $0.12 per share.

In June 2023, the Company received approval from the TSX to renew its normal course issuer bid ("NCIB") to purchase for cancellation up to 7,273,707 Common Shares, representing 10% of its public float, through the facilities of the TSX and/or through alternative Canadian trading systems, in accordance with TSX rules. The NCIB commenced on June 30, 2023, and provides the Company with flexibility to purchase Common Shares for cancellation until June 29, 2024, or on such earlier date as the NCIB is complete. The actual number of Common Shares purchased under the NCIB and the timing of any such purchases will be at the Company's discretion. Subject to the TSX's block purchase exception, daily purchases will be limited to 36,281 Common Shares. In 2023, the Company purchased 1,121,631 Common Shares at a cost of $7.0 million, representing a weighted average price per share of $6.23. There were no purchases under the NCIB during the three months ended March 31, 2024.

9. EXPENSES BY NATURE

	Three months ended March 31,	
	2024	**2023[(i)]**
Employee wages and benefits	**296,167**	246,463
Food, drugs, supplies and other variable costs	**14,913**	15,180
Property based and leases	**14,815**	17,772
Other	**11,068**	14,319
Total operating expenses and administrative costs	**336,963**	293,734

[(i)]Certain comparative information has been reclassified to conform to the current year presentation.

10. OTHER EXPENSE

Strategic Transformation Costs

During the three months ended March 31, 2024, the Company incurred costs related to the strategic transformation of the Company. Costs incurred include transaction, legal, regulatory, IT integration and management transition costs of $1.9 million (March 31, 2023 – $3.6 million).

11. NET FINANCE COSTS

	Three months ended March 31,	
	2024	**2023**
Interest expense	**4,988**	5,354
Interest revenue	**(1,453)**	(1,809)
Accretion	**393**	370
Other	**(320)**	328
Net finance costs	**3,608**	4,243

12. COMMITMENTS AND CONTINGENCIES

Commitments

As at March 31, 2024, the Company has outstanding commitments in connection with construction contracts for its LTC redevelopment project. The Company also has outstanding commitments in connection with various IT service and licence agreements to support the transition of key IT platforms to cloud-based solutions in support of the Company's growth initiatives. The expected payments towards those obligations are due as follows:

	Construction Commitments	Technology Commitments	Total
2024	21,709	11,433	33,142
2025	32,544	4,862	37,406
2026 and thereafter	12,203	904	13,107
Total	66,456	17,199	83,655

On October 10, 2023, the Company entered into a $71.7 million fixed-price construction agreement in connection with the construction of a new 256-bed LTC home in Orleans, Ontario. Construction commenced in the fourth quarter of 2023 and the home is targeted to open in the second quarter of 2026. In March 2024, the Company entered into an agreement of purchase and sale to sell this project currently under construction to Axium JV, with Extendicare retaining a 15% managed interest. The fixed-price construction agreement was assumed by Axium JV upon sale of the redevelopment project on April 22, 2024 by the Company to Axium JV (*Note 16*).

In December 2023, the Company entered into agreements to sell the land and buildings associated with its Sudbury (Falconbridge) and Kingston Class C LTC homes, (collectively, the "Dispositions"). The Sudbury (Countryside) redevelopment project in Axium JV opened in the first quarter of 2024, and the Kingston (Limestone Ridge) redevelopment project in Axium JV is expected to open in the third quarter of 2024; each respective sale is expected to close shortly thereafter. The Dispositions are subject to certain conditions. Proceeds from the Dispositions, before transaction costs and taxes, are expected to be $3.8 million in respect of Kingston; the sale of the Sudbury (Falconbridge) assets closed on April 30, 2024, subject to customary closing conditions (*Note 16*).

Guarantees

The Company provides unsecured guarantees related to certain credit facilities held by its joint ventures; namely, construction loans and letter of credit facilities in support of ongoing construction of joint venture LTC redevelopment projects and term loans and lease-up credit facilities for operating joint venture LTC homes. As at March 31, 2024, 24 LTC homes within the joint ventures have existing credit facilities available of up to $610.7 million. The guarantees provided by the Company vary depending upon the joint venture and the project, but are typically either on a joint and several basis for 50% of the loan amount or on a several basis for 15% of the loan amount or some lesser portion thereof. The amount of the guarantees will vary as borrowings increase on projects under construction and reduce as homes move into operations when guarantee requirements are generally lower. As at March 31, 2024, the Company has provided unsecured guarantees of $105.5 million in support of the credit facilities held by its joint ventures.

Axium JV II is subject to debt service coverage covenants on certain of its credit facilities. The joint venture was in compliance with the covenants as at March 31, 2024.

Legal Proceedings and Regulatory Actions

In the ordinary course of business, the Company is involved in and potentially subject to legal proceedings brought against it from time to time in connection with its operations. The COVID-19 pandemic has increased the risk that litigation or other legal proceedings, regardless of merit, will be commenced against the Company.

In April 2021, the Company was served with a statement of claim filed in the Court of Queen's Bench for Saskatchewan alleging negligence, breach of fiduciary duty, breach of contract and breach of the required standard of care by the Company and certain unnamed defendants in respect of all residents of Company LTC homes and retirement communities located in Saskatchewan as well as their family members. The claim seeks an order certifying the action as a class action and unspecified damages.

In January 2022, four active class actions against the Company in Ontario were consolidated into one action pursuant to the *Class Proceedings Act* (Ontario). The consolidated claim is in respect of all Ontario LTC homes owned, operated, licensed and/or managed by the Company and its affiliates and names as defendants the Company, certain of its affiliates and the owners of any such managed LTC homes and alleges negligence, gross negligence, breach of fiduciary duty, breach of contract, unjust enrichment, wrongful death in respect of all persons who contracted COVID-19 at the residence or subsequently contracted COVID-19 from such persons and breach of section 7 of the *Canadian Charter of Rights and Freedoms*. The consolidated claim seeks damages in the aggregate of $110.0 million. On March 7, 2024, the consolidated claim was certified against the Company, but only in respect of the Ontario LTC homes it owns and with a gross negligence cause of action. The Company has appealed certain aspects of the decision.

The Company intends to vigorously defend itself against these claims and these claims are subject to insurance coverage maintained by the Company. However, given the status of the proceedings, the Company is unable to assess their potential outcome and they could have a materially adverse impact on the Company's business, results of operations and financial condition.

In December 2020, the Government of Ontario passed Bill 218, *Supporting Ontario's Recovery Act* (Ontario), which provides targeted liability protection against COVID-19 exposure-related claims against any individual, corporation, or other entity that made a "good faith" or "honest" effort to act in accordance with public health guidance and laws relating to COVID-19 and did not otherwise act with "gross negligence". The protection under Bill 218 is retroactive to March 17, 2020, when Ontario first implemented emergency measures as part of its response to the COVID-19 pandemic. Similar legislation has been passed in other provincial jurisdictions, including Saskatchewan.

In October 2021, the Supreme Court of Canada dismissed an application for leave to appeal by the Attorney General of Ontario which sought to challenge the decision issued by the previous presiding court that ruled in favour of certain unions in respect of a legal challenge to a 2016 Pay Equity Tribunal decision. The unions argued that new pay equity adjustments were required in order to maintain pay equity with municipal LTC homes where personal support workers and other direct care workers in other industries are included in determining pay equity. The matter has now been referred back to the Pay Equity Tribunal to settle the matter between the participating LTC homes, unions and the Government and establish a framework for pay equity suitable for the sector. The Company, along with other participants in the LTC sector, including the Government of Ontario, are working to resolve the matter. Given the uncertainty of the matter and the various stakeholders involved, and as a result the wide range of possible settlement outcomes and related funding changes the Company is unable to determine a reliable estimate of the potential outcome. Therefore, the Company did not record a provision with respect to this matter as at March 31, 2024. This matter could have a materially adverse impact on the Company's business, results of operations and financial condition.

13. FINANCIAL INSTRUMENTS

Fair Values of Financial Instruments

The following table presents the fair value and fair value hierarchy of the Company's financial instruments and excludes financial instruments measured at amortized cost that are short-term in nature. The carrying amounts of the Company's financial instruments approximate their fair values except for items presented below.

As at March 31, 2024	**Carrying Amount**	**Fair Value**	**Fair Value Hierarchy**
Financial assets			
Construction funding subsidy receivable[i]	**29,134**	**27,602**	Level 2
	29,134	**27,602**	
Financial liabilities			
Long-term debt[i][ii]	**157,841**	**154,944**	Level 2
Convertible unsecured subordinated debentures	**125,161**	**124,299**	Level 1
	283,002	**279,243**	

As at December 31, 2023	**Carrying Amount**	**Fair Value**	**Fair Value Hierarchy**
Financial assets			
Construction funding subsidy receivable[i]	29,602	28,268	Level 2
	29,602	28,268	
Financial liabilities			
Long-term debt[i][ii]	159,884	157,679	Level 2
Convertible unsecured subordinated debentures	124,867	123,970	Level 1
	284,751	281,649	

(i) Includes current portion.
(ii) Excludes leases, convertible debentures and netting of deferred financing costs.

14. RELATED PARTY TRANSACTIONS

Transactions with Joint Ventures

Related party transactions occur between the Company and its joint ventures. These related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to between the related parties. Except as disclosed elsewhere in these consolidated financial statements, the related party balances are included in accounts receivable and accounts payable, revenue, and other income, as applicable.

As at March 31, 2024, $2.3 million (March 31, 2023 – nil) of the Company's accounts receivable related to its joint ventures, and $2.7 million (March 31, 2023 – nil) of the Company's other long-term liabilities related to unrealized gain. For the three months ended March 31, 2024, $3.1 million (March 31, 2023 - nil) of its revenue related to the joint ventures.

There were $0.2 million of distributions from the joint ventures to the Company for the three months ended March 31, 2024 (three months ended March 31, 2023 – nil).

15. SEGMENTED INFORMATION

The Company reports on the following segments: i) long-term care; ii) home health care; iii) managed services, composed of our Extendicare Assist and SGP divisions; and iv) the corporate functions, including the Company's joint venture interests, and any intersegment eliminations as "corporate".

The long-term care segment represents the 52 long-term care homes that the Company owns and operates in Canada. Through the Company's wholly owned subsidiary ParaMed, ParaMed's 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 managed services are composed of its management, consulting and group purchasing divisions. Through the Extendicare Assist division, the Company provides management, consulting and other services to third parties and joint ventures to which the Company is a party; and through the SGP division, the Company offers cost-effective purchasing contracts to other senior care providers for food, capital equipment, furnishings, cleaning and nursing supplies, and office products.

	Three months ended March 31, 2024				
	Long-term Care	Home Health Care	Managed Services	Corporate	Total
Revenue	**206,489**	**143,531**	**17,075**	**—**	**367,095**
Operating expenses	**181,160**	**132,778**	**8,414**	**—**	**322,352**
Net operating income	**25,329**	**10,753**	**8,661**	**—**	**44,743**
Administrative costs				**14,611**	**14,611**
Earnings before depreciation, amortization, and other					**30,132**
Depreciation and amortization				**8,155**	**8,155**
Other expense				**1,906**	**1,906**
Share of profit from investment in joint ventures				**(1,130)**	**(1,130)**
Earnings before net finance costs and income taxes					**21,201**
Net finance costs				**3,608**	**3,608**
Earnings before income taxes					**17,593**
Current income tax expense				**5,773**	**5,773**
Deferred income tax recovery				**(1,276)**	**(1,276)**
Total income tax expense				**4,497**	**4,497**
Net earnings					**13,096**

	Three months ended March 31, 2023				
	Long-term Care	Home Health Care	Managed Services	Corporate	Total
Revenue	207,611	107,427	9,674	—	324,712
Operating expenses	173,857	100,994	5,297	—	280,148
Net operating income	33,754	6,433	4,377	—	44,564
Administrative costs				13,586	13,586
Earnings before depreciation, amortization, and other					30,978
Depreciation and amortization				7,351	7,351
Other expense				3,618	3,618
Earnings before net finance costs and income taxes					20,009
Net finance costs				4,243	4,243
Earnings before income taxes					15,766
Current income tax expense				3,846	3,846
Deferred income tax expense				340	340
Total income tax expense				4,186	4,186
Net earnings					11,580

16. SUBSEQUENT EVENTS

On April 22, 2024, the Company completed the sale to Axium JV of its 256-bed LTC home currently under construction in Orleans, Ontario for cash proceeds of $20.1 million, net of Extendicare's 15% retained managed interest, holdbacks and closing costs. The net book value of the project was $15.5 million, resulting in an estimated gain, net of taxes, certain closing and other costs of $2.5 million. The gain is also net of $0.4 million related to the Company's 15% managed interest in the joint venture.

On April 30, 2024, the Company completed the sale of the land and building associated with its Sudbury (Falconbridge) Class C LTC home for proceeds of $5.3 million. The net book value of the net assets was $0.7 million, resulting in an estimated gain, net of taxes, certain closing and other costs of $4.1 million.