... helping people live better

MANAGEMENT'S DISCUSSION AND ANALYSIS

Q3 2019

Extendicare Inc.
Dated: November 7, 2019

Management's Discussion and Analysis

Three and nine months ended September 30, 2019
Dated: November 7, 2019

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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. The Company's common shares (the "Common Shares") are listed on the Toronto Stock Exchange (TSX) under the symbol "EXE". The registered office of Extendicare is located at 3000 Steeles Avenue East, Suite 700, Markham, Ontario, Canada, L3R 9W2.

The Company and its predecessors have been in operation since 1968, helping Canadians live better through a commitment to quality care. The Company is the largest private-sector operator of long-term care centres in Canada and we believe is the largest private-sector provider of publicly funded home health care services in Canada through its wholly owned subsidiary ParaMed Inc. (ParaMed). In addition, the Company owns and operates retirement living communities under the Esprit Lifestyle Communities brand, provides contract services and consulting to third-party long-term care (LTC) centres and retirement living communities through its Extendicare Assist division, and provides group purchasing services to third-party clients through its SGP Purchasing Partner Network, or SGP, division. The Company's qualified and highly trained workforce of approximately 23,000 individuals is passionate about providing high quality services to help people live better.

The Company has prepared this MD&A to provide information to current and prospective investors of the Company to assist them to understand the Company's financial results for the three and nine months ended September 30, 2019. This MD&A should be read in conjunction with the Company's unaudited interim condensed consolidated financial statements for the three and nine months ended September 30, 2019, and the notes thereto, together with the annual MD&A and the audited consolidated financial statements for the year ended 2018, and the notes thereto, prepared in accordance with International Financial Reporting Standards (IFRS), found in the Company's 2018 Annual Report. The accompanying unaudited interim condensed consolidated financial statements for the three and nine months ended September 30, 2019, including the notes thereto, have been prepared in accordance with International Accounting Standard (IAS) 34 "Interim Financial Reporting", as issued by the International Accounting Standards Board (IASB). The annual and interim MD&A, financial statements and notes thereto are available on the Company's website at www.extendicare.com. All currencies are in Canadian dollars unless otherwise indicated. Except as otherwise specified, references to years indicate the fiscal year ended December 31, 2018, or December 31 of the year referenced.

The discussion and analysis in this MD&A are based upon information available to management as of November 7, 2019. 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.

Effective January 1, 2019, the Company adopted IFRS 16 "Leases", as described under "Accounting, Policies and Estimates – New Accounting Policies Adopted". The Company has applied IFRS 16 using the modified retrospective approach, under which the comparative information presented has not been restated and continues to be reported under International Accounting Standard (IAS) 17 "Leases". Certain practical expedients were selected on transition. The transition did not result in any retrospective adjustment to opening retained earnings on January 1, 2019.

Lease costs for the prior year have been reclassified under administrative costs to conform with the current year presentation. The impact of adopting this standard on net earnings and overall cash flow is neutral; however, the principal payment of the lease liabilities is presented in financing activities (previously reflected as operating activities).

In connection with the adoption of IFRS 16, the Company has amended its definition of funds from operations (FFO) by including a deduction for “depreciation for office leases”. As a result, the impact of the adoption of IFRS 16 on the determination of FFO and adjusted funds from operations (AFFO) is not material.

ADDITIONAL INFORMATION

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

FORWARD-LOOKING STATEMENTS

Information provided by the Company from time to time, including in this Quarterly Report, contains or may contain forward-looking statements concerning anticipated future events, results, circumstances, economic performance or expectations with respect to the Company, including, without limitation: statements regarding its business operations, business strategy, growth strategy, results of operations and financial condition; statements relating to the expected annual revenue, net operating income yield (NOI Yield) to be derived from development projects and AFFO to be derived from acquisitions and development projects; and statements relating to indemnification provisions in respect of disposed operations. 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 the Company 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 changes in 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, legal and economic influences; changes in applicable accounting policies; changes in regulations governing the health care and long-term care industries and the compliance by the Company with such regulations; changes in government funding levels for health care services; the ability of the Company to renew its government licenses and contracts; changes in labour relations and costs; 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 the Company 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 the Company to refinance debt; and the availability and terms of capital to the Company to fund capital expenditures and acquisitions; changes in the anticipated outcome and benefits of dispositions, acquisitions and development projects, including risks relating to completion; and those other risks, uncertainties and other factors identified in the Company’s other public filings with the Canadian securities regulators available on SEDAR’s website at www.sedar.com under the Company’s issuer profile.

The forward-looking statements contained in this Quarterly 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 the Company. The forward-looking statements speak only as of the date of this Quarterly 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

The Company 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, and other expense”, “earnings (loss) from continuing operations before separately reported items, net of taxes”, “Funds from Operations”, and “Adjusted Funds from Operations”. These measures are commonly used by the Company and its investors as a means of assessing the performance of the core operations in comparison to prior periods. They are presented by the Company on a consistent basis from period to period, thereby allowing for consistent comparability of its operating performance. In addition, the Company assesses its return on investment in development activities using the non-GAAP financial measure "NOI Yield". These measures are not 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 for users of the Company's financial statements to assess the Company's operating performance and ability to pay cash dividends; or (ii) certain ongoing rights and obligations of the Company 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 the 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 "other expense", and as a result, is equivalent to the line item "earnings before depreciation, amortization, and other expense" reported on the consolidated statements of earnings. References to "Adjusted EBITDA Margin" are to Adjusted EBITDA as a percentage of revenue. Management believes that certain lenders, investors and analysts use EBITDA, Adjusted EBITDA and Adjusted EBITDA margin 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.

References to "earnings (loss) from continuing operations before separately reported items, net of tax" in this document are to earnings (loss) from continuing operations, excluding the following separately reported line items: "foreign exchange and fair value adjustments" and "other expense". 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 investments, and foreign exchange gains or losses on capital items. In addition, these line items may include acquisition related costs, restructuring charges, proxy related costs, and the write-off of unamortized deferred 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", depreciation for office leases, 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. FFO is a recognized earnings measure that is widely used by public real estate entities, particularly by those entities that own and/operate income-producing properties. Management believes that certain investors and analysts use FFO, and as such has included FFO to assist with their understanding of the Company's operating results.

"Adjusted Funds from Operations", or "AFFO", is defined as FFO plus: i) the reversal of non-cash deferred financing and accretion costs; ii) the reversal of non-cash share-based compensation; iii) the principal portion of government capital funding; iv) amounts received from income support arrangements; and v) the reversal of income or loss of the captive insurance company that was included in the determination of FFO, as those 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 the Company's 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. Management believes that AFFO is a relevant measure of the ability of the Company to earn cash and pay cash dividends to shareholders.

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

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

References to “NOI Yield” in this document are to a financial measure used by the Company to assess its return on investment in development activities. NOI Yield is defined by the Company as the estimated stabilized NOI of a development property in the first year it achieves expected stabilized occupancy divided by the estimated Adjusted Development Costs, as defined below. Management believes that this is a relevant measure of the Company’s total economic return of a development project.

“Adjusted Development Costs” is defined as development costs on a GAAP basis (which includes the cost of land, hard and soft development costs, furniture, fixtures and equipment) plus/minus cumulative net operating losses/earnings generated by the development property prior to achieving expected stabilized occupancy, plus an estimated imputed cost of capital during the development period through to the expected stabilized occupancy.

Reconciliations of “earnings (loss) from continuing operations before income taxes” to “Adjusted EBITDA” and “net operating income” are provided under “Select Quarterly Financial Information”, “2019 Third Quarter Financial Review” and “2019 Nine Month Financial Review”.

Reconciliations of “earnings from continuing operations” to “FFO” and “AFFO” are provided under “Adjusted Funds from Operations”.

Reconciliations of “net cash from operating activities” to “AFFO” are provided under “Adjusted Funds from Operations – Reconciliation of Net Cash from Operating Activities to AFFO”.

BUSINESS STRATEGY

Our vision is to be the leading provider of care and services to seniors in Canada. We strive to provide quality, person-centred care through compassionate caregivers across the continuum of care – offering the services seniors need wherever they need it as they age and their care needs change – and to be an employer of choice in the communities in which we operate.

Our core long-term care services are complemented by a market leading home health care platform operating under the ParaMed brand. Demand for home care is growing in tandem with the aging of the population, trending at an average market growth of 4% per year. Strategic investments in systems and processes will enable volume growth in line with the market, while improving efficiency and resulting profitability.

Our LTC business provides high quality care in the centres we own and operate across the country. Capital investment is focused on redeveloping our older LTC centres in the portfolio that will proceed when the economics are favourable. We also provide contract services and consulting to a growing list of third-party LTC centres and retirement living communities through our Extendicare Assist division. Both our operations and our Extendicare Assist clients are supported by our SGP Purchasing Partner Network division. We will continue to grow our third-party services offerings to gain market share and capitalize on the organic growth in the Canadian seniors care market.

Our private-pay retirement business operates under the Esprit Lifestyle Communities brand. We continue to grow Esprit through new developments and expansions in secondary markets where supply and demand dynamics are favourable.

We are continually enhancing our operations to provide excellent care to the growing number of Canadian seniors. These enhancements broaden the range of services available to seniors, while driving improved profitability and greater diversification for the Company. We believe that the effective execution of this strategy will provide an appropriate and consistent return to our shareholders who have demonstrated their belief in our mission by investing in the Company.

SIGNIFICANT 2019 EVENTS AND DEVELOPMENTS

Completed Projects

In October 2019, the Company opened and welcomed its first residents to The Barrieview, its 124-suite retirement living community in Barrie, Ontario, offering 78 independent living (IL) suites, 23 assisted living (AL) suites and 23 memory care (MC) suites. Based on the strong pre-sale activity and initial occupancy experienced at The Barrieview, we are estimating the Adjusted Development Costs for this project to be $34.5 million, with an expected stabilized occupancy of 95% by the end of 2020, an estimated stabilized annual NOI of $3.1 million and a corresponding NOI Yield of 9.0%.

Financing Activity

In April 2019, the Company secured a Canadian Mortgage and Housing Corporation (CMHC) insured mortgage in the amount of $16.0 million, inclusive of fees, on Lynde Creek Manor Retirement Community that had been acquired in April 2018. The mortgage carries a fixed rate of 2.81% per annum, maturing in September 2029.

In June 2019, the Company renewed its corporate head office lease for a term of 10 years with renewal options, resulting in the recognition of a right-of-use asset and lease obligation of $10.3 million, in accordance with IFRS 16.

Subsequent to September 30, 2019, the Company refinanced the construction loan of $9.0 million on Cedar Crossing Retirement Community that had opened in November 2016, with a CMHC-insured mortgage in the amount of $9.3 million, inclusive of fees that matures in September 2029, and carries a fixed rate of 2.49% per annum.

ParaMed – Bill 148 Funding Update

During the three months ended June 30, 2019, the Company received confirmation from the Local Health Integration Networks (LHINs) of the amount of additional funding they would provide to offset increased costs associated with Bill 148, the *Fair Workplaces, Better Jobs Act, 2017* (Ontario) in 2018. The incremental funding was in excess of that estimated by the Company for the period ended December 31, 2018, resulting in a $2.2 million increase in revenue recorded in the three months ended June 30, 2019. For further information, refer to the discussion under "Update of Regulatory and Funding Changes Affecting Results – Ontario Home Health Care Funding".

ParaMed – Transformation

Our home health care business, ParaMed, accounted for 37.6% of our revenue for the nine months ended September 30, 2019. Demand for home health care services in Canadian markets is continuing to increase, but legacy information technology systems and processes are preventing us from fully capitalizing on this opportunity. Our legacy scheduling technology has impaired our ability to give our staff full time hours, adversely impacting staff retention. This, coupled with competition for personal support workers (PSWs) and nurses, has prevented us from accepting growing client referrals.

We are investing over $12 million to transform ParaMed's business (the "ParaMed Transformation"), including the implementation of a new cloud-based system to optimize scheduling and automate work processes. This will improve scheduling for our valued staff, reduce turnover, increase capacity and allow for more care referrals to be accepted. We continue to make progress with the system implementation component of the ParaMed Transformation, which is targeted for completion in early 2020.

The following table summarizes the costs incurred in respect of the ParaMed Transformation, including the ongoing costs of the three legacy systems to be decommissioned once the new system is implemented in all ParaMed offices. For the nine months ended September 30, 2019, Adjusted EBITDA was impacted by approximately $4.5 million ($1.8 million at the NOI level), as compared to approximately $2.4 million ($1.8 million at the NOI level) for the nine months ended September 30, 2018. Management anticipates that the remaining costs associated with the completion of the ParaMed Transformation project will total approximately $2.6 million ($0.6 million at the NOI level).

ParaMed Transformation Costs	**Three months ended September 30**		**Nine months ended September 30**		**Year**	
(millions of dollars)	**2019**	**2018**	**2019**	**2018**	**2018**	**2017**
Operating expenses [(1)]	**0.5**	0.9	**1.8**	1.8	2.3	1.6
Administrative costs	**0.7**	0.2	**2.7**	0.6	1.0	–
Adjusted EBITDA	**1.2**	1.1	**4.5**	2.4	3.3	1.6

(1) The operating expenses reflect the impact on net operating income.

The Company expects this investment will drive increased revenue growth and ultimately improve margins in the business. Management is focused on completing the systems implementation stage of the project in early 2020. It is anticipated that the new system, coupled with the ongoing training and optimization of the new platform, will drive volume increases as we enter 2020.

ParaMed – B.C. Contract Expiration

As previously announced in March 2019, the Company received notice from Fraser Health and Vancouver Coastal Health, both regional health authorities in British Columbia (the "Health Authorities"), that the Health Authorities will be bringing their home support services in-house, and as a result, will not be renewing contracts with private sector home support agencies, including ParaMed. Consequently, ParaMed's contracts with the B.C. Health Authorities will expire no later than March 2020 (the "ParaMed B.C. Contract Expiration").

The Company continues to make progress with ParaMed's exit from the B.C. home health care market. Final dates for the transfer of the operations to the B.C. Health Authorities have not been finalized; however, the final transfer is expected to occur no later than the first quarter of 2020. In connection with the expiration of the contracts, the Company recorded a charge of $1.4 million in the three months ended March 31, 2019, primarily for facilities related costs.

For the three months ended September 30, 2019, ParaMed's B.C. operations contributed revenue of $13.1 million and break even net operating income, as compared to revenue of $11.5 million and net operating income of $0.1 million for the three months ended September 30, 2018. For the nine months ended September 30, 2019, ParaMed's B.C. operations contributed revenue of $37.3 million and a net operating loss of $0.5 million, as compared to revenue of $33.9 million and net operating income of $0.1 million for the nine months ended September 30, 2018. For the year ended December 31, 2018, ParaMed's B.C. operations contributed revenue of $45.5 million and a net operating loss of $0.1 million.

BUSINESS OVERVIEW

As at September 30, 2019, the Company owned and operated 58 LTC centres and 10 retirement living communities, through its Extendicare and Esprit Lifestyle Communities divisions, respectively, and provided contract services to 53 LTC centres and retirement living communities for third parties through Extendicare Assist. In total, Extendicare operated or provided contract services to a network of 121 LTC centres and retirement living communities across four provinces in Canada, with capacity for 15,663 residents. The majority of these centres are in Ontario and Alberta, which accounted for approximately 77% and 11% of residents served, respectively. In October 2019, the Company opened its 124-suite retirement living community in Barrie, Ontario.

In addition to providing group purchasing services to the Company's owned centres, SGP supports third-party clients representing approximately 64,300 senior residents across Canada, as at September 30, 2019. With respect to the Company's home health care operations, for the trailing twelve months ended September 30, 2019, ParaMed delivered approximately 10.7 million hours of home health care services from 35 locations across six provinces (29 in Ontario, 1 in British Columbia, 2 in Alberta, 1 in Manitoba, 1 in Nova Scotia, and 1 in Quebec).

The following table summarizes the LTC centres and retirement living communities operated by the Company and those for which it provided contract services to, as at September 30, 2019. Included are nine LTC centres in Ontario that the Company operates under 25-year lease arrangements, with full ownership obtained at the end of the leases, which expire between 2026 and 2028. In addition to the centres listed in the following table, the Company owns land adjacent to its retirement residence at Lynde Creek in Whitby, Ontario, on which there is an enclave of 113 townhomes, known as Lynde Creek Village, that are leased by the Company to seniors under life leases.

	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								
Ontario	34	5,207	6	584	–	–	40	5,791
Alberta	14	1,519	–	–	–	–	14	1,519
Saskatchewan	5	649	4	341	–	–	9	990
Manitoba	5	762	–	–	–	–	5	762
	58	8,137	10	925	–	–	68	9,062
Managed								
Ontario	42	5,442	6	660	1	120	49	6,222
Alberta	1	102	1	109	–	–	2	211
Manitoba	2	168	–	–	–	–	2	168
	45	5,712	7	769	1	120	53	6,601
Total	**103**	**13,849**	**17**	**1,694**	**1**	**120**	**121**	**15,663**

(1) The centres are categorized based on the predominant level of care provided, the type of licensing and the type of funding provided. For example, two LTC centres with retirement wings have been categorized as LTC centres. In addition, government-funded supportive living suites have been categorized as LTC centres due to the nature of the regulatory oversight and government-determined fee structure.

The following reflects the change in operating capacity of the LTC centres and retirement living communities during the first nine months of 2019 and the 2018 year. In January 2019, the Company opened the Bolton Mills Retirement Community (112 suites) in Bolton, Ontario.

	Nine months ended September 30, 2019		Year 2018	
LTC and Retirement Living	**No. of Centres**	**Resident Capacity**	**No. of Centres**	**Resident Capacity**
As at beginning of year	**120**	**15,447**	116	15,004
Managed contracts added	**1**	**164**	4	524
Managed contracts ceased	**(1)**	**(60)**	(1)	(243)
Retirement living	**1**	**112**	1	138
LTC addition	**–**	**–**	–	24
As at end of period	**121**	**15,663**	120	15,447

Operating Segments

The Company reports the following segments within its Canadian operations: i) long-term care; ii) retirement living; iii) home health care; iv) contract services, consulting and group purchasing as “other Canadian operations”; and v) the Canadian corporate functions and any intersegment eliminations as “corporate Canada”. For financial reporting purposes, the Company’s owned and operated centres are reported under the “long-term care” or the “retirement living” operating segment based on the predominant level of care provided. The Company’s managed centres are reported under the “other Canadian operations” segment, as the revenue from those operations is earned on a fee-for-service basis.

The Company continues to group its remaining U.S. operations as one segment, consisting of its wholly owned Bermuda-based captive insurance company, Laurier Indemnity Company, Ltd. (the “Captive”) that insured the Company’s U.S. general and professional liability risks up to the date of the sale of the Company’s U.S. business in 2015 (the “U.S. Sale Transaction”). The Captive’s expense incurred or release of reserves for self-insured liabilities as well as the disposed U.S. businesses are presented as discontinued operations; while the Captive’s costs to administer and manage the settlement of the remaining claims are reported as continuing operations within the U.S. segment.

The following summarizes the contribution of the business segments to the Company’s consolidated revenue and net operating income for the three and nine months ended September 30, 2019 and 2018.

	Three months ended September 30				Nine months ended September 30			
Operating	**2019**		**2018**		**2019**		**2018**	
Segments	**Revenue**	**NOI**	**Revenue**	**NOI**	**Revenue**	**NOI**	**Revenue**	**NOI**
Long-term care	**56.9%**	**59.1%**	56.8%	56.8%	**56.7%**	**56.6%**	56.3%	53.6%
Retirement living	**3.7%**	**8.5%**	3.3%	7.7%	**3.6%**	**8.3%**	2.9%	6.6%
Home health care	**37.3%**	**23.2%**	37.8%	25.0%	**37.6%**	**25.3%**	38.8%	29.8%
Other Canadian	**2.1%**	**9.2%**	2.1%	10.4%	**2.1%**	**9.8%**	2.0%	9.9%
Remaining U.S.	**0.0%**	**0.0%**	0.0%	0.1%	**0.0%**	**0.0%**	0.0%	0.1%

The following describes the operating segments of the Company.

LONG-TERM CARE

The Company owns and operates for its own account 58 LTC centres with capacity for 8,137 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.

In Canada, provincial legislation and regulations closely control all aspects of operation and funding of LTC centres, and government-funded supportive living centres, 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 resident. Nobody is refused access to long-term care due to an inability to pay. 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 centres provide an alternative setting for residents not yet requiring the needs of a more expensive LTC centre. Such centres are licensed, regulated and funded by Alberta Health Services (AHS) in a similar manner to LTC centres, including a government-determined fee structure.

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. LTC operators are permitted to designate up to 60% of the resident capacity of a centre as preferred accommodation and charge higher accommodation rates that vary according to the structural classification of the LTC centre.

The following summarizes the composition of the owned/leased LTC centres operated by the Company in Ontario, as at September 30, 2019, as well as the maximum preferred differential rates per diem for each classification of bed that took effect July 1, 2019.

		Composition of Beds				
Ontario Owned/Leased	**No. of Centres**	**Private $26.64 premium**	**Private $19.17 premium**	**Semi-private $8.52 premium**	**Basic/Other**	**Total**
New	13	1,106	–	–	741	1,847
Class C (1)	21	–	476	1,396	1,412	3,284
	34	1,106	476	1,396	2,153	5,131

(1) Beds in operation of 3,284 exclude 3 beds held in abeyance.

RETIREMENT LIVING

Under the Esprit Lifestyle Communities brand, the Company owned and operated ten retirement living communities with 925 suites as at September 30, 2019, and opened its eleventh community (124 suites) in October 2019. Four of these communities (341 suites) are located in Saskatchewan and seven communities (708 suites) are located in Ontario. Plans are under way for a 59-suite expansion of the Company's 63-suite Empire Crossing Retirement Community in Port Hope, Ontario.

The Company's retirement communities provide accommodation and services to private-pay residents at rates set by the Company based on the services provided and market conditions. The monthly fees vary depending on the type of accommodation, level of care and services chosen by the resident, and the location of the retirement community. Residents are able to choose the living arrangements best suited to their personal preference and needs, as well as the level of care and support they receive as their needs evolve over time.

HOME HEALTH CARE

The Company provides home health care services through ParaMed, whose 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.

Provincial governments fund a wide range of home health care services, and contract these services to providers such as ParaMed. ParaMed receives approximately 98% of its revenue from contracts tendered by locally administered provincial agencies, with the remainder coming from private-pay clients. For the trailing twelve months ended September 30, 2019, ParaMed delivered approximately 10.7 million hours of service, of which approximately 81% were provided in Ontario, 12% in British Columbia, 4% in Alberta, and the balance were provided in Manitoba, Nova Scotia and Quebec. As previously announced, ParaMed's contracts with the B.C. Health Authorities will expire no later than March 2020 (refer to the discussion under "Significant 2019 Events and Developments – ParaMed – B.C. Contract Expiration").

OTHER CANADIAN OPERATIONS

The Company's other Canadian operations are composed of its contract services and consulting provided by Extendicare Assist, and group purchasing services provided by SGP Purchasing Partner Network.

Contract Services and Consulting

Through its Extendicare Assist division, the Company leverages its expertise in operating LTC centres and retirement living communities in providing a wide range of contract services and consulting to third parties. Extendicare Assist partners with not-for-profit and for-profit organizations, hospitals and municipalities seeking to improve their management practices, quality of care practices and operating efficiencies. Extendicare Assist provides a broad range of services aimed at meeting the needs of its partners, including: financial administration, record keeping, regulatory compliance and purchasing. In addition, Extendicare Assist provides consulting services to third parties for the development and redevelopment of LTC centres.

Extendicare Assist's contract services portfolio consisted of 53 LTC centres and retirement living communities with capacity for 6,601 residents as at September 30, 2019 (December 31, 2018 – 53 centres with capacity for 6,497 residents).

Group Purchasing Services

Through its SGP Purchasing Partner Network 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. SGP negotiates long-term and high volume contracts with suppliers that provide members with preferred pricing, thereby providing a cost-effective means to secure quality national brand-name products, along with a range of innovative services. As at September 30, 2019, SGP provided services to third parties representing approximately 64,300 senior residents across Canada (December 31, 2018 – 51,100 seniors).

U.S. REMAINING OPERATIONS – CAPTIVE INSURANCE COMPANY

Prior to the U.S. Sale Transaction, the Company self-insured certain risks related to general and professional liability of its disposed U.S. operations through the Captive. The obligation to settle such claims relating to the period prior to the closing of the U.S. Sale Transaction, including claims incurred but yet to be reported, remains with the Company, which continue to be funded through the Captive. The majority of the risks that the Company self-insured relating to the U.S. operations are long-term in nature, and accordingly, claim payments for any particular policy year can occur over a long period of time. Any expense incurred or release of reserves for U.S. self-insured liabilities are presented as discontinued operations; while the costs to administer and manage the settlement of the remaining claims are reported as continuing operations within the U.S. segment.

As at September 30, 2019, the accrual for U.S. self-insured general and professional liabilities was $17.8 million (US$13.4 million) as compared to $37.1 million (US$27.2 million) as at December 31, 2018, and the investments held for U.S. self-insured liabilities totalled $41.9 million (US$31.7 million) as compared to $67.9 million (US$49.8 million) as at December 31, 2018, with the decline in each primarily reflecting the "run off" of these operations and release of reserves. During the nine months ended September 30, 2019, the Company released $6.7 million (US$5.0 million) of reserves for self-insured liabilities, and transferred $13.4 million (US$10.0 million) of cash previously held for investment by the Captive to the Company for general corporate use. In October 2019, the Company repatriated a further US$10.0 million from the Captive. For further information on the self-insured liabilities, refer to the discussion under "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 "Non-GAAP Measures", management uses certain key performance indicators in order to compare the financial performance of the Company'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 the Company's financial results from continuing operations.

The following is a glossary of terms for some of the Company's key performance indicators:

"Occupancy" is measured as the percentage of the number of earned resident days (or the number of occupied suites in the case of a retirement living community) relative to the total available resident days. Total available resident days is the number of beds (or suites in the case of a retirement living community) available for occupancy multiplied by the number of days in the period;

"Stabilized" is the classification by the Company of a centre or community that has achieved and sustained its expected stabilized occupancy level for three consecutive months, which level varies from project to project;

"Non same-store" or "NSS", generally refers to those centres, communities or businesses that were not continuously operated by the Company since the beginning of the previous fiscal year or have been classified as held for sale; and

"Same-store" or "SS" generally refers to those centres, communities or businesses that were continuously operated by the Company since the beginning of the previous fiscal year, and which are not classified as held for sale.

Long-term Care

The following table provides the average occupancy levels of the LTC operations for the past eight quarters.

Long-term Care Centres	2019			2018				2017
Average Occupancy *(%)*	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**
Total LTC	**97.9%**	**97.5%**	**96.9%**	97.6%	97.8%	97.2%	96.4%	97.7%
Ontario LTC								
Total operations	**98.5%**	**98.2%**	**97.5%**	98.2%	98.3%	97.7%	97.1%	98.2%
Preferred Accommodation (1)								
"New" centres – private	**96.1%**	**96.5%**	**95.3%**	96.6%	97.6%	96.7%	96.3%	98.1%
"C" centres – private	**94.2%**	**93.8%**	**96.2%**	97.6%	97.8%	97.3%	97.4%	98.8%
"C" centres – semi-private	**66.5%**	**65.6%**	**65.3%**	66.1%	66.5%	65.7%	65.2%	66.5%

(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.

The average occupancy at the Company's LTC centres was 97.9% for the three months ended September 30, 2019, as compared to 97.8% for the three months ended September 30, 2018, and 97.5% for the three months ended June 30, 2019. 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 outbreaks, which can lead to a temporary freeze on admissions. In addition, occupancy levels for the three months ended March 31, 2018, were impacted by the fill-up of a 24-bed addition to one of the LTC centres that opened in February 2018, yet achieved stabilized occupancy levels in April 2018.

In Ontario, overall government funding is occupancy-based, but once the average occupancy level of 97% or higher for the calendar year is achieved, operators receive government funding based on 100% occupancy. In 2018, the Company's LTC centres in Ontario achieved an overall average occupancy of 97.8%, with all but two of the centres achieving the 97% occupancy threshold.

In addition, the Company's Ontario LTC centres receive premiums for preferred accommodation. The average occupancy of private beds in the "New" centres was 96.1% for the three months ended September 30, 2019, as compared to 97.6% for the three months ended September 30, 2018, and as compared to 96.5% for the three months ended June 30, 2019. The average occupancy of the private beds at the Company's Class C centres was 94.2% for the three months ended September 30, 2019, as compared to 97.8% for the three months ended September 30, 2018, and as compared to 93.8% for the three months ended June 30, 2019.

Retirement Living

The following table summarizes the composition of the Company's ten retirement living communities in operation as at September 30, 2019, which remained unchanged from June 30, 2019. Four of the retirement living communities were in lease-up and two of the retirement living communities were classified as non same-store.

Retirement Living Communities	Location	Total	Stabilized	Lease-up	Same-store	Non Same-store
Cedar Crossing	Simcoe, ON	68	68		68	
Empire Crossing	Port Hope, ON	63	63		63	
Harvest Crossing	Tillsonburg, ON	100	100		100	
Stonebridge Crossing	Saskatoon, SK	116	116		116	
Riverbend Crossing	Regina, SK	67	67		67	
Lynde Creek Manor	Whitby, ON	93	93			93
Bolton Mills	Bolton, ON	112		112		112
Douglas Crossing	Uxbridge, ON	148		148	148	
West Park Crossing	Moose Jaw, SK	79		79	79	
Yorkton Crossing	Yorkton, SK	79		79	79	
Total suites		**925**	**507**	**418**	**720**	**205**
Total communities		**10**	**6**	**4**	**8**	**2**

AS AT OCCUPANCY

The following table provides the combined occupancy of the Company's stabilized and lease-up retirement living communities at the end of each of the past eight quarters.

	2019			2018				2017
Retirement Living Communities	**Sept. 30**	**Jun. 30**	**Mar. 31**	**Dec. 31**	**Sept. 30**	**Jun. 30**	**Mar. 31**	**Dec. 31**
As at Occupancy *(%)* – total	**86.6%**	**83.8%**	**80.9%**	88.6%	89.5%	86.0%	80.8%	78.6%
Stabilized communities	**93.7%**	**93.3%**	**94.7%**	95.7%	93.9%	92.1%	87.7%	88.9%
Lease-up communities	**78.0%**	**72.2%**	**64.1%**	76.8%	80.8%	73.9%	69.7%	62.1%

The occupancy of the stabilized communities was 93.7% as at September 30, 2019, as compared to 93.3% as at June 30, 2019, and to 95.7% as at December 31, 2018. In terms of the quarterly trends throughout the year, lower occupancy levels can be expected during the winter months as a result of higher attrition. The occupancy of the four lease-up communities increased to 78.0% as at September 30, 2019, as compared to 72.2% as at June 30, 2019 and to 76.8% as at December 31, 2018. The completion of the 45-suite addition at Douglas Crossing in November 2018, and the opening of Bolton Mills (112 suites) in January 2019, resulted in sequential declines in occupancy as at December 31, 2018 and March 31, 2019.

AVERAGE OCCUPANCY

The following table provides the average occupancy of the retirement living communities in total and for each of the stabilized and lease-up groupings for the past eight quarters. The average occupancy of the stabilized communities grew to 94.4% for the three months ended September 30, 2019, as compared to 92.3% for the same prior year period. Those communities still in lease-up experienced sequential growth in average occupancy to 74.6% for the three months ended September 30, 2019, from 67.4% for the three months ended June 30, 2019. The decline in the average occupancy of the lease-up communities experienced in the three months ended December 31, 2018 and the three months ended March 31, 2019, from the respective sequential quarters reflects the impact of the opening of the 45-suite addition at Douglas Crossing in November 2018, and Bolton Mills (112 suites) in January 2019.

	2019			2018				2017
Retirement Living Communities	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**
Average Occupancy *(%)* – total	**85.5%**	**82.0%**	**79.3%**	88.4%	87.9%	84.4%	80.4%	75.9%
Stabilized communities	**94.4%**	**94.0%**	**95.4%**	94.5%	92.3%	90.0%	88.8%	87.9%
Lease-up communities	**74.6%**	**67.4%**	**59.9%**	77.7%	79.3%	73.7%	67.1%	54.0%

Home Health Care

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

Home Health Care	2019			2018				2017
Service Volumes	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**
Hours of service *(000's)*	**2,652.7**	**2,660.4**	**2,595.3**	2,750.0	2,708.6	2,734.8	2,705.0	2,818.4
Hours per day	**28,834**	**29,236**	**28,837**	29,891	29,441	30,053	30,055	30,634

ParaMed's average daily hours of service for the three months ended September 30, 2019, declined by 1.4% over the three months ended June 30, 2019. A decline in daily hours of service is not unusual during the summer months, and this quarter's sequential decline at 1.4% was below the 2.0% decline experienced in each of the third quarters of 2018 and 2017, relative to the second quarter in the respective years. In comparison to the three months ended September 30, 2018, ParaMed's average daily hours of service declined by 2.1% this quarter, largely due to the challenges experienced with ParaMed's Ontario operations. We continue efforts to build capacity to address these challenges and to take advantage of the significant organic growth opportunity that exists across Canada (refer to the discussion under "Significant 2019 Events and Developments – ParaMed – Transformation").

SELECT QUARTERLY FINANCIAL INFORMATION

The following is a summary of select quarterly financial information for the past eight quarters.

			2019				2018	2017
(thousands of dollars unless otherwise noted)	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**
Revenue	**282,733**	**284,053**	**274,269**	288,793	280,302	279,488	271,424	281,398
Net operating income	**34,867**	**35,320**	**30,386**	32,863	35,492	36,307	29,322	35,622
NOI margin	***12.3%***	***12.4%***	***11.1%***	*11.4%*	*12.7%*	*13.0%*	*10.8%*	*12.7%*
Adjusted EBITDA	**23,588**	**24,973**	**19,552**	22,538	24,393	27,330	19,977	27,555
Adjusted EBITDA margin	***8.3%***	***8.8%***	***7.1%***	*7.8%*	*8.7%*	*9.8%*	*7.4%*	*9.8%*
Earnings (loss) from continuing operations	**5,247**	**5,854**	**1,057**	(9,055)	7,598	5,975	3,566	10,301
Earnings from discontinued operations	**2,012**	**2,471**	**1,901**	15,562	975	5,852	1,265	3,333
Net earnings	**7,259**	**8,325**	**2,958**	6,507	8,573	11,827	4,831	13,634
Earnings (loss) from continuing operations per basic share *($)*	**0.06**	**0.07**	**0.01**	(0.10)	0.08	0.07	0.04	0.11
Net earnings per basic share *($)*	**0.08**	**0.10**	**0.03**	0.07	0.10	0.14	0.05	0.15
AFFO	**13,693**	**14,927**	**12,615**	12,570	13,379	17,133	14,669	15,713
per basic share *($)*	**0.153**	**0.168**	**0.142**	0.142	0.151	0.194	0.166	0.178
Maintenance Capex	**3,056**	**2,312**	**916**	4,202	3,639	3,783	1,051	3,271
Cash dividends declared	**10,680**	**10,657**	**10,634**	10,612	10,591	10,570	10,578	10,623
per share *($)*	**0.120**	**0.120**	**0.120**	0.120	0.120	0.120	0.120	0.120
Weighted Average Number of Shares								
Basic	**89,253**	**89,039**	**88,825**	88,612	88,412	88,208	88,379	88,633
Diluted	**99,614**	**99,415**	**99,186**	98,962	98,788	98,595	99,688	99,916

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

			2019				2018	2017
(thousands of dollars)	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**
Earnings (loss) from continuing operations before income taxes	**7,488**	**8,057**	**1,813**	(12,327)	10,135	9,131	5,380	13,212
Add (Deduct):								
Depreciation and amortization	**9,861**	**9,705**	**9,427**	10,184	9,014	8,235	7,837	8,170
Net finance costs	**6,239**	**6,236**	**6,883**	8,039	5,244	6,591	6,580	6,173
Other expense	**–**	**975**	**1,429**	16,642	–	3,373	180	–
Adjusted EBITDA	**23,588**	**24,973**	**19,552**	22,538	24,393	27,330	19,977	27,555
Add (Deduct):								
Administrative costs	**11,279**	**10,347**	**10,834**	10,325	11,099	8,977	9,345	8,067
Net operating income	**34,867**	**35,320**	**30,386**	32,863	35,492	36,307	29,322	35,622

There are a number of factors affecting the trend of the Company's quarterly results from continuing operations. With respect to the core operations, while year-over-year quarterly comparisons will generally remain comparable, sequential quarters can vary materially for seasonal and other trends. The significant factors that impact the results from period to period are as follows:

- Ontario long-term care funding tied to flow-through funding 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 case mix index 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 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
- certain line items that are reported separately due to their transitional nature that would otherwise distort the comparability of the historical trends, being "other expense" and "foreign exchange and fair value adjustments".

2019 THIRD QUARTER FINANCIAL REVIEW

The following provides a breakdown of the consolidated statement of earnings between the Canadian and remaining U.S. operations.

	Three months ended September 30						
			2019			2018	Total
(thousands of dollars)	Canada	U.S.	Total	Canada	U.S.	Total	Change
Revenue	**282,733**	**–**	**282,733**	280,264	38	280,302	2,431
Operating expenses	**247,866**	**–**	**247,866**	244,810	–	244,810	3,056
Net operating income	**34,867**	**–**	**34,867**	35,454	38	35,492	(625)
Administrative costs	**11,021**	**258**	**11,279**	10,818	281	11,099	180
Adjusted EBITDA	**23,846**	**(258)**	**23,588**	24,636	(243)	24,393	(805)
Depreciation and amortization	**9,861**	**–**	**9,861**	9,014	–	9,014	847
Earnings (loss) before net finance costs and income taxes	**13,985**	**(258)**	**13,727**	15,622	(243)	15,379	(1,652)
Interest expense (net of capitalized interest)	**7,198**	**–**	**7,198**	6,729	–	6,729	469
Interest revenue	**(919)**	**–**	**(919)**	(902)	–	(902)	(17)
Accretion	**297**	**89**	**386**	255	484	739	(353)
Foreign exchange and fair value adjustments	**(185)**	**(241)**	**(426)**	(494)	(828)	(1,322)	896
Net finance costs (income)	**6,391**	**(152)**	**6,239**	5,588	(344)	5,244	995
Earnings (loss) from continuing operations before income taxes	**7,594**	**(106)**	**7,488**	10,034	101	10,135	(2,647)
Income tax expense (recovery)							
Current	**2,666**	**–**	**2,666**	2,659	–	2,659	7
Deferred	**(425)**	**–**	**(425)**	(122)	–	(122)	(303)
Total income tax expense	**2,241**	**–**	**2,241**	2,537	–	2,537	(296)
Earnings (loss) from continuing operations	**5,353**	**(106)**	**5,247**	7,497	101	7,598	(2,351)
Earnings from discontinued operations	**–**	**2,012**	**2,012**	–	975	975	1,037
Net earnings	**5,353**	**1,906**	**7,259**	7,497	1,076	8,573	(1,314)
Earnings (loss) from continuing operations	**5,353**	**(106)**	**5,247**	7,497	101	7,598	(2,351)
Add (Deduct) (1)**:**							
Foreign exchange and fair value adjustments	**(170)**	**(241)**	**(411)**	(337)	(828)	(1,165)	754
Earnings (loss) from continuing operations before separately reported items, net of taxes	**5,183**	**(347)**	**4,836**	7,160	(727)	6,433	(1,597)

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

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

	Three months ended September 30						
			2019			2018	Total
(thousands of dollars)	Canada	U.S.	Total	Canada	U.S.	Total	Change
Earnings (loss) from continuing operations before income taxes	**7,594**	**(106)**	**7,488**	10,034	101	10,135	(2,647)
Add (Deduct):							
Depreciation and amortization	**9,861**	**–**	**9,861**	9,014	–	9,014	847
Net finance costs (income)	**6,391**	**(152)**	**6,239**	5,588	(344)	5,244	995
Other expense	**–**	**–**	**–**	–	–	–	–
Adjusted EBITDA	**23,846**	**(258)**	**23,588**	24,636	(243)	24,393	(805)
Add (Deduct):							
Administrative costs	**11,021**	**258**	**11,279**	10,818	281	11,099	180
Net operating income	**34,867**	**–**	**34,867**	35,454	38	35,492	(625)

The following is an analysis of the consolidated results from operations for the three months ended September 30, 2019, as compared to the three months ended September 30, 2018. Refer to the discussion that follows under "Summary of Results of Operations by Segment" for an analysis of the revenue and net operating income by operating segment, including the components of non same-store revenue and net operating income.

Revenue

Revenue grew by $2.4 million or 0.9% to $282.7 million for the three months ended September 30, 2019, driven primarily by LTC funding enhancements, expansion of the retirement living operations, and growth in other Canadian operations, partially offset by a decline in home health care volumes.

Operating Expenses

Operating expenses increased by $3.0 million or 1.2% to $247.8 million for the three months ended September 30, 2019. Total labour costs increased by $2.6 million over the three months ended September 30, 2018, and represented 86.1% of operating expenses in each of the third quarters of 2019 and 2018, and as a percentage of revenue were 75.5% for the three months ended September 30, 2019, and 75.2% for the same prior year period. This increase in operating expenses was driven by increased costs of resident care, expansion of the retirement living operations, and higher labour costs, partially offset by the impact of lower home health care volumes delivered and ParaMed Transformation costs ($0.5 million for the three months ended September 30, 2019, as compared to $0.9 million for the same prior year period).

Net Operating Income

Net operating income declined by $0.6 million or 1.8% to $34.9 million for the three months ended September 30, 2019, and represented 12.3% of revenue as compared to 12.7% for the three months ended September 30, 2018. Excluding the lower ParaMed Transformation costs of $0.4 million, net operating income declined by $1.0 million to $35.4 million for the three months ended September 30, 2019, and represented 12.5% of revenue as compared to $36.4 million, or 13.0% of revenue for the same prior year period, reflecting funding enhancements, and growth of the retirement living and other Canadian operations, offset by lower home health care volumes and increased back office operating costs.

Administrative Costs

Administrative costs increased by $0.2 million or 1.6% to $11.3 million for the three months ended September 30, 2019. The comparability of administrative costs between periods was impacted by higher ParaMed Transformation costs of $0.5 million ($0.7 million for the three months ended September 30, 2019, as compared to $0.2 million for the same prior year period), lower severance costs of $0.6 million ($1.1 million for the three months ended September 30, 2019, as compared to $1.7 million for the same prior year period), and the adoption of IFRS 16, which reduced administrative costs by $0.7 million. Excluding the $0.8 million net impact of these factors, administrative costs increased by $1.0 million, primarily due to higher compensation costs and professional fees.

Adjusted EBITDA

Adjusted EBITDA declined by $0.8 million to $23.6 million for the three months ended September 30, 2019, and represented 8.3% of revenue as compared to 8.7% for the three months ended September 30, 2018, reflecting the $0.6 million decline in net operating income and higher administrative costs of $0.2 million. The comparability of Adjusted EBITDA between periods was impacted by higher ParaMed Transformation costs of $0.1 million, lower severance costs of $0.6 million and the adoption of IFRS 16 of $0.7 million, for a net $1.2 million favourable impact. Excluding these factors, Adjusted EBITDA declined by $2.0 million to $25.2 million, or 8.9% of revenue for the three months ended September 30, 2019, as compared to $27.2 million, or 9.7% of revenue for the same prior year period, reflecting growth in net operating income of the LTC and retirement living operations, offset by lower volumes and net operating income of the home health care operations and higher administrative costs.

Depreciation and Amortization

Depreciation and amortization costs increased by $0.8 million to $9.9 million for the three months ended September 30, 2019, of which $0.6 million was a result of the adoption of IFRS 16, and the balance was due to higher capital expenditures in prior periods.

Net Finance Costs

Net finance costs increased by $1.0 million to $6.2 million for the three months ended September 30, 2019, primarily due to a net change in foreign exchange and fair value adjustments related to the Captive's investments and interest rate swaps aggregating to $0.9 million, and higher interest expense partially offset by lower accretion costs in connection with the decline in the accrual for U.S. self-insured liabilities. The adoption of IFRS 16 resulted in an increase in interest expense of less than $0.2 million for the three months ended September 30, 2019.

Income Taxes

The income tax provision was $2.2 million for the three months ended September 30, 2019, representing an effective tax rate of 29.9%, as compared to a provision of $2.5 million and an effective tax rate of 25.0% for the three months ended September 30, 2018. The effective tax rate of the Canadian operations was 29.5% for the three months ended September 30, 2019, as compared to 25.3% for the three months ended September 30, 2018, and was impacted by, among other things, foreign exchange and fair value adjustments, and other expense items that have been separately reported. The effective tax rate of the Canadian operations excluding the impact of separately reported items was 30.0% for the three months ended September 30, 2019, as compared to 24.9% for the same prior year period.

Earnings from Continuing Operations

Earnings from continuing operations of $5.2 million ($0.06 per basic share) for the three months ended September 30, 2019, was down by $2.4 million from $7.6 million ($0.08 per basic share) for the three months ended September 30, 2018, reflecting the above noted decline in earnings and unfavourable change in foreign exchange and fair value adjustments.

Discontinued Operations

Earnings from discontinued operations relate to the former U.S. operations and were $2.0 million for the three months ended September 30, 2019, reflecting the release of the Captive's reserves. The $1.0 million reported for the three months ended September 30, 2018, related to the impact of discount rate adjustments applied to the Captive's reserves.

Summary of Results of Operations by Segment

The following summarizes the Company's segmented "revenue", "operating expenses" and "net operating income", followed by an analysis of the operating performance of each of the Company's operating segments.

Three months ended September 30 *(thousands of dollars)*	**Long-term Care**	**Retirement Living**	**Home Health Care**	**Other Canadian Operations**	**Corporate Canada**	**Total Canada**	**Total U.S.**	**Total**
2019 – Total								
Revenue	**160,972**	**10,406**	**105,414**	**5,941**	**–**	**282,733**	**–**	**282,733**
Operating expenses	**140,351**	**7,463**	**97,313**	**2,739**	**–**	**247,866**	**–**	**247,866**
Net operating income	**20,621**	**2,943**	**8,101**	**3,202**	**–**	**34,867**	**–**	**34,867**
NOI margin %	***12.8%***	***28.3%***	***7.7%***	***53.9%***	**–**	***12.3%***	**–**	***12.3%***
2018 – Total								
Revenue	159,239	9,160	106,015	5,831	19	280,264	38	280,302
Operating expenses	139,080	6,434	97,135	2,161	–	244,810	–	244,810
Net operating income	20,159	2,726	8,880	3,670	19	35,454	38	35,492
NOI margin %	*12.7%*	*29.8%*	*8.4%*	*62.9%*	*100.0%*	*12.7%*	*100.0%*	*12.7%*
Change in Total								
Revenue	1,733	1,246	(601)	110	(19)	2,469	(38)	2,431
Operating expenses	1,271	1,029	178	578	–	3,056	–	3,056
Net operating income	462	217	(779)	(468)	(19)	(587)	(38)	(625)

LONG-TERM CARE OPERATIONS

Net operating income from the long-term care operations was $20.6 million for the three months ended September 30, 2019, as compared to $20.1 million for the three months ended September 30, 2018, an increase of $0.5 million or 2.2%, with an NOI margin of 12.8% and 12.7%, respectively. Revenue grew by $1.7 million, or 1.1%, of which approximately $1.2 million related to the Ontario flow-through funding envelopes, and was therefore directly offset by increased costs of resident care, and the balance was from other funding enhancements. Operating expenses increased by $1.2 million, or 0.9%, due primarily to higher labour and food costs, partially offset by lower utility costs. Total labour costs, as a component of total operating expenses, increased by $1.2 million over the three months ended September 30, 2018, and represented 83.0% of operating expenses for the three months ended September 30, 2019, as compared to 82.9% for the same prior year period.

RETIREMENT LIVING OPERATIONS

The following table summarizes the breakdown of the same-store and non same-store operating results of the retirement living operations.

Retirement Living	**Three months ended September 30**				
(thousands of dollars unless otherwise noted)	**2019**		**2018**		**Change**
Same-store					
Revenue	**8,888**		7,542		1,346
Operating expenses	**5,908**		5,251		657
Net operating income / margin %	**2,980**	***33.5%***	2,291	*30.4%*	689
Average occupancy / weighted average available suites	***94.7%***	***720***	*86.8%*	*676*	*44*
Non Same-store					
Revenue	**1,518**		1,618		(100)
Operating expenses	**1,555**		1,183		372
Net operating income / margin %	**(37)**	***(2.4)%***	435	*26.9%*	(472)
Average occupancy / weighted average available suites	***53.1%***	***205***	*95.8%*	*93*	*112*
Total					
Revenue	**10,406**		9,160		1,246
Operating expenses	**7,463**		6,434		1,029
Net operating income / margin %	**2,943**	***28.3%***	2,726	*29.8%*	217
Average occupancy / weighted average available suites	***85.5%***	***925***	*87.9%*	*769*	*156*

Net operating income from the retirement living operations was $2.9 million for the three months ended September 30, 2019, as compared to $2.7 million for the three months ended September 30, 2018, an increase of $0.2 million or 8.0%. This improvement was driven primarily by growth in average occupancy from same-store operations to 94.7% for the three months ended September 30, 2019, as compared to 86.8% for the same prior year period, partially offset by a decline in the contribution from non same-store operations of $0.5 million, due to early lease-up and pre-opening losses from Bolton Mills and The Barrieview, a decrease in the number of townhome resales at Lynde Creek Village, thereby reducing fees earned, and higher labour costs due primarily to personnel changes.

HOME HEALTH CARE OPERATIONS

Net operating income from the home health care operations was $8.1 million for the three months ended September 30, 2019, as compared to $8.9 million for the three months ended September 30, 2018, a decrease of $0.8 million or 8.8%, with an NOI margin of 7.7% and 8.4%, respectively. Total labour costs as a component of total operating expenses increased by $0.1 million and represented 92.5% of operating expenses for the three months ended September 30, 2019, as compared to 92.6% for the same prior year period. Excluding the factors discussed under "– Summary of Factors Impacting Comparability", net operating income declined by $1.2 million to $8.6 million, or 8.2% of revenue, for the three months ended September 30, 2019, as compared to $9.8 million, or 9.2% of revenue, for the same prior year period, primarily due to a 2.1% decline in daily volumes and higher back office operating costs.

OTHER CANADIAN OPERATIONS

Net operating income from the contract services, consulting and group purchasing operations declined by $0.5 million to $3.2 million for the three months ended September 30, 2019, as compared to $3.7 million for the three months ended September 30, 2018, due to growth in clients served, offset by increased costs to support operations.

2019 NINE MONTH FINANCIAL REVIEW

The following provides a breakdown of the consolidated statement of earnings between the Canadian and remaining U.S. operations.

	Nine months ended September 30						
			2019			**2018**	**Total**
(thousands of dollars)	**Canada**	**U.S.**	**Total**	**Canada**	**U.S.**	**Total**	**Change**
Revenue	**841,055**	**–**	**841,055**	831,086	128	831,214	9,841
Operating expenses	**740,482**	**–**	**740,482**	730,093	–	730,093	10,389
Net operating income	**100,573**	**–**	**100,573**	100,993	128	101,121	(548)
Administrative costs	**31,801**	**659**	**32,460**	28,584	837	29,421	3,039
Adjusted EBITDA	**68,772**	**(659)**	**68,113**	72,409	(709)	71,700	(3,587)
Depreciation and amortization	**28,993**	**–**	**28,993**	25,086	–	25,086	3,907
Other expense	**2,404**	**–**	**2,404**	3,553	–	3,553	(1,149)
Earnings (loss) before net finance costs and income taxes	**37,375**	**(659)**	**36,716**	43,770	(709)	43,061	(6,345)
Interest expense (net of capitalized interest)	**21,110**	**–**	**21,110**	20,899	–	20,899	211
Interest revenue	**(2,684)**	**–**	**(2,684)**	(2,835)	–	(2,835)	151
Accretion	**892**	**558**	**1,450**	951	1,292	2,243	(793)
Foreign exchange and fair value adjustments	**2,525**	**(3,043)**	**(518)**	(1,438)	(454)	(1,892)	1,374
Net finance costs (income)	**21,843**	**(2,485)**	**19,358**	17,577	838	18,415	943
Earnings (loss) from continuing operations before income taxes	**15,532**	**1,826**	**17,358**	26,193	(1,547)	24,646	(7,288)
Income tax expense (recovery)							
Current	**7,219**	**–**	**7,219**	6,128	–	6,128	1,091
Deferred	**(2,019)**	**–**	**(2,019)**	1,379	–	1,379	(3,398)
Total income tax expense	**5,200**	**–**	**5,200**	7,507	–	7,507	(2,307)
Earnings (loss) from continuing operations	**10,332**	**1,826**	**12,158**	18,686	(1,547)	17,139	(4,981)
Earnings from discontinued operations	**–**	**6,384**	**6,384**	–	8,092	8,092	(1,708)
Net earnings	**10,332**	**8,210**	**18,542**	18,686	6,545	25,231	(6,689)
Earnings (loss) from continuing operations	**10,332**	**1,826**	**12,158**	18,686	(1,547)	17,139	(4,981)
Add (Deduct) [(1)]**:**							
Foreign exchange and fair value adjustments	**1,987**	**(3,043)**	**(1,056)**	(1,238)	(454)	(1,692)	636
Other expense	**2,070**	**–**	**2,070**	3,012	–	3,012	(942)
Earnings (loss) from continuing operations before separately reported items, net of taxes	**14,389**	**(1,217)**	**13,172**	20,460	(2,001)	18,459	(5,287)

(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".

	Nine months ended September 30						
			2019			**2018**	**Total**
(thousands of dollars)	**Canada**	**U.S.**	**Total**	**Canada**	**U.S.**	**Total**	**Change**
Earnings (loss) from continuing operations before income taxes	**15,532**	**1,826**	**17,358**	26,193	(1,547)	24,646	(7,288)
Add (Deduct):							
Depreciation and amortization	**28,993**	**–**	**28,993**	25,086	–	25,086	3,907
Net finance costs (income)	**21,843**	**(2,485)**	**19,358**	17,577	838	18,415	943
Other expense	**2,404**	**–**	**2,404**	3,553	–	3,553	(1,149)
Adjusted EBITDA	**68,772**	**(659)**	**68,113**	72,409	(709)	71,700	(3,587)
Add (Deduct):							
Administrative costs	**31,801**	**659**	**32,460**	28,584	837	29,421	3,039
Net operating income	**100,573**	**–**	**100,573**	100,993	128	101,121	(548)

The following is an analysis of the consolidated results from operations for the nine months ended September 30, 2019, as compared to the nine months ended September 30, 2018. Refer to the discussion that follows under "Summary of Results of Operations by Segment" for an analysis of the revenue and net operating income by operating segment, including the components of non same-store revenue and net operating income.

Summary of Factors Impacting Comparability

To assist in the analysis, the following is a summary of items impacting the comparability of results from operations between periods:

- revenue for the nine months ended September 30, 2019, was impacted by incremental home health care revenue of $2.2 million for 2018 related to Bill 148 recognized in the three months ended June 30, 2019;
- operating expenses for each of the nine months ended September 30, 2019 and 2018, included $1.8 million of ParaMed Transformation costs;
- administrative costs were higher by $2.1 million due to higher ParaMed Transformation costs of $2.7 million for the nine months ended September 30, 2019, as compared to $0.6 million for the same prior year period;
- administrative costs were lower by $0.6 million due to lower severance costs of $1.1 million for the nine months ended September 30, 2019, as compared to $1.7 million for the same prior year period ($2.9 million cash payment, partially offset by $1.2 million forfeiture of performance share units); and
- the adoption of IFRS 16 in 2019 reduced administrative costs by $2.1 million and increased depreciation costs by $2.0 million for the nine months ended September 30, 2019.

The net impact of the above items was an increase in net operating income of $2.2 million and Adjusted EBITDA of $2.8 million for the nine months ended September 30, 2019, as compared to the same prior year period.

Revenue

Revenue grew by $9.9 million or 1.2% to $841.1 million for the nine months ended September 30, 2019. Excluding the factors impacting comparability discussed above, revenue increased by $7.7 million, or 0.9%, driven primarily by LTC funding enhancements, expansion of the retirement living operations, and growth in other Canadian operations, partially offset by a decline in home health care volumes.

Operating Expenses

Operating expenses increased by $10.4 million or 1.4% to $740.5 million for the nine months ended September 30, 2019. Total labour costs increased by $6.9 million over the nine months ended September 30, 2018, and represented 86.1% and 86.4% of operating expenses for the nine months ended September 30, 2019 and 2018, respectively, and as a percentage of revenue were 75.8% in each of the periods. The increase in operating expenses was driven by higher costs of resident care, expansion of the retirement living operations, and higher labour costs, partially offset by the impact of lower home health care volumes delivered.

Net Operating Income

Net operating income declined by $0.5 million or 0.5% to $100.6 million for the nine months ended September 30, 2019, and represented 12.0% of revenue as compared to 12.2% for the nine months ended September 30, 2018. Excluding the factors impacting comparability discussed above, net operating income declined by $2.7 million to $100.2 million, or 11.9% of revenue, for the nine months ended September 30, 2019, as compared to $102.9 million, or 12.4% of revenue, for the same prior year period, reflecting funding enhancements, and growth of the retirement living and other Canadian operations, offset by lower home health care volumes and increased back office operating costs.

Administrative Costs

Administrative costs increased by $3.1 million or 10.3% to $32.5 million for the nine months ended September 30, 2019. Excluding the factors impacting comparability discussed above, administrative costs increased by $3.7 million, primarily due to higher compensation costs and professional fees.

Adjusted EBITDA

Adjusted EBITDA declined by $3.6 million to $68.1 million for the nine months ended September 30, 2019, and represented 8.1% of revenue as compared to 8.6% for the nine months ended September 30, 2018, reflecting the $0.5 million decline in net operating income and increase in administrative costs of $3.1 million. Excluding the factors impacting comparability discussed above, Adjusted EBITDA declined by $6.4 million to $69.4 million, or 8.3% of revenue, for the nine months ended September 30, 2019, as compared to $75.8 million, or 9.1% of revenue, for the same prior year period, reflecting growth in LTC and retirement living operations, offset by lower volumes and net operating income of the home health care operations and higher administrative costs.

Depreciation and Amortization

Depreciation and amortization costs increased by $3.9 million to $29.0 million for the nine months ended September 30, 2019, of which $2.0 million was a result of the adoption of IFRS 16, and the balance was due to higher capital expenditures in prior periods.

Other Expense

Other expense of $2.4 million for the nine months ended September 30, 2019, related to costs associated with the ParaMed B.C. Contract Expiration of $1.4 million recorded in the three months ended March 31, 2019, and costs of $1.0 million recognized in the three months ended June 30, 2019, in connection with a representation and standstill agreement entered into with the Sandpiper group pursuant to which two nominees of the Sandpiper group were appointed to the Company's board of directors (the "Board"), and certain standstill covenants were provided in favour of the Company. Other expense of $3.6 million for the nine months ended September 30, 2018, related to costs associated with the redemption of convertible debentures and the acquisition of a retirement community.

Net Finance Costs

Net finance costs increased by $0.9 million to $19.3 million for the nine months ended September 30, 2019, primarily due to a net change in foreign exchange and fair value adjustments related to the Captive's investments and interest rate swaps aggregating to $1.4 million and higher interest expense due to the adoption of IFRS 16 in the amount of $0.3 million, partially offset by lower accretion costs in connection with the decline in the accrual for U.S. self-insured liabilities.

Income Taxes

The income tax provision was $5.2 million for the nine months ended September 30, 2019, representing an effective tax rate of 30.0%, as compared to a provision of $7.5 million and an effective tax rate of 30.5% for the nine months ended September 30, 2018. The effective tax rate of the Canadian operations was 33.5% for the nine months ended September 30, 2019, as compared to 28.7% for the nine months ended September 30, 2018, and was impacted by, among other things, foreign exchange and fair value adjustments, and other expense items that have been separately reported. The effective tax rate of the Canadian operations excluding the impact of separately reported items was 29.7% for the nine months ended September 30, 2019, as compared to 27.7% for the same prior year period.

Earnings from Continuing Operations

Earnings from continuing operations of $12.1 million ($0.14 per basic share) for the nine months ended September 30, 2019, was down by $5.0 million from $17.1 million ($0.19 per basic share) for the nine months ended September 30, 2018, largely impacted by the above noted unfavourable change in foreign exchange and fair value adjustments, increase in depreciation costs, and decline in earnings from the home health care operations due to higher back office operating costs and ParaMed Transformation costs and lower business volumes, partially offset by the prior period home health care funding adjustment.

Discontinued Operations

Earnings from discontinued operations relate to the former U.S. operations and were $6.4 million for the nine months ended September 30, 2019, as compared to $8.1 million for the nine months ended September 30, 2018. Both periods included a release of the Captive's reserves of $6.7 million and $5.8 million, respectively. The balance of the earnings related to the impact of discount rate adjustments on the Captive's reserves.

Summary of Results of Operations by Segment

The following summarizes the Company's segmented "revenue", "operating expenses" and "net operating income", followed by an analysis of the operating performance of each of the Company's operating segments.

Nine months ended September 30 *(thousands of dollars)*	**Long-term Care**	**Retirement Living**	**Home Health Care**	**Other Canadian Operations**	**Corporate Canada**	**Total Canada**	**Total U.S.**	**Total**
2019 – Total								
Revenue	**477,129**	**29,920**	**316,296**	**17,710**	**–**	**841,055**	**–**	**841,055**
Operating expenses	**420,240**	**21,481**	**290,868**	**7,893**	**–**	**740,482**	**–**	**740,482**
Net operating income	**56,889**	**8,439**	**25,428**	**9,817**	**–**	**100,573**	**–**	**100,573**
NOI margin %	***11.9%***	***28.2%***	***8.0%***	***55.4%***	**–**	***12.0%***	**–**	***12.0%***
2018 – Total								
Revenue	467,877	24,373	322,331	16,483	22	831,086	128	831,214
Operating expenses	413,640	17,669	292,257	6,527	–	730,093	–	730,093
Net operating income	54,237	6,704	30,074	9,956	22	100,993	128	101,121
NOI margin %	*11.6%*	*27.5%*	*9.3%*	*60.4%*	*100.0%*	*12.2%*	*100.0%*	*12.2%*
Change in Total								
Revenue	9,252	5,547	(6,035)	1,227	(22)	9,969	(128)	9,841
Operating expenses	6,600	3,812	(1,389)	1,366	–	10,389	–	10,389
Net operating income	2,652	1,735	(4,646)	(139)	(22)	(420)	(128)	(548)

LONG-TERM CARE OPERATIONS

Net operating income from the long-term care operations was $56.9 million for the nine months ended September 30, 2019, as compared to $54.3 million for the nine months ended September 30, 2018, an increase of $2.6 million or 4.9%, with an NOI margin of 11.9% and 11.6%, respectively. Revenue grew by $9.2 million, or 2.0%, of which approximately $5.2 million related to the Ontario flow-through funding envelopes, and was therefore directly offset by increased costs of resident care, and the balance was from other funding enhancements. Operating expenses increased by $6.6 million, or 1.6%, due primarily to higher labour and food costs. Total labour costs, as a component of total operating expenses, increased by $5.4 million over the nine months ended September 30, 2018, and represented 83.0% of operating expenses in each of the periods.

RETIREMENT LIVING OPERATIONS

The following table summarizes the breakdown of the same-store and non same-store operating results of the retirement living operations.

Retirement Living	**Nine months ended September 30**				
(thousands of dollars unless otherwise noted)	**2019**		**2018**		**Change**
Same-store					
Revenue	**25,682**		21,729		3,953
Operating expenses	**17,204**		15,626		1,578
Net operating income / margin %	**8,478**	***33.0%***	6,103	*28.1%*	2,375
Average occupancy / weighted average available suites	***92.0%***	***720***	*83.5%*	*676*	*44*
Non Same-store					
Revenue	**4,238**		2,644		1,594
Operating expenses	**4,277**		2,043		2,234
Net operating income (loss) / margin %	**(39)**	***(0.9)%***	601	*22.7%*	(640)
Average occupancy / weighted average available suites	***48.0%***	***205***	*95.0%*	*59*	*146*
Total					
Revenue	**29,920**		24,373		5,547
Operating expenses	**21,481**		17,669		3,812
Net operating income / margin %	**8,439**	***28.2%***	6,704	*27.5%*	1,735
Average occupancy / weighted average available suites	***82.3%***	***925***	*84.4%*	*735*	*190*

Net operating income from the retirement living operations was $8.4 million for the nine months ended September 30, 2019, as compared to $6.7 million for the nine months ended September 30, 2018, representing an increase of $1.7 million or 25.9%. This improvement was driven primarily by growth in average occupancy from same-store operations to 92.0% for the nine months ended September 30, 2019, as compared to 83.5% for the same prior year period, partially offset by a decline in contribution from non same-store operations of $0.6 million, due to early lease-up and pre-opening losses from Bolton Mills and The Barrieview.

HOME HEALTH CARE OPERATIONS

Net operating income from the home health care operations was $25.4 million for the nine months ended September 30, 2019, as compared to $30.0 million for the nine months ended September 30, 2018, a decrease of $4.6 million or 15.4%, with an NOI margin of 8.0% and 9.3%, respectively. Total labour costs as a component of total operating expenses decreased by $2.2 million and represented 92.5% of operating expenses compared to 92.8% for the nine months ended September 30, 2018. Excluding the factors discussed under "– Summary of Factors Impacting Comparability", net operating income declined by $6.8 million to $25.0 million, or 8.0% of revenue, for the nine months ended September 30, 2019, as compared to $31.8 million, or 9.9% of revenue, for the same prior year period, primarily due to a 2.9% decline in daily volumes and higher operating costs, which included the impact of increased back office administrative staff during the latter half of 2018.

OTHER CANADIAN OPERATIONS

Net operating income from the contract services, consulting and group purchasing operations declined by $0.1 million or 1.4% to $9.8 million for the nine months ended September 30, 2019, as compared to $9.9 million for the same prior year period, due to growth in clients served, partially offset by increased costs to support operations.

ADJUSTED FUNDS FROM OPERATIONS

The following provides a reconciliation of "net earnings" to FFO and AFFO. A reconciliation of "net cash from operating activities" to AFFO is also provided under "Reconciliation of Net Cash from Operating Activities to AFFO".

	Three months ended September 30			Nine months ended September 30		
(thousands of dollars unless otherwise noted)	**2019**	**2018**	**Change**	**2019**	**2018**	**Change**
Net earnings	**7,259**	8,573	(1,314)	**18,542**	25,231	(6,689)
Add (Deduct):						
Depreciation and amortization	**9,861**	9,014	847	**28,993**	25,086	3,907
Depreciation for FFEC (maintenance capex) (1)	**(1,710)**	(1,823)	113	**(5,043)**	(5,540)	497
Depreciation for office leases (2)	**(638)**	–	(638)	**(1,967)**	–	(1,967)
Other expense (continuing operations)	**–**	–	–	**2,404**	3,553	(1,149)
Other income (discontinued operations)	**(2,012)**	(975)	(1,037)	**(6,384)**	(8,092)	1,708
Foreign exchange and fair value adjustments	**(426)**	(1,322)	896	**(518)**	(1,892)	1,374
Current income tax expense (recovery) on other expense, foreign exchange and fair value adjustments (3)	**–**	(2)	2	**(280)**	271	(551)
Deferred income tax expense (recovery)	**(425)**	(122)	(303)	**(1,997)**	1,106	(3,103)
FFO	**11,909**	13,343	(1,434)	**33,750**	39,723	(5,973)
Amortization of deferred financing costs	**415**	395	20	**1,278**	1,345	(67)
Accretion costs	**386**	739	(353)	**1,450**	2,243	(793)
Non-cash share-based compensation	**698**	(817)	1,515	**1,222**	216	1,006
Principal portion of government capital funding	**1,373**	1,300	73	**4,117**	3,900	217
Amounts offset through investments held for self-insured liabilities (4)	**258**	235	23	**659**	687	(28)
Additional maintenance capex (1)	**(1,346)**	(1,816)	470	**(1,241)**	(2,933)	1,692
AFFO	**13,693**	13,379	314	**41,235**	45,181	(3,946)
Per Basic Share *($)*						
FFO	**0.133**	0.151	(0.018)	**0.379**	0.450	(0.071)
AFFO	**0.153**	0.151	0.002	**0.463**	0.511	(0.048)
Per Diluted Share *($)*						
FFO	**0.133**	0.151	(0.018)	**0.379**	0.450	(0.071)
AFFO	**0.149**	0.147	0.002	**0.448**	0.496	(0.048)
Dividends *($)*						
Declared	**10,681**	10,591	90	**31,971**	31,739	232
Declared per share *($)*	**0.120**	0.120	–	**0.360**	0.360	–
Weighted Average Number of Shares *(thousands)*						
Basic	**89,253**	88,412		**89,040**	88,333	
Diluted	**99,614**	98,788		**99,412**	98,709	
Current income tax expense included in FFO	**2,666**	2,661	5	**7,477**	6,130	1,347
Total maintenance capex (1)	**3,056**	3,639	(583)	**6,284**	8,473	(2,189)

(1) The aggregate of the items "depreciation for FFEC" and "additional maintenance capex" represents total actual maintenance capex incurred in the period. An amount equivalent to depreciation for FFEC, or furniture, fixtures, equipment and computers, is deducted in determining FFO, and the difference from the actual total maintenance capex incurred is adjusted for in determining AFFO.

(2) Represents depreciation recognized on adoption of IFRS 16 related to office leases.

(3) Represents current income tax with respect to items that are excluded from the computation of FFO and AFFO, such as foreign exchange and fair value adjustments, and other expense.

(4) 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.

AFFO 2019 Financial Review

For the three months ended September 30, 2019, AFFO improved by $0.3 million, or 2.3%, to $13.7 million ($0.153 per basic share) from $13.4 million ($0.151 per basic share) for the three months ended September 30, 2018.

For the nine months ended September 30, 2019, AFFO declined by $3.9 million, or 8.7%, to $41.2 million ($0.463 per basic share) for the nine months ended September 30, 2019, from $45.2 million ($0.511 per basic share) for the nine months ended September 30, 2018.

AFFO in comparison to the prior year periods was unfavourably impacted by the decline in Adjusted EBITDA, partly driven by reduced volumes and lower net operating income in the home health care operations and higher administrative costs, and an increase in current income taxes. Maintenance capex for the three and nine months ended September 30, 2019, was lower in comparison to the same prior year periods by $0.6 million and $2.2 million, respectively, and contributed to the overall increase in AFFO this quarter in comparison to the same prior year period. A discussion of the factors impacting net earnings and Adjusted EBITDA can be found under "2019 Third Quarter Financial Review" and "2019 Nine Month Financial Review".

The effective tax rate on FFO was 18.1% for the nine months ended September 30, 2019, as compared to 13.4% for the nine months ended September 30, 2018. The Company's current income taxes for 2018 benefitted from favourable timing differences, and the utilization of tax loss carryforwards. For the 2019 year, the Company expects the effective tax rate on FFO will be in the range of 17% to 19%. 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 FFO can be impacted by: adjustments to 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; and the ability to utilize loss carryforwards.

Maintenance capex was $3.0 million for the three months ended September 30, 2019, as compared to $3.6 million for the three months ended September 30, 2018, and as compared to $2.3 million for the three months ended June 30, 2019, representing 1.1%, 1.3% and 0.8% of revenue, respectively. Maintenance capex was $6.3 million for the nine months ended September 30, 2019, as compared to $8.5 million for the nine months ended September 30, 2018, representing 0.7% and 1.0% of revenue, respectively. These costs fluctuate on a quarterly and annual basis with the timing of projects and seasonality. Management monitors and prioritizes the capital expenditure requirements of its properties throughout the year, taking into account the urgency and necessity of the expenditure. In 2019, the Company expects to spend in the range of $10 million to $12 million in maintenance capex, as compared to $12.7 million in 2018.

Reconciliation of Net Cash from Operating Activities to AFFO

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

	Three months ended September 30		Nine months ended September 30	
(thousands of dollars)	**2019**	**2018**	**2019**	**2018**
Net cash from operating activities	**28,362**	13,864	**40,194**	38,284
Add (Deduct):				
Net change in operating assets and liabilities, including interest, taxes and payments for U.S. self-insured liabilities	**(12,606)**	1,621	**4,796**	10,512
Current income tax on items excluded from AFFO (1)	**–**	(2)	**(280)**	271
Depreciation for office leases (2)	**(638)**	–	**(1,967)**	–
Depreciation for FFEC (maintenance capex) (3)	**(1,710)**	(1,823)	**(5,043)**	(5,540)
Additional maintenance capex (3)	**(1,346)**	(1,816)	**(1,241)**	(2,933)
Principal portion of government capital funding	**1,373**	1,300	**4,117**	3,900
Amounts offset through investments held for self-insured liabilities (4)	**258**	235	**659**	687
AFFO	**13,693**	13,379	**41,235**	45,181

(1) Represents current income tax with respect to items that are excluded from the computation of AFFO, such as foreign exchange and fair value adjustments, and other expense.

(2) Represents depreciation recognized on adoption of IFRS 16 related to office leases.

(3) The aggregate of the items "depreciation for FFEC" and "additional maintenance capex" represents total actual maintenance capex incurred in the period. An amount equivalent to depreciation for FFEC, or furniture, fixtures, equipment and computers, is deducted in determining FFO, and the difference from the actual total maintenance capex incurred is adjusted for in determining AFFO.

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

LIQUIDITY AND CAPITAL RESOURCES

Sources and Uses of Cash

The following summarizes the sources and uses of cash between continuing and discontinued operations for each of the nine months ended September 30, 2019 and 2018.

	Nine months ended September 30, 2019			Nine months ended September 30, 2018		
(thousands of dollars unless otherwise noted)	**Continuing**	**Discontinued**	**Total**	**Continuing**	**Discontinued**	**Total**
Cash provided by operating activities, before working capital changes and interest and income taxes	**69,335**	**–**	**69,335**	71,916	–	71,916
Net change in operating assets and liabilities						
Accounts receivable	**7,036**	**–**	**7,036**	(3,955)	–	(3,955)
Other assets	**78**	**–**	**78**	(593)	–	(593)
Accounts payable and accrued liabilities	**(3,010)**	**–**	**(3,010)**	7,151	–	7,151
	4,104	**–**	**4,104**	2,603	–	2,603
Interest, taxes and claims payments						
Interest paid	**(19,191)**	**–**	**(19,191)**	(19,532)	–	(19,532)
Interest received	**2,675**	**–**	**2,675**	2,854	–	2,854
Income taxes paid	**(4,212)**	**–**	**(4,212)**	(9,318)	–	(9,318)
Payments for U.S. self-insured liabilities	**–**	**(12,517)**	**(12,517)**	–	(10,239)	(10,239)
	(20,728)	**(12,517)**	**(33,245)**	(25,996)	(10,239)	(36,235)
Net cash from (used in) operating activities	**52,711**	**(12,517)**	**40,194**	48,523	(10,239)	38,284
Net cash from (used in) investing activities	**(5,380)**	**12,517**	**7,137**	(66,423)	10,239	(56,184)
Net cash from (used in) financing activities	**(15,865)**	**–**	**(15,865)**	(43,720)	–	(43,720)
Foreign exchange gain (loss) on U.S. cash held	**(561)**	**–**	**(561)**	874	–	874
Increase (decrease) in cash and short-term investments	**30,905**	**–**	**30,905**	(60,746)	–	(60,746)
Cash and short-term investments at beginning of year	**65,893**	**–**	**65,893**	128,156	–	128,156
Cash and short-term investments at end of period	**96,798**	**–**	**96,798**	67,410	–	67,410
Average U.S./Canadian dollar exchange rate			**1.3292**			1.2876

As at September 30, 2019, the Company had cash and short-term investments on hand of $96.8 million reflecting an increase in cash of $30.9 million from the beginning of the year. Cash flow generated from the operating activities of the continuing operations of $52.7 million was in excess of cash dividends paid of $28.0 million and was used to support maintenance capex and principal debt repayments.

Net cash from operating activities of the continuing operations for the nine months ended September 30, 2019, was a source of cash of $52.7 million, up $4.2 million or 8.6%, as compared to a source of cash of $48.5 million for the nine months ended September 30, 2018. The increase was primarily due to an increase in the net change in operating assets and liabilities and a lower net income taxes paid between periods.

Net cash from investing activities of the continuing operations for the nine months ended September 30, 2019, was a use of cash of $5.4 million, down $61.0 million, as compared to a use of cash of $66.4 million for the nine months ended September 30, 2018. The 2019 activity included the repatriation of cash of $13.4 million (US$10.0 million) from the Captive, while the 2018 activity included an acquisition of a retirement community for $33.8 million. The balance of the increase in cash from investing activities of $13.8 million was primarily attributable to lower purchases of property, equipment and other intangible assets, as set out in the following table and the collection of other assets. Growth capex, excluding acquisitions, relates to the construction of new beds, building improvements or other capital costs, all of which are aimed at earnings growth. Maintenance capex relates to the actual capital expenditures incurred to sustain and upgrade existing property and equipment. Management monitors and prioritizes the capital expenditure requirements of its properties throughout the year, taking into account the urgency and necessity of the expenditure. In 2019, we are projecting to spend in the range of $10 million to $12 million in maintenance capex, and in the range of $23 million to $26 million in growth capex related primarily to the retirement development and LTC redevelopment projects.

(thousands of dollars)	Nine months ended September 30 **2019**	 **2018**
Growth capex	**17,933**	27,788
Deduct: capitalized interest	**(725)**	(932)
Growth capex, excluding capitalized interest	**17,208**	26,856
Maintenance capex	**6,284**	8,473
	23,492	35,329

Net cash from financing activities of the continuing operations for the nine months ended September 30, 2019, was a use of cash of $15.9 million, down $27.8 million, as compared to a use of cash of $43.7 million for the nine months ended September 30, 2018. The 2019 activity included debt repayments of $20.3 million, cash dividends paid of $28.0 million, partially offset by the issuance of a $16.0 million mortgage on a retirement community and draws on construction financing of $17.7 million. The 2018 activity included debt repayments of $26.5 million, cash dividends paid of $28.0 million, Common Shares acquired for cancellation under a normal course issuer bid at a cost of $6.3 million and financing costs primarily in connection with the issuance and redemption of convertible debentures, partially offset by draws on construction financing of $12.0 million and the issuance of a $10.5 million mortgage on a retirement community. For information on the change in long-term debt, refer to "– Long-term Debt".

Discontinued operations reflect the payment of claims for U.S. self-insured liabilities as a component of net cash from operating activities, which payments are funded by the Captive's investments held for self-insured liabilities. Changes in the Captive's investments are reported as a component of net cash from investing activities, as those invested funds are not included in cash and short-term investments.

Capital Structure

SHAREHOLDERS' EQUITY

The following summarizes shareholders' equity for the nine months ended September 30, 2019 and the 2018 year.

(thousands of dollars unless otherwise noted)	**Nine months ended September 30, 2019**	**Year 2018**
Shareholders' Equity		
Common Shares	**496,689**	492,064
Equity portion of convertible debentures	**7,085**	7,085
Contributed surplus	**3,299**	2,706
	507,073	501,855
Accumulated deficit at beginning of year	**(368,147)**	(365,084)
Adoption of new standard on financial instruments	**–**	4,334
Net earnings for the period	**18,542**	31,738
Dividends declared	**(31,971)**	(42,351)
Equity portion of redeemed convertible debentures	**–**	5,573
Purchase of Common Shares in excess of book value and other	**–**	(2,357)
Accumulated deficit at end of period	**(381,576)**	(368,147)
Accumulated other comprehensive loss	**(11,110)**	(7,717)
Shareholders' equity	**114,387**	125,991
U.S./Canadian dollar exchange rate at end of period	**1.3241**	1.3637

Share Information *(thousands)*	**November 6, 2019**	**September 30, 2019**	**December 31, 2018**
Common Shares (TSX symbol: EXE) (1)	**89,122.5**	**89,065.3**	88,490.0

(1) Closing market value per the TSX on November 6, 2019, was $8.82.

As at November 6, 2019, the Company had $126.5 million in aggregate principal amount of convertible subordinate debentures outstanding that mature in September 2025 (the "2025 Debentures"), which in the aggregate are convertible into 10,326,531 Common Shares.

DIVIDENDS

The declaration and payment of dividends by the Company 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 the Company, debt covenants and obligations, and any other factors deemed relevant by the Board. If the Board determines that it would be in the Company's best interests, it may modify the amount and frequency of dividends to be distributed to holders of Common Shares.

For the nine months ended September 30, 2019, the Company declared cash dividends of $0.36 per share, consistent with that declared in the same prior year period, representing $32.0 million and $31.7 million in dividends for each period respectively. The portion of dividends paid in cash for the nine months ended September 30, 2019, was $28.0 million, and $4.0 million was by way of 526,266 Common Shares issued under the Company's dividend reinvestment plan (the "DRIP"), as compared to $28.0 million in cash and $3.7 million by way of 476,701 Common Shares issued under the DRIP for the nine months ended September 30, 2018.

Compared to AFFO of $41.2 million for the nine months ended September 30, 2019, dividends declared of $32.0 million represented a payout ratio of 78%, as compared to a payout ratio of 70% for the nine months ended September 30, 2018. The increase in the payout ratio was primarily due to the decline in earnings for the nine months ended September 30, 2019, and the benefit of lower current income taxes for the nine months ended September 30, 2018. For further information on AFFO, refer to the discussion under "Adjusted Funds from Operations".

NORMAL COURSE ISSUER BID

In January 2019, the Company received the approval of the TSX to renew its normal course issuer bid (the "Bid") to purchase for cancellation up to 8,830,000 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 15, 2019, and provides the Company with flexibility to purchase Common Shares for cancellation until January 14, 2020, 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 54,852 Common Shares. The price that the Company 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. As at November 7, 2019, the Company has not acquired any Common Shares under the Bid.

During 2018, under a normal course issuer bid that commenced on January 15, 2018 and ended on January 14, 2019, the Company acquired and cancelled 703,585 Common Shares at a weighted average price of $8.89 per share, for a total cost of $6.3 million, which purchases were made during the three months ended March 31, 2018.

Long-term Debt

CONTINUITY OF LONG-TERM DEBT

Long-term debt totalled $558.9 million as at September 30, 2019, as compared with $529.0 million as at December 31, 2018, representing an increase of $29.9 million, that included an increase in lease obligations of $16.4 million primarily due to the renewal of the corporate head office lease ($10.3 million) and the adoption of IFRS 16 ($5.8 million), a $16.0 million retirement community mortgage financing and draws on construction loans, partially offset by debt repayments. The long-term debt activity for 2018 included a $10.5 million retirement community mortgage financing and the refinancing of $126.5 million of convertible debentures for seven years to 2025, draws on construction loans, partially offset by debt repayments. The Company and its subsidiaries are in compliance with all of their respective financial covenants as at September 30, 2019. Details of the components, terms and conditions of long-term debt are provided in *Note 7* of the unaudited interim condensed consolidated financial statements.

The following summarizes the changes in the carrying amounts of long-term debt for the nine months ended September 30, 2019, and the 2018 year.

(millions of dollars)	**Nine months ended September 30, 2019**	**Year 2018**
Long-term debt at beginning of year, prior to deferred financing costs	**537.4**	541.8
Issue of long-term debt		
Construction loans	**17.7**	23.0
Mortgages	**16.0**	10.5
2025 Debentures at face value	**–**	126.5
Lease obligations on adoption of IFRS 16	**5.8**	–
Lease obligations	**10.6**	–
Redemption of convertible debentures at face value	**–**	(126.5)
Repayment of long-term debt	**(20.3)**	(32.4)
Change in equity component of convertible debentures and other	**(0.1)**	(5.5)
	567.1	537.4
Deferred financing costs at end of period	**(8.2)**	(8.4)
Long-term debt at end of period	**558.9**	529.0
Less: current portion	**(95.0)**	(74.7)
	463.9	454.3

CREDIT FACILITIES

The Company's wholly owned subsidiary, ParaMed Inc., has a demand credit facility in the amount of $65.0 million (the "ParaMed Credit Facility") that is secured by the assets of its home health care business, and is available for general corporate purposes by the Company. The ParaMed Credit Facility has no financial covenants, but does contain normal and customary terms. The entire $65.0 million was available and unutilized as at September 30, 2019.

Extendicare Inc. has a demand credit facility in the amount of $47.3 million (the "Extendicare Credit Facility") that is secured by 13 Class C LTC centres in Ontario and is guaranteed by certain Canadian subsidiaries of Extendicare. As at September 30, 2019, the Company had letters of credit totalling $43.6 million issued under the Extendicare Credit Facility, of which $38.1 million secure the defined benefit pension plan obligations and the balance were issued in connection with obligations relating to recently acquired centres and those centres under development. The letter of credit to secure the pension plan obligations renews annually in May based on an actuarial valuation. The Extendicare 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.

LONG-TERM DEBT MATURITIES AND WEIGHTED AVERAGE INTEREST RATES

The following table presents the principal, or notional, amounts by year of maturity, of the Company's long-term debt obligations as at September 30, 2019. The Company had an aggregate of $70.6 million drawn on construction loans as at September 30, 2019, which are repayable on demand and, in any event, are to be fully repaid by the earlier of achieving stabilized occupancy as defined by the agreements and specified dates. Consequently, these loans are reflected as current and due in 2019 in the following table. Permanent financing for each of the communities may be sought upon maturity of the construction financing.

(millions of dollars)	**To the end of 2019**	**2020**	**2021**	**2022**	**2023**	**After 2023**	**Total**
Convertible debentures (at face value)	–	–	–	–	–	126.5	**126.5**
Mortgages (CMHC and non-CMHC)	4.0	60.5	15.6	59.1	46.2	102.6	**288.0**
Construction loans	70.6	–	–	–	–	–	**70.6**
Lease obligations	1.6	10.6	10.8	9.9	10.1	45.1	**88.1**
	76.2	71.1	26.4	69.0	56.3	274.2	**573.2**

Management has limited the amount of debt that may be subject to changes in interest rates, with all of the debt currently at fixed rates, other than the construction loans of $70.6 million. The Company's variable-rate mortgages and term loan, aggregating $82.8 million at the end of September, have effectively been converted to fixed rate financing with interest rate swaps over the full term. As at September 30, 2019, the net carrying value of the interest rate swaps was a nominal net asset, including a liability of $1.0 million.

The following summarizes key metrics of consolidated long-term debt as at September 30, 2019, and December 31, 2018.

	September 30, 2019	December 31, 2018
Weighted average interest rate of long-term debt outstanding	**4.8%**	4.9%
Weighted average term to maturity of long-term debt outstanding	**6.8 yrs**	7.4 yrs
Trailing twelve months consolidated net interest coverage ratio(1)	**3.6 X**	3.7 X
Trailing twelve months consolidated interest coverage ratio(2)	**3.1 X**	3.2 X
Debt to Gross Book Value (GBV)		
Total assets (carrying value)	**900,194**	896,324
Accumulated depreciation on property and equipment	**244,914**	226,417
Accumulated amortization on other intangible assets	**22,085**	18,509
GBV	**1,167,193**	1,141,250
Debt (3)	**573,216**	544,111
Debt to GBV	**49.1%**	47.7%

(1) Net interest coverage ratio is defined as Adjusted EBITDA divided by net interest (interest expense before reduction of capitalized interest, net of interest revenue). The adoption of IFRS 16 has not had a material impact on the interest coverage ratios.

(2) Interest coverage ratio is defined as Adjusted EBITDA divided by interest expense before reduction of capitalized interest. The adoption of IFRS 16 has not had a material impact on the interest coverage ratios.

(3) Debt includes convertible debentures at face value of $126.5 million, and excludes deferred financing costs.

Future Liquidity and Capital Resources

The Company's consolidated cash and short-term investments on hand was $96.8 million as at September 30, 2019, as compared with $65.9 million as at December 31, 2018, representing an increase of $30.9 million. In addition, the Company had $65.0 million available to draw under its ParaMed Credit Facility. Cash and short-term investments exclude restricted cash of $2.6 million, and $41.9 million (US$31.7 million) of investments held by the Captive to support the accrual for U.S. self-insured liabilities of $17.8 million (US$13.4 million). Subsequent to September 30, 2019, the Company repatriated US$10.0 million of cash from the Captive.

As at September 30, 2019, the Company had construction financings in the aggregate of up to $77.7 million that are secured on three retirement living communities (Douglas Crossing, Bolton and Barrie), of which $61.6 million was drawn. As at September 30, 2019, the Company had incurred approximately $92.9 million of the estimated $100.0 million of Adjusted Development Costs for these three retirement communities.

Management believes that cash from operating activities and future debt financings will be available and sufficient to support the Company's ongoing business operations, maintenance capex, and debt repayment obligations. Growth through redevelopment of the LTC centres over the next few years, strategic acquisitions and developments will necessitate the raising of funds through debt and equity financings. Decisions will be made on a specific transaction basis and will depend on market and economic conditions at the time.

OTHER CONTRACTUAL OBLIGATIONS AND CONTINGENCIES

Property and Equipment Commitments

As at September 30, 2019, the Company had outstanding commitments of $2.2 million in connection with the development of retirement living communities that are anticipated to be incurred by the end of 2019.

Defined Benefit Pension Plan Obligations

The Company has defined benefit registered and supplementary plans covering certain executives, both of which have been closed to new entrants since 2000. The accrued benefit liability on the statement of financial position as at September 30, 2019, was $38.1 million (2018 – $36.1 million). The registered defined benefit plan was in an actuarial deficit of $3.0 million with plan assets of $5.3 million and accrued benefit obligations of $8.3 million as at September 30, 2019 (2018 – an actuarial deficit of $2.6 million with plan assets of $5.1 million and accrued benefit obligations of $7.7 million). The accrued benefit obligations of the supplementary plan were $35.1 million as at September 30, 2019 (2018 – $33.5 million). The Company does 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 $38.1 million as at September 30, 2019 (2018 – $38.0 million). This letter of credit renews annually in May based on an actuarial valuation of the pension obligations. 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 $2.0 million to $2.2 million, and the annual contributions to the registered pension plan over the next five years are expected to be approximately

$0.1 million. Since the majority of the accrued benefit obligations represent obligations under the 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 the Company's cash flow requirements with respect to its pension obligations, or on its pension expense.

Accrual for U.S. Self-insured Liabilities

The obligation to settle U.S. self-insured general and professional liability claims relating to the period prior to the closing of the U.S. Sale Transaction, including claims incurred but yet to be reported, remains with the Company, which continue to be funded through 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. However, any expense incurred or release of reserves for U.S. self-insured liabilities are presented as discontinued operations; while the Captive's costs to administer and manage the settlement of the remaining claims are reported as continuing operations within the U.S. segment.

Management regularly evaluates and semi-annually engages an independent third-party actuary to provide a report to determine the appropriateness of the carrying value of this liability. The most recent independent actuarial review was conducted at the end of June 2019, which confirmed the adequacy of the Company's reserves.

As at September 30, 2019, the accrual for U.S. self-insured general and professional liabilities was $17.8 million (US$13.4 million) as compared to $37.1 million (US$27.2 million) at the beginning of the year. The decline of US$13.8 million reflected claim payments of US$9.4 million, and a release of reserves of US$5.0 million, partially offset by accretion of the discounted liability and change in discount factor applied.

During 2018, payments for self-insured liabilities were $15.2 million (US$11.8 million) and $13.0 million (US$9.9 million) in reserves were released and reflected in discontinued operations.

Most of the risks that the Company 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 September 30, 2019, management estimated that approximately $4.9 million of the accrual for self-insured general and professional liabilities will be paid within the next twelve months. The timing of payments is not directly within management's control; therefore, estimates could change in the future.

The Captive holds investments sufficient to support the accrual for self-insured liabilities and to meet required statutory solvency and liquidity ratios. These invested funds are reported in other assets and totalled $41.9 million (US$31.7 million) as at September 30, 2019, as compared to $67.9 million (US$49.8 million) at the beginning of the year. During the nine months ended September 30, 2019, the Captive transferred US$10.0 million of cash previously held for investment to the Company for general corporate use, and repatriated a further US$10.0 million in October 2019. Management believes there are sufficient invested funds held to meet estimated current claims payment obligations.

Legal Proceedings, Claims and Regulatory Actions

The Company 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.

As previously disclosed, in April 2018, the Company was served with a statement of claim alleging negligence by the Company in the operation of its long-term care centres and its provision of care to residents and seeking $150.0 million in damages. The claim sought an order certifying the claim as a class action pursuant to the *Class Proceedings Act* (Ontario). By order of the Ontario Superior Court of Justice the class proceeding was discontinued on October 25, 2018. Following the discontinuance, the plaintiff who commenced the class proceeding still has the option to pursue a claim on her own behalf while others may also do so separately on their own behalf. In July 2019, certain individual plaintiffs served the Company with statements of claim alleging negligence by the Company in the operation of certain of its long-term care centres and its provision of care to certain residents. The Company intends to defend itself against any and all such individual claims and does not believe the outcome on any or all such claims would have a material adverse impact on its business, results of operations or financial condition and in any event believes that any potential liability would be resolved within the limits of its insurance coverage.

On September 19, 2018, the Company was served with a statement of claim that seeks an order certifying the claim as a class action pursuant to the *Class Proceedings Act* (Ontario). The claim alleges that the Company failed to properly apply certain required medical equipment sterilization protocols at one or more of its home health care clinics and seeks

$20.0 million in damages. The Company does not believe that the lawsuit or the damages sought have merit. The Company intends to vigorously defend itself against the claim and does not believe the outcome will have a material adverse impact on its business, results of operations or financial condition and in any event believes that any potential liability would be resolved within the limits of its insurance coverage.

The provision of health care services is subject to complex government regulations. Every effort is made by the Company to prevent deficiencies in the quality of patient care through quality assurance strategies and to remedy any such deficiencies cited by government inspections within the applicable prescribed period of time. The Company 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 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 health care programs, such as to LTC and home health care, 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. The Company is unable to predict whether governments will adopt changes in their funding or regulatory programs, and if adopted and implemented, the impact, if any, such changes will have on the Company's business, results of operations and financial condition.

In most provinces, a license must be obtained from the applicable provincial ministry in order to operate LTC centres and retirement living communities. In Ontario, license terms for LTC centres are issued for a fixed term of not more than 30 years, after which the license may or may not be renewed. License terms for Class B and C centres in Ontario are set to expire in June 2025, unless they are redeveloped to the government's new design standards, as discussed further below under "– Ontario LTC Redevelopment and Expansion". In general, the issuance of new licenses for LTC beds is infrequent because of the funding implications for the provincial governments, while the issuance of licenses for retirement communities is less restrictive as the funding for these services is generally private-pay. In addition to, or in some provinces in place of, the license procedure, LTC operators in Alberta, Manitoba, Ontario and Saskatchewan are required to sign service contracts that incorporate service expectations with the applicable provincial health authority. A failure of the Company's operating licences or contracts to be renewed or conditionally renewed may have a material adverse impact on the business, results of operations and financial condition of the Company.

The People's Health Care Act, 2019 (Bill 74)

In April 2019, Bill 74, *The People's Health Care Act, 2019* (Ontario), received Royal Assent, resulting in the creation of the Ontario Health agency to act as a central point of accountability and oversight for the province's public health care system. Organizations to be integrated into Ontario Health include Cancer Care Ontario, Health Quality Ontario, eHealth Ontario, Health Shared Services Ontario, and the LHINs. The government has indicated that the transition will roll out in phases to ensure continuity of care.

Bill 74 also introduces the creation of Ontario Health Teams (OHTs), which are groups of health care providers, such as primary care and hospitals, home care and long-term care, and mental health and addictions supports, who will be ultimately clinically and fiscally responsible for delivering the full continuum of care to patients. In April 2019, the government provided a guidance document for interested applicants, *Ontario Health Teams: Guidance for Health Care Providers and Organizations*, that provides an overview of the intended structure of the OHTs, recognizing that the framework will be further developed as the new health care model becomes operational.

The Ministry of Health's application process for groups of providers interested in becoming an OHT is ongoing. Extendicare continues to participate in the various stages and to be involved in a variety of such groups across the province. It is not known to what degree these initiatives will result in additional business for the Company.

All of ParaMed's government funded business in Ontario is currently governed by contracts with the LHINs. These contracts may be impacted by the integration of the LHINs into the new agency, and will have to be assigned or reissued by Ontario Health or its assigns.

Although the mechanisms by which contracts would be integrated is not yet known, and while any change in home care contracting and associated government operating models would represent a significant change, the underlying market demand is such that it is likely that there would be minimal disruption to ParaMed's business service provision; however, the Company is unable to predict the nature and extent such changes will have on the Company's business, results of operations and financial condition.

Ontario LTC Redevelopment and Expansion

In Ontario, the Company's largest LTC market, management seeks to advance the redevelopment of its 21 Class C LTC centres (3,287 beds) under the Ministry of Long-Term Care's (MOLTC) redevelopment program. The license terms for these 21 Class C LTC centres are set to expire in June 2025, unless they are redeveloped to the government's new design standards. Given the significant backlog in demand for long-term care, the lack of alternative care environments, and license extension precedents to-date, management is of the view that it is likely that licenses will be extended until redevelopment can be completed; however, there can be no assurance that this will be the case.

As part of the 2019 Ontario Budget, released in April 2019, the government announced $1.75 billion in additional funding over the next five years to add 15,000 new LTC beds and to redevelop 15,000 existing LTC beds. We are encouraged by the importance the Ontario Government has put on LTC, and we will continue to apply for allocations of new beds to leverage the redevelopment of our older centres and to initiate new campus of care opportunities.

In May 2019, the Ontario government announced updates to the *Construction Funding Subsidy Policy for Long-Term Care Homes, 2019*, which among other things, increased the base per diem funding from $16.65 to $18.03 for LTC centres with 161 or more beds. LTC centres with between 40% and 60% of beds designated as basic accommodation are eligible to receive an additional per diem subsidy of up to $3.50. Where variances from design requirements are permitted, reductions in the per diem subsidy may apply.

Each of the Company's 21 redevelopment projects is unique, with the overall redevelopment program involving a combination of new construction and retrofits. Factors such as escalating construction costs and the timing of project approvals will affect the sequencing and the duration of the redevelopment program. Management is working closely with the Ontario government with the goal of getting the Company's redevelopment projects under way. Projects are in various stages of planning and approvals, but none are under construction at present.

Once completed, redeveloped centres are expected to realize the benefit of improved performance and extended license terms. Each project is being carefully appraised to ensure strong economic fundamentals prior to proceeding with construction. The extent to which such redevelopment plans are not implemented or proceed on significantly different timing, terms or government funding, could have an adverse effect on the business, results of operations and financial condition of the Company.

Ontario LTC Funding

Ontario is the Company's largest market for its senior care services. Funding for LTC centres in Ontario is based on reimbursement for the level of care assessed to be required by the residents, in accordance with scheduled rates. The MOLTC 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 MOLTC (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). LTC operators are permitted to designate up to 60% of the resident capacity of a centre as preferred accommodation and charge a higher accommodation rate that varies according to the structural classification of the LTC centre. The provider is permitted 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 for the calendar year is achieved, operators receive government funding based on 100% occupancy.

In May 2019, the MOLTC announced an overall funding increase for long-term care providers of 1% for the flow-through and accommodation envelopes, retroactive to April 1, 2019; which represents additional accommodation envelope (non-flow through) revenue for the Company of approximately $1.1 million. In addition, the MOLTC had indicated plans to eliminate, the structural compliance premium (SCP) funding of $5.00, $2.50 and $1.00 per diem for eligible Class A, B, and C beds, respectively, effective October 1, 2019. However, the MOLTC has since deferred that change until April 1, 2020. The Company currently receives annual SCP funding of $1.3 million.

In addition, effective July 1, 2019, the MOLTC implemented a 2.3% increase in the maximum preferred accommodation premiums that may be charged by long-term care providers. For older LTC beds that are not classified as "New" or "A" beds, the maximum daily preferred accommodation premiums increased to $8.52 and $19.17 for semi-private and private rooms, respectively. For newer LTC beds that are classified as "New" or "A" beds, the maximum daily preferred accommodation premiums increased to $12.78 and $26.64 for semi-private and private rooms, respectively. Refer to the table under "Business Overview – Operating Segments – Long-term Care" for a summary of the classification of the Company's LTC beds in Ontario.

Alberta LTC Funding

Alberta is the Company'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. The Alberta Continuing Care Association is actively engaged in discussions with the Alberta government and AHS to further enhance care funding to accommodate higher expenses within continuing care, and to revise the existing funding model used within continuing care. The new Alberta government is currently undergoing a review of AHS as well as provincial continuing care legislation.

AHS has yet to announce funding adjustments for providers of long-term care and designated supportive living that typically take effect on April 1st each year.

The July 1, 2019 annual accommodation charge adjustments (the portion paid directly by residents of long-term care and designated supportive living centres) will increase by 1.6%, based on inflation as reflected by Alberta's CPI. The Company estimates that the 1.6% increase represents additional annual revenue of approximately $0.5 million.

Ontario Home Health Care Funding

Ontario is ParaMed's largest market, representing approximately 83% of its annual service volumes, of which approximately 98% are received from government-funded contracts at specified rates, making ParaMed the largest private-sector provider of publicly funded home health care in the province. ParaMed's government-funded business in Ontario is currently obtained through evergreen contracts with the LHINs. In 2019, the Ontario government announced plans to integrate the LHINs into a newly created Ontario Health agency to act as a central point of accountability and oversight for the province's public health system. For further information, refer to the discussion above under "– The People's Health Care Act, 2019 (Bill 74)".

The enactment of Bill 148, the *Fair Workplaces, Better Jobs Act, 2017* (Ontario) in November 2017, resulted in a number of amendments to the *Employment Standards Act* (ESA) that included: an increase in the minimum wage, and revisions to vacation, public holiday pay and personal leave entitlements that took effect January 1, 2018. Bill 148 necessitated changes in the manner in which the Company managed its workforce and had a significant financial impact on the Company's home health care operations, some of which was subsequently reduced with the enactment of Bill 47, *Making Ontario Open for Business Act, 2018* (Ontario) in November 2018.

In response to increased costs associated with Bill 148, the Ontario government provided enhanced funding to contracted service providers including ParaMed. During 2018, the Company received $2.0 million of additional funding for the three months ended March 31, 2018, and continued to estimate an accrual for incremental funding beyond that date. During the three months ended June 30, 2019, the Company received confirmation from the LHINs of the amount of additional funding they would provide. The incremental funding was in excess of that estimated by the Company for the period ended December 31, 2018, resulting in a $2.2 million increase in revenue recorded in the three months ended June 30, 2019.

In shaping the delivery of health care to Canadians, both the federal and provincial governments have stated that home health care is an area that merits further investment to ensure that more health care services are available in the home. As part of its initiative to improve and make the health care system more efficient, the Ontario government has noted that insufficient capacity in the health care system, like home care, is contributing to the problem of hallway health care in the province. In the 2019 Ontario Budget, released this past April, the government announced an additional $267 million for home and community care, focused on increasing front-line care delivery, such as personal support services, nursing, therapy and other professional services at home and in the community, in an effort to reduce waitlists for long-term care. As governments continue to recognize the benefits of this segment of the Canadian health care system, management believes that ParaMed is well-positioned to take advantage of the significant organic growth opportunity that exists today, and that steps we are taking to position ParaMed as the employer of choice for caregivers will further enhance the Company's position. In addition, ParaMed continues to assess private-pay home health care opportunities that may enable it to further leverage its platform.

RISKS AND UNCERTAINTIES

There are certain risks inherent in an investment in securities and activities of the Company, which investors should carefully consider before investing in the Company. Risks and uncertainties are disclosed in the Company's 2018 Annual Information Form and in the Company's 2018 Annual Report. To the extent there have been any changes to those risk factors or uncertainties as of the date of this MD&A, they are discussed under "Significant 2019 Events and Developments", and "Other Contractual Obligations and Contingencies".

ACCOUNTING POLICIES AND ESTIMATES

Critical Accounting Policies and Estimates

A full discussion of the Company's critical accounting policies and estimates was provided in the MD&A and the accompanying notes to the audited consolidated financial statements for the year ended December 31, 2018, contained in the Company's 2018 Annual Report. The disclosures in such report have not materially changed since that report was filed, with the exception of the new accounting policies adopted as described below under "New Accounting Policies Adopted", and to the extent there have been any changes in management's estimates, they are discussed under "Significant 2019 Events and Developments".

New Accounting Policies Adopted

The following new standards were adopted effective January 1, 2019, and have been applied in preparing the financial results for the nine months ended September 30, 2019. These accounting standards are summarized below, and are more fully described in *Note 3* of the unaudited interim condensed consolidated financial statements.

LEASES

Effective January 1, 2019, the Company adopted IFRS 16 "Leases", which supersedes IAS 17 "Leases" and related interpretations. This new standard requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value, using a single accounting model, thereby eliminating the distinction between operating and finance leases. The nature and timing of the related expense has changed as IFRS 16 replaces the straight-line lease costs with a depreciation charge for right-of-use assets and interest expense on lease liabilities.

Lease costs for the prior year have been reclassified under administrative costs to conform with the current year presentation. The impact of adopting this standard on net earnings and overall cash flow is neutral; however, the principal payment of the lease liabilities is presented in financing activities (previously reflected as operating activities).

The Company has applied IFRS 16 using the modified retrospective approach, under which the comparative information presented has not been restated. Certain practical expedients were selected on transition. The transition did not result in any retrospective adjustment to opening retained earnings on January 1, 2019.

Transition

At transition, for leases classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental weighted average borrowing rate as at January 1, 2019, of 4.86%. For leases that were classified as finance leases under IAS 17, the carrying amount of the right-of-use assets and the lease liability as at January 1, 2019, was the carrying amount of the lease assets and lease liability immediately before the date of initial application. These are accounted for using IFRS 16 from that date.

The Company used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- applied the exemption not to recognize right-of-use assets and liabilities for leases with less than 12 months of lease term;
- applied the exemption not to recognize right-of-use assets and liabilities for leases that are of low value;
- excluded initial direct costs from measuring the right-of-use asset as at January 1, 2019; and
- used hindsight as at January 1, 2019, when determining the lease term if the contract contains options to extend or terminate the lease.

Impacts on Financial Statements

i. Impacts on transition

On transition to IFRS 16, the Company recognized additional right-of-use assets and lease liabilities of $5.8 million.

ii. Impacts for the period

For the three and nine months ended September 30, 2019, the Company recognized $0.6 million and $2.0 million of depreciation expense, respectively, and $0.2 million and $0.3 million of interest expense, respectively, related to the leases impacted by the adoption of IFRS 16.

INCOME TAXES

On June 7, 2017, the IASB issued IFRIC Interpretation 23 "Uncertainty over Income Tax Treatments". The interpretation provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. Effective January 1, 2019, the Company adopted the IFRIC Interpretation 23, with no material impact on the interim condensed consolidated financial statements.