EXTENDICARE®

... helping people live better

CONSOLIDATED FINANCIAL STATEMENTS AND NOTES

Year ended December 31, 2019

Extendicare Inc.
Dated: February 27, 2020

Management's Responsibility for Consolidated Financial Statements

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

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

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

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

/s/ Michael Guerriere

MICHAEL GUERRIERE
President and Chief Executive Officer

/s/ David Bacon

DAVID BACON
Senior Vice President and
Chief Financial Officer

February 27, 2020

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Independent Auditors' Report

To the Shareholders of Extendicare Inc.

Opinion

We have audited the consolidated financial statements of Extendicare Inc. (the Entity), which comprise:

- the consolidated statements of financial position as at December 31, 2019 and December 31, 2018
- the consolidated statements of earnings and comprehensive income (loss) for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2019 and December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "Annual Report".

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

The information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "Annual Report" is expected to be made available to us after the date of this auditors' report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all

KPMG

relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants
The engagement partner on the audit resulting in this auditors' report is Paola Cipolla
Vaughan, Canada
February 27, 2020

Extendicare Inc.

Consolidated Statements of Financial Position

As at December 31

(in thousands of Canadian dollars)	*notes*	2019	2018
Assets			
Current assets			
Cash and short-term investments		**94,457**	65,893
Restricted cash		**2,441**	2,290
Accounts receivable	*7*	**50,382**	50,570
Income taxes recoverable		**15,958**	17,316
Other assets	*10*	**20,661**	21,465
Total current assets		**183,899**	157,534
Non-current assets			
Property and equipment	*8*	**530,527**	514,849
Goodwill and other intangible assets	*9*	**89,874**	95,200
Other assets	*10*	**71,752**	118,996
Deferred tax assets	*22*	**12,748**	9,745
Total non-current assets		**704,901**	738,790
Total assets		**888,800**	896,324
Liabilities and Equity			
Current liabilities			
Accounts payable and accrued liabilities		**136,922**	133,654
Income taxes payable		**1,606**	1,073
Long-term debt	*12*	**133,771**	74,626
Provisions	*11*	**3,572**	17,621
Total current liabilities		**275,871**	226,974
Non-current liabilities			
Long-term debt	*12*	**422,535**	454,344
Provisions	*11*	**25,541**	42,595
Other long-term liabilities	*13*	**35,187**	35,077
Deferred tax liabilities	*22*	**14,252**	11,343
Total non-current liabilities		**497,515**	543,359
Total liabilities		**773,386**	770,333
Share capital	*15*	**498,116**	492,064
Equity portion of convertible debentures	*12*	**7,085**	7,085
Contributed surplus	*14*	**3,675**	2,706
Accumulated deficit		**(382,189)**	(368,147)
Accumulated other comprehensive loss		**(11,273)**	(7,717)
Shareholders' equity		**115,414**	125,991
Total liabilities and equity		**888,800**	896,324

See accompanying notes to consolidated financial statements.

Commitments and contingencies (Note 23).

Approved by the Board

/s/ Alan D. Torrie

Alan D. Torrie

Chairman

/s/ Michael Guerriere

Michael Guerriere

President and Chief Executive Officer

Extendicare Inc.
Consolidated Statements of Earnings
Years ended December 31

(in thousands of Canadian dollars except for per share amounts)	***notes***	**2019**	**2018**
CONTINUING OPERATIONS			
Revenue	*16, 28*	**1,131,950**	1,120,007
Operating expenses		**998,500**	986,023
Administrative costs		**42,339**	39,746
Total expenses	*17*	**1,040,839**	1,025,769
Earnings before depreciation, amortization, and other expense		**91,111**	94,238
Depreciation and amortization		**39,590**	35,270
Other expense	*18*	**2,404**	20,195
Earnings before net finance costs and income taxes		**49,117**	38,773
Interest expense		**28,733**	27,584
Interest revenue		**(3,688)**	(3,761)
Accretion		**1,843**	2,878
Foreign exchange and fair value adjustments	*19*	**(2,007)**	(247)
Net finance costs		**24,881**	26,454
Earnings before income taxes		**24,236**	12,319
Income tax expense (recovery)			
Current		**8,287**	8,129
Deferred		**(1,102)**	(3,894)
Total income tax expense	*22*	**7,185**	4,235
Earnings from continuing operations		**17,051**	8,084
DISCONTINUED OPERATIONS			
Earnings from discontinued operations, net of income taxes	*21*	**11,579**	23,654
Net earnings		**28,630**	31,738
Basic and Diluted Earnings per Share			
Earnings from continuing operations	*20*	**0.19**	0.09
Net earnings	*20*	**0.32**	0.36

See accompanying notes to consolidated financial statements.

Extendicare Inc.

Consolidated Statements of Comprehensive Income

Years ended December 31

(in thousands of Canadian dollars)	***notes***	**2019**	**2018**
Net earnings		**28,630**	31,738
Other comprehensive loss, net of income taxes			
Items that will not be reclassified to profit or loss:			
Defined benefit plan actuarial losses, net of taxes	*22, 24*	**(1,043)**	(373)
Items that are or may be reclassified subsequently to profit or loss:			
Net change in foreign currency translation adjustment	*22*	**(2,513)**	1,841
Total items that are or may be reclassified subsequently to profit or loss		**(2,513)**	1,841
Other comprehensive income (loss), net of tax		**(3,556)**	1,468
Total comprehensive income		**25,074**	33,206

See accompanying notes to consolidated financial statements.

Extendicare Inc.
Consolidated Statements of Changes in Equity
Years ended December 31

(in thousands of Canadian dollars)	*notes*	*Number of Shares*	**Share Capital**	**Equity Portion of Convertible Debentures**	**Contributed Surplus**	**Accumulated Deficit**	**Accumulated Other Comprehensive Income (Loss)**	**Shareholders' Equity**
Balance at January 1, 2019		***88,489,984***	**492,064**	**7,085**	**2,706**	**(368,147)**	**(7,717)**	**125,991**
DRIP	*15*	***693,466***	**5,423**	**–**	**–**	**–**	**–**	**5,423**
Share-based compensation	*14*	***49,062***	**629**	**–**	**969**	**–**	**–**	**1,598**
Net earnings		**–**	**–**	**–**	**–**	**28,630**	**–**	**28,630**
Dividends declared		**–**	**–**	**–**	**–**	**(42,672)**	**–**	**(42,672)**
Other comprehensive loss		**–**	**–**	**–**	**–**	**–**	**(3,556)**	**(3,556)**
Balance at December 31, 2019		***89,232,512***	**498,116**	**7,085**	**3,675**	**(382,189)**	**(11,273)**	**115,414**

(in thousands of Canadian dollars)	*notes*	*Number of Shares*	**Share capital**	**Equity portion of convertible debentures**	**Contributed surplus**	**Accumulated deficit**	**Accumulated other comprehensive income (loss)**	**Shareholders' equity**
Balance at January 1, 2018, previously		*88,523,290*	490,881	5,573	2,437	(365,084)	(4,851)	128,956
Adoption of new standard [(1)]		–	–	–	–	4,334	(4,334)	–
Balance at January 1, 2018		*88,523,290*	490,881	5,573	2,437	(360,750)	(9,185)	128,956
DRIP	*15*	*650,361*	4,928	–	–	–	–	4,928
Purchase of shares for cancellation	*15*	*(703,585)*	(3,903)	–	–	(2,357)	–	(6,260)
Share-based compensation	*14*	*19,918*	158	–	269	–	–	427
Redemption of convertible debentures	*12*	–	–	(5,573)	–	5,573	–	–
Issuance of convertible debentures	*12*	–	–	7,085	–	–	–	7,085
Net earnings		–	–	–	–	31,738	–	31,738
Dividends declared		–	–	–	–	(42,351)	–	(42,351)
Other comprehensive income		–	–	–	–	–	1,468	1,468
Balance at December 31, 2018		*88,489,984*	492,064	7,085	2,706	(368,147)	(7,717)	125,991

See accompanying notes to consolidated financial statements.

(1) Adoption of new standard on financial instruments – IFRS 9.

Extendicare Inc.

Consolidated Statements of Cash Flows

Years ended December 31

(in thousands of Canadian dollars)	*notes*	**2019**	**2018**
Operating Activities			
Net earnings		**28,630**	31,738
Adjustments for:			
Depreciation and amortization	*8, 9*	**39,590**	35,270
Share-based compensation	*14*	**1,598**	430
Deferred taxes	*22*	**212**	1,936
Current taxes	*22*	**6,973**	(3,600)
Net finance costs	*12*	**26,888**	26,701
Other expense		**(9,175)**	2,440
Foreign exchange and fair value adjustments	*19*	**(2,007)**	(247)
		92,709	94,668
Net change in operating assets and liabilities			
Accounts receivable		**200**	(8,172)
Other assets		**1,133**	(536)
Accounts payable and accrued liabilities		**(6,166)**	2,210
		87,876	88,170
Payments for self-insured liabilities		**(12,769)**	(15,237)
Interest paid		**(27,933)**	(28,383)
Interest received		**3,677**	3,785
Income taxes paid		**(5,661)**	(8,862)
Net cash from operating activities		**45,190**	39,473
Investing Activities			
Purchase of property, equipment and other intangible assets	*8, 9*	**(33,182)**	(50,648)
Acquisitions	*6*	**–**	(33,767)
Decrease in investments held for self-insured liabilities		**40,464**	24,163
Decrease in other assets		**5,487**	5,200
Net cash from (used in) investing activities		**12,769**	(55,052)
Financing Activities			
Issuance of long-term debt		**45,987**	159,998
Repayment of long-term debt		**(35,658)**	(159,674)
Decrease (increase) in restricted cash		**(151)**	10
Purchase of securities for cancellation		**–**	(6,258)
Dividends paid		**(37,218)**	(37,424)
Financing costs		**(1,628)**	(5,886)
Other		**–**	471
Net cash used in financing activities		**(28,668)**	(48,763)
Increase (decrease) in cash and short-term investments		**29,291**	(64,342)
Cash and short-term investments at beginning of year		**65,893**	128,156
Foreign exchange gain (loss) on cash held in foreign currency		**(727)**	2,079
Cash and short-term investments at end of year		**94,457**	65,893

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

YEAR ENDED DECEMBER 31, 2019

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1. GENERAL INFORMATION AND NATURE OF THE BUSINESS

The common shares (the “Common Shares”) of Extendicare Inc. (“Extendicare” or the “Company”) are listed on the Toronto Stock Exchange (TSX) under the symbol “EXE”. The Company and its predecessors have been operating since 1968, providing care and services to seniors throughout Canada. The Company has repositioned itself as a leading provider of care and services across Canada, committed to delivering quality care throughout the health continuum to meet the needs of a growing seniors’ population. The registered office of the Company is located at 3000 Steeles Avenue East, Suite 700, Markham, Ontario, Canada, L3R 9W2.

2. BASIS OF PREPARATION

a) Statement of Compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). These consolidated financial statements were approved by the board of directors (the “Board”) on February 27, 2020.

b) Basis of Measurement

The consolidated financial statements have been prepared on the historical cost basis except for financial assets and liabilities classified at fair value through profit or loss.

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

c) Use of Estimates and Judgement

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

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

The more subjective of such estimates are:

- determination of the lease term for leases that include renewal options and the appropriate discount rate used to recognize lease liability;
- valuation of purchase price allocation for acquisition;
- valuation of indemnification provisions;
- valuation of self-insured liabilities;
- valuation of equity portion of convertible debentures;
- valuation of financial assets and liabilities;
- valuation of share-based compensation;
- determination of the recoverable amount of cash generating units (CGUs) subject to an impairment test; and
- accounting for tax uncertainties and the tax rates used for valuation of deferred taxes

In addition, the assessment of contingencies and provisions are subject to judgement. The recorded amounts for such items are based on management’s best available information and are subject to assumptions and judgement, which may change as time progresses; accordingly, actual results could differ from estimates.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, except for those detailed in *Note 4*.

a) Basis of Consolidation

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

The acquisition method of accounting is used to account for the acquisition of businesses. Consideration transferred on the acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed on the date of the acquisition and transaction costs are expensed as incurred. Identified assets acquired and liabilities assumed are measured at their fair value on the acquisition date. The excess of fair value of consideration given over the fair value of the identifiable net assets acquired is recorded as goodwill, with any gain on a bargain purchase being recognized in net earnings on the acquisition date.

b) Foreign Currency

The assets and liabilities of foreign operations are translated at exchange rates at the reporting date. The income and expenses of foreign operations are translated at average rates of exchange for the period. The resulting translation adjustments are included in accumulated other comprehensive income (AOCI) in shareholders' equity.

Transactions in foreign currencies are translated at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated at the exchange rate at the date that the fair value was determined.

c) Cash and Short-term Investments

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

d) Property and Equipment

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

Cost includes expenditures that are directly attributable to the acquisition or development of the asset. Homes that are constructed or under construction include all incurred expenditures for the development and other direct costs related to the acquisition of land, development and construction of the homes, including borrowing costs of assets meeting certain criteria that are capitalized until the home is completed for its intended use.

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

Depreciation and amortization are computed on a straight-line basis based on the useful lives of each component of property and equipment. Depreciation of long-term care (LTC) homes or retirement communities under construction commences in the month after the home is available for its intended use based upon the useful life of the asset, as outlined in the following table. Land and Construction in Progress are not depreciated. The depreciation methods, useful lives and residual values are reviewed at least annually, and adjusted if appropriate.

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

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

e) Government Grants

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

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

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

f) Leases

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses and adjusted for certain remeasurements of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost through accretion and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The Company has applied judgement to determine the lease term for leases that include renewal options. The assessment of whether there is reasonable certainty to exercise such options impacts the lease term, which significantly affects the amount of right-of-use assets and lease liabilities recognized.

g) Goodwill and Other Intangible Assets

GOODWILL

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

OTHER INTANGIBLE ASSETS

Other intangible assets that are acquired are recorded at fair value determined upon acquisition, and if the assets have finite useful lives are measured at cost less accumulated amortization and accumulated impairment losses.

Intangible assets with finite lives are amortized based on cost. Subsequent expenditures are capitalized only if a future benefit exists. All other expenditures, including expenditures on internally generated goodwill, are recognized in net earnings as incurred.

Intangible assets with indefinite useful lives are measured at cost without amortization.

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

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

Computer software is amortized over five to seven years and internally developed software over its useful life.

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

h) Impairment

Impairment of financial and non-financial assets is assessed on a regular basis. All impairment losses are charged to other expense as part of earnings before net finance costs and income taxes.

NON-FINANCIAL ASSETS

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

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

The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. Goodwill and indefinite life intangible assets are allocated to their respective CGUs for the purpose of impairment testing. Indefinite life intangible assets and corporate assets that do not generate separate cash flows and are utilized by more than one CGU, are allocated to each CGU for the purpose of impairment testing and are not tested for impairment separately.

Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amounts of the assets in the CGU on a pro rata basis. Impairment losses on goodwill cannot be reversed. In respect of other non-financial assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized (*Note 3(m)*).

FINANCIAL ASSETS

Financial assets are reviewed at each reporting date using the expected credit loss (ECL) impairment model which applies to all financial assets except for investments in equity securities.

The Company has elected to use the simplified approach and calculates impairment loss on account receivable when there has been a significant increase in credit risk of lifetime ECL. The other ECL models applied to other financial assets also require judgement, assumptions and estimations on changes in credit risks, forecasts of future economic conditions and historical information on the credit quality of the financial asset.

Impairment losses are recorded in operating expenses in the consolidated statement of earnings with the carrying amount of the financial asset reduced through the use of impairment allowance accounts.

i) Employee Benefits

DEFINED BENEFIT PLANS

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

The calculation of the future benefit of the plan is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the plan, the recognized asset is limited to the present value of economic benefits available in the form of reductions in future contributions to the plan.

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

DEFINED CONTRIBUTION PLANS

The Company has corporate specific and multi-employer defined benefit pension plans, as well as deferred compensation plans. Multi-employer defined benefit pension plans are accounted for as defined contribution plans as the liability per employer is not available. Deferred compensation plans are also accounted for as defined contribution plans. Defined contribution plans are post-employment plans where the costs are fixed and there are no legal or constructive obligations to pay further amounts. Obligations for such contributions are recognized as employee benefit expense in net earnings during the periods in which services are rendered by employees.

SHORT-TERM EMPLOYEE BENEFITS

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

j) Share-Based Compensation

EQUITY-SETTLED LONG-TERM INCENTIVE PLANS

Awards for deferred share units (DSUs) and performance share units (PSUs) are a share-based component of director and executive compensation, which are accounted for based on the intended form of settlement. Under a long-term incentive plan (LTIP), the Board has the discretion to settle the DSU and PSU awards in cash, market-purchased Common Shares, or Common Shares issued from treasury. Based on the Board's intention to settle the awards in Common Shares issued from treasury, the PSU and DSU awards are accounted for as equity-settled awards. Settlement of the DSUs and PSUs are net of any applicable taxes and other source deductions required to be withheld by the Company, which amounts are anticipated to approximate 50% of the fair value of the award on the redemption date. The compensation expense for these equity-settled awards is prorated over the vesting or performance period, with a corresponding increase to contributed surplus. The fair value of each award is measured at the grant date. Forfeitures are estimated at the grant date and are revised to reflect changes in expected or actual forfeitures. In addition, PSU and DSU participants are credited with dividend equivalents in the form of additional units when dividends are paid on Common Shares in the ordinary course of business.

k) Provisions

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

SELF-INSURED LIABILITIES

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

DECOMMISSIONING PROVISIONS

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

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

INDEMNIFICATION PROVISIONS

Indemnification provisions include management's best estimate of amounts required to indemnify for obligations related to tax, a corporate integrity agreement (CIA), and other items, resulting from the U.S. Sale Transaction.

l) Fair Value Measurement

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

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

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the following fair value hierarchy:

Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities;
Level 2 – inputs other than quoted market prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); or
Level 3 – unobservable inputs such as inputs for the asset or liability that are not based on observable market data.

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

m) Financial Instruments

FINANCIAL ASSETS AND LIABILITIES

Financial assets are classified as measured at fair value through profit and loss (FVTPL), fair value through other comprehensive income (FVOCI), or amortized cost. The classification depends on the Company's business model for managing its financial instruments and the characteristics of the contractual cash flows associated with the instruments.

Financial assets and liabilities classified as measured at amortized cost are initially recognized at fair value (net of any transaction costs) and are subsequently measured at amortized cost using the effective interest method less allowance for credit losses for financial assets.

Financial assets classified as measured at FVOCI are initially recognized at fair value and transaction costs are recognized in net earnings. Subsequently, unrealized gains and losses are recognized in other comprehensive income. Upon derecognition, realized gains and losses are reclassified from other comprehensive income and are recognized in net earnings for debt instruments and remain in other comprehensive income for equity investments. Interest income, foreign exchange gains/losses and impairments from debt instruments as well as dividends from equity investments are recognized in net earnings.

Financial assets and liabilities classified as measured at FVTPL are initially recognized at fair value and transaction costs are recognized in net earnings, along with gains and losses arising from changes in fair value.

A debt instrument is classified as FVOCI if is not designated as at FVTPL, is held within a business model with the purpose of holding assets to collect contractual cash flows and selling prior to maturity; and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial liabilities are measured as FVTPL if they are classified as held for trading or are designated as such. Other non-derivative financial liabilities are classified as amortized cost. Derivative financial liabilities are classified as FVTPL.

DERIVATIVE FINANCIAL INSTRUMENTS

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

The Company currently does not have any fair-value, cash-flow or net investment hedges.

n) Revenue

The Company recognizes revenue for the transfer of goods or services to customers at an amount that reflects the consideration expected to be received for those goods or services. The Company generates revenue primarily from the provision of services to residents, rental income, home health care services, contract services, consulting and group purchasing services.

i. Long-term Care

Services provided to residents include the provision of accommodation and meals, assistance with activities of daily living and continuing care. Programs and services are offered to all residents and specialty programs are offered for those with behavioural needs. Revenue from our LTC segment is regulated by provincial authorities and provincial programs fund a substantial portion of these fees with a co-payment for accommodation being paid by the residents. Accommodation and services are delivered as a bundle and revenue is recognized over time, typically on a monthly basis, which reflects when the services are provided. The frequency that funding is received depends on the jurisdiction in which the LTC home operates and it varies between a monthly or more frequent basis; and payments from residents are typically due at the beginning of each month.

In some cases, the Company's funding is based on occupancy levels achieved or certain policy conditions being met such as spending or staffing hour requirements. In these cases, the Company estimates the amount of funding that it expects to be entitled to for the services provided.

ii. Home Health Care

Home health care services provided include complex nursing care, occupational, physical and speech therapy and assistance with daily activities to accommodate clients living at home. Revenue from the home health care segment is also regulated by provincial authorities. Revenue is derived from both government and private-pay clients. Performance obligations are satisfied as services are delivered and revenue is therefore recognized over time, typically as the services provided to the customer. Private-pay services provided are invoiced at the end of each month based on the services provided, and the billing frequency of government-funded services varies between monthly and bi-weekly depending on the jurisdiction in which the Company operates.

iii. Retirement Living

Retirement living revenue is primarily derived from private-pay residents. Residents are charged monthly fixed fees based on the type of accommodation, level of care and services chosen by the resident and the location of the retirement community. These fixed fees are allocated to the lease and the service components. Payments are due at the beginning of each month.

Accommodation revenue is recognized on a straight-line basis over the lease term, beginning when a resident has the right to use the retirement community. Revenue allocated to the services is recognized over time, typically on a monthly basis, as this corresponds to the period in which services are provided. The Company may also provide additional services to residents on an as-requested basis, at rates established by the Company based upon market conditions. Revenue for such services is recognized as the services are provided to the residents.

iv. Other Services

The Company also offers contract services, consulting and group purchasing services to third parties. Rates are set by the contracts, and these contracts are typically accounted for as a single performance obligation because goods or services are delivered concurrently. Revenue is recognized over time, typically on a monthly basis, which reflects when the services are provided.

o) Finance Costs and Finance Income

Finance costs include: interest expense on long-term debt; accretion of the discount on provisions, decommissioning provisions and convertible debentures; losses on the change in fair value of financial assets and liabilities designated as FVTPL; and losses in foreign exchange on non-Canadian based financial assets.

Finance income includes interest income on funds invested, gains on the change in fair value of financial assets and liabilities designated as FVTPL, accretion on deferred consideration and gains in foreign exchange on non-Canadian based financial assets.

p) Income Taxes

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

Current income tax is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the jurisdictions in which the Company operates. Deferred income tax is calculated using tax rates anticipated to apply in the periods that the temporary differences are expected to reverse.

The income tax rates used to measure deferred tax assets and liabilities are those rates enacted or substantially enacted at the reporting date and are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

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

The ultimate realization of deferred tax assets is dependent upon if the generation of future taxable income is probable during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment.

International Financial Reporting Interpretations Committee (IFRIC) Interpretation 23, Uncertainty over Income Tax Treatments, was effective for reporting periods beginning on or after January 1, 2019. IFRIC 23 clarifies the recognition and measurement requirements under IAS 12, Income Taxes, when there is uncertainty over income tax treatments. As at January 1, 2019, the Company applied IFRIC 23, and there was no material impact on the Company’s consolidated financial statements as there are no known material uncertain tax positions.

q) Discontinued Operations

A discontinued operation is a component of the Company’s business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale. Classification as a discontinued operation occurs upon disposal or earlier, if the operation meets the criteria to be classified as held for sale. When an operation is classified as a discontinued operation, the comparative statements of earnings and cash flow information is re-presented as if the operation had been discontinued from the start of the comparative period.

4. NEW ACCOUNTING POLICIES ADOPTED

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.

DEFINITION OF A LEASE

Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. On transition to IFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases, whereby IFRS 16 applies only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and related interpretations were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts that were entered into or changed on or after January 1, 2019.

RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

The Company has lease agreements for office space and office equipment. As a lessee, lease arrangements were previously classified as operating or finance leases based on the assessment of whether the lease transferred substantially all the risks and rewards of ownership. Under IFRS 16, the Company recognizes right-of-use assets and lease liabilities for all material and long-term leases on the consolidated statement of financial position.

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%. Right-of-use assets were measured at an amount equal to the lease liability. 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.

	January 1, 2019
Right-of-use assets presented in property and equipment	5,780
Lease liabilities – current portion presented in current portion of long-term debt	2,305
Lease liabilities – long-term portion presented in long-term debt	3,475

The weighted average discount rate applied to the total lease liabilities recognized on transition was 4.86%, representing the Company's incremental borrowing rate at January 1, 2019.

Operating lease commitments balance, December 31, 2018	7,874
Operating lease commitments discounted using the incremental borrowing rate	7,138
Finance lease liabilities balance, December 31, 2018	80,992
Recognition exemption for:	
Leases relating to termination of home healthcare operations in B.C.	(1,045)
Short-term and low value leases	(313)
Lease liabilities balance, January 1, 2019	86,772

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.

5. FUTURE CHANGES IN ACCOUNTING POLICIES

Definition of a Business (Amendments to IFRS 3)

On October 22, 2018, the IASB issued amendments to IFRS 3 *Business Combinations*, that seek to clarify whether a transaction results in an asset or a business acquisition. The amendments apply to businesses acquired in annual reporting periods beginning on or after January 1, 2020. Earlier application is permitted. The Company intends to adopt the amendments for the annual period beginning on January 1, 2020.

6. ACQUISITION

On April 11, 2018, the Company completed the acquisition of Lynde Creek Retirement Community for $33.8 million, which included $31.2 million property and equipment, $2.9 million intangible assets, net of ($0.3 million) working capital. The acquired community, located in Whitby, Ontario, consists of Lynde Creek Manor, a retirement residence offering 93 independent and assisted living suites; Lynde Creek Village, a life lease seniors' community of 113 townhomes; and 3.7 acres of adjacent land for expansion. This acquisition was funded by cash on hand and is accounted for as a business combination.

7. ACCOUNTS RECEIVABLE

	2019	2018
Trade receivables	**38,633**	39,894
Other receivables	**11,749**	10,676
Accounts receivable - net of allowance (*Note 25(a)*)	**50,382**	50,570

8. PROPERTY AND EQUIPMENT

	Land & Land Improvements	**Buildings**	**Furniture & Equipment**	**Leasehold Improvements**	**Construction in Progress (CIP)**	**Total**
Cost or Deemed Cost						
January 1, 2018	51,128	544,510	65,088	2,337	31,794	694,857
Additions	58	7,579	5,628	32	35,376	48,673
Acquisitions *(Note 6)*	4,401	26,309	490	–	–	31,200
Write-off of fully depreciated assets	(70)	(7,828)	(8,966)	(442)	–	(17,306)
Impairment loss *(Note 18)*	(1,123)	(14,566)	(469)	–	–	(16,158)
Transfer from CIP	3,886	31,157	1,276	–	(36,319)	–
December 31, 2018	58,280	587,161	63,047	1,927	30,851	741,266
January 1, 2019	**58,280**	**587,161**	**63,047**	**1,927**	**30,851**	**741,266**
Recognition of right-of-use assets on initial application of IFRS 16	**–**	**5,780**	**–**	**–**	**–**	**5,780**
Adjusted January 1, 2019	**58,280**	**592,941**	**63,047**	**1,927**	**30,851**	**747,046**
Additions	**247**	**14,030**	**6,147**	**139**	**21,666**	**42,229**
Write-off of fully depreciated assets	**(197)**	**(980)**	**(5,213)**	**(955)**	**–**	**(7,345)**
Transfer from CIP	**3,080**	**33,746**	**2,543**	**–**	**(39,369)**	**–**
December 31, 2019	**61,410**	**639,737**	**66,524**	**1,111**	**13,148**	**781,930**

	Land & Land Improvements	**Buildings**	**Furniture & Equipment**	**Leasehold Improvements**	**Construction in Progress (CIP)**	**Total**
Accumulated Depreciation						
January 1, 2018	4,096	177,928	31,013	1,852	–	214,889
Additions	554	21,680	6,204	396	–	28,834
Write-off of fully depreciated assets	(70)	(7,828)	(8,966)	(442)	–	(17,306)
December 31, 2018	4,580	191,780	28,251	1,806	–	226,417
January 1, 2019	**4,580**	**191,780**	**28,251**	**1,806**	**–**	**226,417**
Recognition of right-of-use assets on initial application of IFRS 16	**–**	**–**	**–**	**–**	**–**	**–**
Adjusted January 1, 2019	**4,580**	**191,780**	**28,251**	**1,806**	**–**	**226,417**
Additions	**647**	**24,775**	**6,474**	**435**	**–**	**32,331**
Write-off of fully depreciated assets	**(197)**	**(980)**	**(5,213)**	**(955)**	**–**	**(7,345)**
December 31, 2019	**5,030**	**215,575**	**29,512**	**1,286**	**–**	**251,403**
Carrying amounts						
At December 31, 2018	53,700	395,381	34,796	121	30,851	514,849
At December 31, 2019	**56,380**	**424,162**	**37,012**	**(175)**	**13,148**	**530,527**

The right-of-use assets included in buildings were $97.8 million (2018 – $81.0 million) with accumulated depreciation of $39.6 million (2018 – $32.2 million).

During 2019, new and renewed leases have been recognized as right-of-use asset within Buildings is $11.0 million with accumulated depreciation of $2.6 million. The additions include $10.3 million recognized in connection with the renewed lease for its corporate office for 10 years with renewal options.

During 2019, the Company capitalized $0.7 million of borrowing costs related to development projects under construction at an average capitalization rate of 4.5% (2018 – $1.5 million at 4.9%).

9. GOODWILL AND OTHER INTANGIBLE ASSETS

	2019	2018
Goodwill		
Balance at beginning of year	**51,675**	51,675
Balance at end of year	**51,675**	51,675
Other Intangible Assets		
Gross carrying value at beginning of year	**62,034**	56,455
Additions	**1,933**	3,292
Acquisitions *(Note 6)*	**–**	2,925
Disposal	**–**	(484)
Write-off of fully amortized assets	**(1,817)**	(154)
Gross carrying value at end of year	**62,150**	62,034
Accumulated amortization at beginning of year	**18,509**	12,229
Amortization	**7,259**	6,434
Write-off of fully amortized assets	**(1,817)**	(154)
Accumulated amortization at end of year	**23,951**	18,509
Net carrying value at end of year	**38,199**	43,525
Goodwill and other intangible assets	**89,874**	95,200

10. OTHER ASSETS

	2019	2018
Investments held for self-insured liabilities	**27,562**	67,938
Amounts receivable and other assets	**63,371**	69,967
Interest rate swaps	**1,480**	2,556
	92,413	140,461
less: current portion	**(20,661)**	(21,465)
	71,752	118,996

Investments Held for Self-insured Liabilities

After the sale of our U.S. business in 2015 (the "U.S. Sale Transaction"), as part of its continuing operations, the Company retained its wholly owned Bermuda-based captive insurance company, Laurier Indemnity Company, Ltd. (the "Captive"), which, along with third-party insurers, insured the Company's U.S. general and professional liability risks up to the date of the U.S. Sale Transaction.

The Company holds U.S. dollar-denominated investments within the Captive for settlements of the self-insured liabilities that are subject to insurance regulatory requirements.

As at December 31, 2019, the investment portfolio comprises cash of $6.3 million (December 31, 2018 – $5.8 million), money market funds of $21.2 million (December 31, 2018 – $53.8 million), and investment-grade corporate securities $nil (December 31, 2018 – $8.3 million). Certain of these investments in the amount of $2.7 million (December 31, 2018 – $35.1 million), have been pledged as collateral for letters of credit issued by the banker of the Captive in favour of ceding companies. As at December 31, 2019, all investments were carried at fair value, with changes in fair value reflected in earnings.

Amounts Receivable and Other Assets

Amounts receivable and other assets include discounted amounts receivable due from the government of Ontario with respect to construction funding subsidies for long-term care homes, totalling $47.9 million (December 31, 2018 – $53.3 million) of which $5.8 million (December 31, 2018 – $5.5 million) is current. These subsidies represent funding for a portion of long-term care home construction costs over a 20-year or 25-year period. The weighted average remaining term of this funding is 14 years.

Also included in amounts receivable and other assets is a $1.3 million receivable as at December 31, 2019 (2018 – $2.0 million), resulting from the U.S. Sale Transaction. The remaining balance of $14.2 million primarily relates to prepaid expenses and deposits (2018 – $14.7 million).

Interest Rate Swaps

The interest rate swaps include swap contracts relating to mortgages, with notional amount totalling $82.1 million, to lock in the rates between 3.11% and 5.04% for the full term of the loans being five to ten years (*Note 12*).

All interest rate swap contracts are measured at fair value through profit or loss, and hedge accounting has not been applied. Changes in fair value are recorded in the statements of earnings (*Note 19)*. As at December 31, 2019, the interest rate swaps were valued at a net asset of $0.8 million (2018 – $2.0 million), including a liability of $0.7 million (2018 – $0.5 million) (*Notes 12 and 13*).

11. PROVISIONS

	Accrual for Self-insured Liabilities	Indemnification Provisions	Decommissioning Provisions	Total
January 1, 2018	61,135	22,679	9,185	92,999
Provisions released	(14,132)	(3,832)	–	(17,964)
Provisions used	(15,237)	(6,587)	(15)	(21,839)
Accretion	1,631	–	195	1,826
Effect of movements in exchange rates	3,741	1,453	–	5,194
December 31, 2018	37,138	13,713	9,365	60,216
Less: current portion	(12,286)	(5,335)	–	(17,621)
	24,852	8,378	9,365	42,595
January 1, 2019	**37,138**	**13,713**	**9,365**	**60,216**
Provisions released	**(11,579)**	**–**	**–**	**(11,579)**
Provisions used	**(12,769)**	**(5,757)**	**(34)**	**(18,560)**
Accretion	**648**	**–**	**195**	**843**
Effect of movements in exchange rates	**(1,277)**	**(530)**	**–**	**(1,807)**
December 31, 2019	**12,161**	**7,426**	**9,526**	**29,113**
Less: current portion	**(3,572)**	**–**	**–**	**(3,572)**
	8,589	**7,426**	**9,526**	**25,541**

Accrual for 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 it intends to fund through the Captive. Consequently, the balance of the accrual for self-insured liabilities and the related investments held for self-insured liabilities (*Note 10*) 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.

The accrual for self-insured liabilities is based on management's best estimate of the ultimate cost to resolve general and professional liability claims. Actual results can differ materially from the estimates made due to a number of factors including the assumptions used by management and other market forces.

As at December 31, 2019, the accrual for self-insured general and professional liabilities was $12.2 million (US$9.4 million) compared to $37.1 million (US$27.2 million) as at December 31, 2018. The decline represented mainly claim payments and the release of reserves (*Note 21*).

Indemnification Provisions

As a result of the U.S. Sale Transaction, the Company agreed to indemnify certain obligations of the U.S. operations related to tax, a corporate integrity agreement (the "CIA"), and other items. Any revisions to these estimates are reflected as part of other expense in discontinued operations (*Note 21*). As at December 31, 2019, the remaining provisions totalled

$7.4 million (US$5.7 million) (2018 – $13.7 million or US$10.1 million). Actual results can differ materially from the estimates made due to a number of factors including the assumptions used by management and other market forces.

Decommissioning Provisions

The decommissioning provisions relate to possible asbestos remediation of the Company's pre-1980 constructed homes. An estimated undiscounted cash flow amount of approximately $10.7 million (December 31, 2018 – $10.5 million) was discounted using a rate of 1.64% (December 31, 2018 – 1.98%) over an estimated time to settle of 6 years. This represents management's best estimate and actual amounts may differ.

12. LONG-TERM DEBT

	Interest Rate	Year of Maturity	2019	2018
Convertible unsecured subordinated debentures	5.0%	2025	**120,675**	119,775
CMHC mortgages	2.49% - 7.70%	2020 - 2037	**128,878**	114,083
Non-CMHC mortgages	3.11% - 5.64%	2020 - 2038	**164,349**	169,670
Construction loans	variable	on demand	**64,601**	52,866
Lease liabilities	2.28% - 7.19%	2020 - 2034	**86,208**	80,992
			564,711	537,386
Deferred financing costs			**(8,405)**	(8,416)
Total debt, net of deferred financing costs			**556,306**	528,970
Less: current portion			**(133,771)**	(74,626)
Long-term debt, net of deferred financing costs			**422,535**	454,344

Convertible Unsecured Subordinated Debentures

In April 2018, the Company issued $126.5 million aggregate principal amount of 5.00% convertible unsecured subordinated debentures due April 30, 2025 (the "2025 Debentures"), with a conversion price of $12.25 per Common Share (the "Offering"). The initial offering for $110.0 million of the 2025 Debentures closed on April 17, 2018, and the exercise of the over-allotment option for $16.5 million debentures closed on April 25, 2018. The debt and equity components of the 2025 Debentures were bifurcated as the financial instrument is considered a compound instrument with $119.2 million classified as a liability and the residual $7.3 million classified as equity attributable to the conversion option. The liability portion of the 2025 Debentures is recorded at amortized cost. The fees and transaction costs allocated to the debt component are amortized over the term of the 2025 Debentures using the effective interest rate method and are recognized as part of net finance costs.

Interest on the 2025 Debentures is payable semi-annually in April and October. The 2025 Debentures may not be redeemed by the Company prior to April 30, 2021, except in the event of the satisfaction of certain conditions after a change of control has occurred. On or after May 1, 2021 but prior to April 30, 2023, these debentures may be redeemed by the Company in whole at any time or in part from time to time, at a price equal to the principal amount thereof plus accrued and unpaid interest, on a notice of not more than 60 days and not less than 30 days prior, provided that the volume-weighted average trading price of the Common Shares on the TSX for the 20 consecutive trading days ending on the fifth trading day immediately preceding the date on which notice of redemption is given is not less than 125% of the conversion price. On and after May 1, 2023, these debentures may be redeemed by the Company in whole at any time or in part from time to time, at a price equal to the principal amount thereof plus accrued and unpaid interest, on a notice of not more than 60 days and not less than 30 days prior.

Upon the occurrence of a change of control, whereby more than 66.67% of the Common Shares are acquired by any person, or group of persons acting jointly, each holder of the 2025 Debentures may require the Company to purchase their debentures at 101% of the principal plus accrued and unpaid interest. If 90% or more of the debentureholders do so, the Company has the right, but not the obligation, to redeem all the remaining outstanding 2025 Debentures.
The net proceeds from the Offering of $120.9 million, together with cash on hand, was used by the Company to finance the redemption of its 2019 Debentures on April 30, 2018. The redemption price of the 2019 Debentures was equal to the sum of the outstanding aggregate principal amount of $126.5 million and all accrued and unpaid interest thereon for a total of $127.1 million. As a result of the early redemption of the 2019 Debentures, the unaccreted liability of $1.4 million was expensed (*Note 18*), and the related equity portion of $5.6 million was classified as part of accumulated deficit.

CMHC Mortgages

The Company has various mortgages insured through the Canada Mortgage and Housing Corporation (CMHC) program. The CMHC mortgages are secured by several Canadian financial institutions at rates ranging from 2.49% to 7.70% with maturity dates through to 2037.

In April 2019, the Company secured a CMHC-insured mortgage of $16.0 million, inclusive of fees, on the Lynde Creek Manor Retirement Community, that matures in September 2029, with a fixed rate of 2.81% per annum.

In October 2019, the Company secured a CMHC-insured mortgage of $9.3 million, inclusive of fees, on the Cedar Crossing Retirement Community, that matures in September 2029, with a fixed rate of 2.49% per annum.

In August 2018, the Company renewed maturing mortgages of $8.3 million. These renewed mortgages mature in August 2022, with a fixed rate of 2.96%.

Non-CMHC Mortgages

The Company has a number of conventional mortgages on certain long-term care homes, at rates ranging from 3.11% to 5.64%. Some of these mortgages have a requirement to maintain a minimum debt service coverage ratio. In September 2018, the Company secured financing of $10.5 million on a retirement community in Ontario. This financing has a 10-year term. In conjunction with securing this financing, the Company entered into an interest rate swap contract to lock in the interest rate at 5.04% for the full term of this financing. Also, during the 2018 third quarter, the Company reduced the balances on mortgages of three communities by a total of $8.6 million.

Construction Loans

Construction loans of $77.7 million are available for three retirement home developments at Bolton, Uxbridge, and Barrie and provide for additional letter of credit facilities of $0.8 million, $0.8 million, and $1.0 million respectively, at rates ranging from 2.25% to 2.50% if utilized. Construction loans are interest-only based on 30-day banker's acceptance (BA) plus 2.25% to 2.50%, with no standby fee.

The construction loans are payable 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 between late 2019 and 2021 for Bolton and Uxbridge; and by the earlier of September 2023 and three months following stabilized occupancy as defined by the agreement for Barrie. During 2019, the Company repaid the construction loan balance relating to Cedar Crossing and refinanced it with a CMHC mortgage mentioned above.

All construction loans have been reflected as current.

As at December 31, 2019, an aggregate of $64.6 million was drawn on the construction loans, leaving $13.1 million available; in addition, letters of credit totalling $1.3 million were issued under credit facilities, leaving $1.3 million available.

Lease Liabilities

Lease liabilities as at December 31, 2019 include leases on long-term care homes and the liability related to office leases in connection with IFRS 16 (*Note 4*). The Company operates nine Ontario long-term care homes, which were built between 2001 and 2003, under 25-year lease arrangements. The liability associated with the office leases will be amortized over the remaining lease terms ranging up to 15 years.

	Amount
Balance, December 31, 2018	-
Initial recognition of lease liabilities upon transition to IFRS 16	5,780
Reclassification of finance lease to lease liabilities upon adoption of IFRS 16	80,992
Net additions	10,316
Principal payments of lease liabilities	(10,880)
Balance, December 31, 2019	**86,208**

Credit Facilities

The Company has two demand credit facilities totalling $112.3 million, secured by either 13 Class C long-term care homes in Ontario or the assets of the home health care business. Neither of these facilities has financial covenants but do contain normal and customary terms. As at December 31, 2019, $38.1 million of the facilities secure the Company's defined benefit pension plan obligations, $5.5 million was issued in connection with obligations relating to long-term care homes and retirement living communities, leaving $68.7 million unutilized.

Deferred Financing Costs

Deferred financing costs are deducted against long-term debt and are amortized using the effective interest rate method over the term of the debt.

Below is a summary of the deferred financing costs:

	2019	2018
Convertible unsecured subordinated debentures	**4,002**	4,774
CMHC mortgages	**3,122**	2,017
Non-CMHC mortgages	**1,107**	1,419
Lease liabilities	**174**	206
Total deferred financing costs	**8,405**	8,416
Less: current portion	**(1,557)**	(1,404)
	6,848	7,012

Principal Repayments – Debentures, Mortgages and Loans

Year	Amount
2020	125,392
2021	15,857
2022	59,411
2023	46,444
2024	5,978
2025 and beyond	231,246
	484,328

Principal Repayments – Lease Liabilities

Year	Amount
2020	15,236
2021	15,652
2022	14,010
2023	13,440
2024	13,175
2025 and beyond	40,008
Total undiscounted lease liabilities as at December 31, 2019	111,521
Interest on lease liabilities	(25,313)
Total present value of minimum lease payment	**86,208**

Long-term Debt Continuity

	2019	2018
Balance, beginning of the year	**528,970**	536,068
Initial recognition of lease liabilities upon transition to IFRS 16	**5,780**	-
Issuance of long-term debt	**45,987**	159,998
New lease liabilities	**10,316**	-
Accretion and other	**900**	912
Repayments	**(35,658)**	(159,674)
Early redemption of the convertible debentures	**-**	(5,596)
Addition - deferred financing costs	**(1,628)**	(5,886)
Amortization of deferred financing costs and other	**1,639**	3,148
Balance, end of the year	**556,306**	528,970

Interest Rates

The weighted average interest rate of all long-term debt as at December 31, 2019, was approximately 4.7% (December 31, 2018 – 4.9%). As at December 31, 2019, 88.6% of the long-term debt, including interest rate swaps, was at fixed rates (December 31, 2018 – 90.2%).

Financial Covenants

The Company is subject to external requirements for certain of its loans on debt service coverage. The Company was in compliance with all these covenants as at December 31, 2019.

13. OTHER LONG-TERM LIABILITIES

	2019	2018
Accrued pension plan obligation *(Note 24)*	**32,609**	33,486
Interest rate swaps *(Note 10)*	**702**	523
Other	**1,876**	1,068
	35,187	35,077

14. SHARE-BASED COMPENSATION

The Company's share-based compensation, which includes deferred share units (DSUs) and performance share units (PSUs), and prior to 2019, share appreciation rights (SARs) was an expense of $1.7 million for 2019 (2018 –$0.2 million).

The carrying amounts of the Company's share-based compensation arrangements are recorded in the consolidated statements of financial position as follows:

	2019	2018
Contributed surplus – DSUs	**2,594**	1,914
Contributed surplus – PSUs	**1,081**	792
	3,675	2,706

Equity-settled Long-term Incentive Plan

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

PSUs and DSUs granted under the LTIP do not carry any voting rights. DSUs vest immediately upon grant and PSUs vest three years from the date of grant. During 2019, the Company settled PSUs totalling 61,285, of which 12,223 were settled in cash to cover withholding taxes payable ($0.1 million) and 49,062 were settled with Common Shares issued from treasury.

An aggregate of 4,338,912 Common Shares are reserved and available for issuance pursuant to the LTIP.

Subsequent to December 31, 2019, the Company settled DSUs totalling 48,234, of which 14,471 were settled in cash to cover withholding taxes payable and 33,763 were settled with Common Shares issued from treasury.

DSU and PSU activity is as follows:

	Deferred Share Units		Performance Share Units	
	2019	**2018**	**2019**	**2018**
Units outstanding, beginning of period	**239,725**	134,369	**188,909**	342,944
Granted	**82,384**	109,744	**292,581**	192,116
Reinvested dividend equivalents	**14,920**	10,498	**17,889**	26,007
Forfeited	**–**	–	**(38,573)**	(367,126)
Settled	**–**	(14,886)	**(61,285)**	(5,032)
Units outstanding, end of period	**337,029**	239,725	**399,521**	188,909
Weighted average fair value of units granted during the period at grant date	**$8.26**	$7.36	**$9.62**	$9.33

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

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

	2019	**2018**
Grant date	**May 31, 2019**	March 15, 2018
Vesting date	**May 31, 2022**	March 15, 2021
PSUs granted	**292,581**	192,116
Fair value of AFFO component	**$4.04**	$4.36
Fair value of TSR component	**5.58**	4.97
Grant date fair value	**$9.62**	$9.33
Expected volatility of the Company's Common Shares	**20.49%**	23.66%
Expected volatility of the Index	**9.42%**	12.20%
Risk-free rate	**1.40%**	1.84%
Dividend yield	**nil**	nil

15. SHARE CAPITAL

	2019		2018	
	Shares	**Amount**	***Shares***	**Amount**
Balance at beginning of year	***88,489,984***	**492,064**	*88,523,290*	490,881
Transactions with shareholders				
DRIP	***693,466***	**5,423**	*650,361*	4,928
Purchase of shares for cancellation	**–**	**–**	*(703,585)*	(3,903)
Share-based compensation	***49,062***	**629**	*19,918*	158
Balance at end of year	***89,232,512***	**498,116**	*88,489,984*	492,064

Common Shares

Each Common Share is transferable and represents an equal and undivided beneficial interest in the assets of the Company. Each Common Share entitles the holder to one vote at all meetings of shareholders of the Company. Shareholders are entitled to receive dividends from the Company if, as and when declared by the Board. During 2019 and 2018, the Company declared cash dividends of $0.48 per share.

Dividend Reinvestment Plan

The Company has a Dividend Reinvestment Plan (DRIP) pursuant to which shareholders who are Canadian residents may elect to reinvest their cash distributions in additional Common Shares. During 2019, the Company issued 693,466 Common Shares at a value of $5.4 million in connection with the DRIP (2018 – 650,361 Common Shares at a value of $4.9 million).

Normal Course Issuer Bid (NCIB)

During 2019, under the NCIB that commenced on January 15, 2019 and ended on January 14, 2020, the Company did not purchase any Common Shares. During 2018, under the NCIB that commenced on January 15, 2018 and ended on January 14, 2019, the Company acquired and cancelled 703,585 Common Shares at an average price of $8.89 per share, for a total cost of $6.3 million.

In January 2020, the Company received approval from the TSX to renew its NCIB to purchase for cancellation up to 8,000,000 Common Shares (representing approximately 10% of its public float) through the facilities of the TSX, and through alternative Canadian trading systems, in accordance with TSX rules. The NCIB commenced on January 15, 2020, and provides the Company with flexibility to purchase Common Shares for cancellation until January 14, 2021, or on such earlier date as the NCIB is complete. The actual number of Common Shares purchased under the NCIB and the timing of any such purchases will be at the Company's discretion. Subject to the TSX's block purchase exception, on any trading day, purchases under the NCIB will not exceed 42,703 Common Shares.

16. REVENUE

	2019	2018
Long-term care	**643,785**	632,533
Retirement living	**41,276**	33,412
Home health care	**422,995**	431,343
Other Canadian operations	**23,894**	22,719
Total revenue	**1,131,950**	1,120,007

Funding for the Company's LTC homes and home health care services is regulated by provincial authorities. Revenue from provincial programs represented approximately 69% of the Company's long-term care revenue (2018 – 70%), and approximately 98% of the home health care revenue for both 2019 and 2018.

Retirement living includes accommodation revenue of approximately $16.6 million (2018 – $13.5 million) and services revenue of approximately $24.7 million (2018 – $19.9 million). Service revenue represents a combination of monthly service fees paid by the residents, including proceeds retained by the Company upon the sale of homes in the life lease community.

17. EXPENSES BY NATURE

	2019	2018
Employee wages and benefits	**876,651**	868,089
Food, drugs, supplies and other variable costs	**53,872**	52,181
Property based and leases	**48,942**	49,974
Other	**61,374**	55,525
Total operating expenses and administrative costs	**1,040,839**	1,025,769

18. OTHER EXPENSE

	2019	2018
Termination of B.C. market home health care contracts	**1,429**	–
Other costs	**975**	484
Impairment	**–**	16,158
Loss on early redemption of convertible debt	**–**	2,511
Acquisition costs	**–**	1,042
	2,404	20,195

Termination of B.C. market home health care contracts

In the first quarter of 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 Inc. (ParaMed), the Company's home health care operations. Consequently, ParaMed's contracts with the B.C. Health Authorities will expire in March 2020. The Company recognized a $1.4 million provision in the first quarter of 2019 for costs to be incurred in connection with the contract expiration.

Other costs

In the second quarter of 2019, the Company incurred other costs of $1.0 million in connection with a representation and standstill agreement it entered into dated April 22, 2019 (the "Sandpiper Agreement"), with Sandpiper Real Estate Fund 2 Limited Partnership, Sandpiper Real Estate Fund 3 Limited Partnership, Sandpiper GP 2 Inc., and Sandpiper GP 3 Inc., (collectively, the "Sandpiper Group").

Impairment

In the 2018 fourth quarter, the Company recorded a pre-tax impairment charge of $16.2 million ($11.8 million after tax), in respect of certain of its retirement communities ($15.9 million), and LTC homes ($0.3 million).

The impairment charge for the retirement living operations relates to the write down of the carrying value of the property and equipment of three Saskatchewan retirement communities that were acquired in late 2015 and early 2016; two of which were newly opened at that time and are still in lease up. These communities have not performed as expected, primarily due to competitive market conditions, impacting rates, occupancy and labour and benefit costs.

The determination of recoverable amounts can be significantly impacted by estimates related to current market valuations, current and future economic conditions in the geographical markets of each CGU, and management's strategic plans within each of its markets. Estimates and assumptions used in the determination of the impairment loss for both the retirement communities and LTC homes were based upon information that was known at the time, along with the future outlook. The Company completes the assessment of the impairment amount of each of these properties (each being a CGU), by comparing the recoverable amount (in this case the value in use) of each CGU, determined using the direct capitalization method, to their carrying values. The direct capitalization method divides the estimated stabilized net operating income, after adjusting for management fee and capital maintenance, by appropriate market capitalization rates, ranging from 5.56% and 8.75%, derived from a combination of third-party information and industry trends. The fair value is a Level 3 valuation (*Note 25(b)*).

Loss on early redemption of convertible debt

In 2018, upon the early redemption of the 2019 Debentures, the unaccreted liability of $1.4 million and the associated unamortized finance costs of $1.1 million were expensed.

Acquisition costs

In 2018, the Company acquired the Lynde Creek Retirement Community, and incurred transaction costs of $1.0 million.

19. FOREIGN EXCHANGE AND FAIR VALUE ADJUSTMENTS

Gain on Foreign Exchange and Investments

Gains on foreign exchange and investments was $3.3 million for 2019 (2018 – $1.2 million). These include: FX gain (loss) related to deferred consideration and other balances in connection with the U.S. Sale Transaction that are denominated in U.S. dollars (*Note 21*); gain (loss) on fair value adjustments on investments held for self-insured liabilities; and a foreign exchange gain recognized upon repatriation of funds from the Captive.

Fair Value Adjustments

Fair value adjustments relate to interest rate swap contracts on certain mortgages are a loss of $1.3 million in 2019 (2018 – loss of $1.0 million) (*Note 10*).

20. EARNINGS PER SHARE

Basic earnings per share (EPS) is calculated by dividing the net earnings for the period by the weighted average number of shares outstanding during the period, including vested DSUs awarded that have not settled. Diluted EPS is calculated by adjusting the net earnings and the weighted average number of shares outstanding for the effects of all dilutive instruments. The Company's potentially dilutive instruments include the convertible debentures and equity-settled compensation arrangements. The number of shares included with respect to the PSUs is computed using the treasury stock method. The convertible debentures and equity-settled compensation arrangements would be antidilutive and as such, these are not included in the calculation of diluted EPS.

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

	2019	2018
Numerator for Basic and Diluted Earnings per Share		
Earnings from continuing operations		
Net earnings for basic earnings per share	**28,630**	31,738
Less: earnings from discontinued operations, net of tax	**(11,579)**	(23,654)
Earnings from continuing operations for basic earnings per share	**17,051**	8,084
Add: after-tax interest on convertible debt	**6,117**	6,681
Earnings from continuing operations for diluted earnings per share	**23,168**	14,765
Net earnings		
Net earnings for basic earnings per share	**28,630**	31,738
Add: after-tax interest on convertible debt	**6,117**	6,681
Net earnings for diluted earnings per share	**34,747**	38,419
Denominator for Basic and Diluted Earnings per Share		
Actual weighted average number of shares	**88,868,741**	88,233,092
DSUs	**279,173**	170,363
Weighted average number of shares for basic earnings per share	**89,147,914**	88,403,455
Shares issued if all convertible debt was converted	**10,326,531**	10,326,531
PSUs	**64,886**	22,844
Total for diluted earnings per share	**99,539,331**	98,752,830
Basic and Diluted Earnings per Share *(in dollars)*		
Earnings from continuing operations	**0.19**	0.09
Earnings from discontinued operations	**0.13**	0.27
Net earnings	**0.32**	0.36

21. DISCONTINUED OPERATIONS

	2019	2018
Earnings from Discontinued Operations		
Earnings before income taxes	**11,579**	17,755
Income tax recovery	**–**	5,899
Earnings from discontinued operations	**11,579**	23,654

	2019	2018
Cash Flows from Discontinued Operations		
Net cash from operating activities	**(12,769)**	(15,237)
Net cash from investing activities	**12,769**	15,237
Net cash from financing activities	**–**	–
Effect on cash flows	**–**	–

Earnings from discontinued operations includes the release of a portion of the accrual for self-insured liabilities and the valuation change to the indemnification provisions of $11.6 million and $nil respectively in 2019 (2018 – $14.1 million and $3.8 million). The balance of the earnings related to the impact of discount rate adjustments on the Captive's reserves.

In December 2018, the Company sold one of the remaining U.S. legal entities and realized a capital loss for U.S. tax purposes of approximately US$20 million available to carryback against a 2015 capital gain, resulting in a tax recovery of $9.7 million (US$7.1 million).

22. INCOME TAXES

Tax Recognized in Net Earnings

	2019	2018
Current Tax Expense (Recovery)		
Current year	**8,422**	8,921
Items related to discontinued operations *(Note 21)*	**(1,314)**	(11,729)
Utilization of losses	**(233)**	(924)
Other adjustments	**98**	132
	6,973	(3,600)
Deferred Tax Expense (Recovery)		
Origination and reversal of temporary difference	**(1,520)**	(4,406)
Items related to discontinued operations *(Note 21)*	**1,314**	5,830
Utilization of losses	**101**	629
Other adjustments	**317**	(117)
	212	1,936
Total tax expense (recovery)	**7,185**	(1,664)
Tax expense from continuing operations	**7,185**	4,235
Tax recovery from discontinued operations	**–**	(5,899)
	7,185	(1,664)

Tax Recognized in Other Comprehensive Income

	2019			2018		
	Before Tax	Tax Recovery	Net of Tax	Before Tax	Tax Recovery	Net of Tax
Foreign currency translation difference for foreign operations	**(2,513)**	**–**	**(2,513)**	1,841	–	1,841
Defined benefit plan actuarial gains	**(1,419)**	**376**	**(1,043)**	(507)	134	(373)
	(3,932)	**376**	**(3,556)**	1,334	134	1,468

Effective Tax Rate

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

	2019	2018
Earnings from continuing operations before income taxes	**24,236**	12,319
Income taxes at statutory rates of 26.5%	**6,423**	3,265
Income tax effect relating to the following items:		
Tax rate variance of foreign subsidiaries	**(595)**	610
Non-deductible items	**886**	517
Non-taxable income (loss)	**56**	(107)
Prior year adjustment	**413**	42
Other items	**2**	(92)
	7,185	4,235

Summary of Operating and Capital Loss Carryforwards

The company's Canadian corporate subsidiaries have $12.9 million net operating loss carryforwards available as at December 31, 2019 (2018 – $5.7 million), which expire in the years 2036 through 2039, and capital loss carryforwards of $41.7 million (2018 – $42.1 million) which have not been tax benefited and are available indefinitely to apply against future capital gains.

Deferred tax assets recognized as at December 31, 2019, were $12.7 million (2018 – $9.7 million). Net deferred tax liabilities decreased in 2019 to $1.5 million from $1.6 million at December 31, 2018.

Recognized Deferred Tax Assets and Liabilities

Net deferred tax liabilities comprise the following:

	2019			2018		
	Assets	**Liabilities**	**Net**	**Assets**	**Liabilities**	**Net**
Property and equipment	**5,928**	**21,700**	**15,772**	6,410	20,339	13,929
Intangible assets	**74**	**5,237**	**5,163**	73	5,933	5,860
Other assets	**–**	**394**	**394**	–	683	683
Deferred financing costs	**63**	**914**	**851**	67	1,379	1,312
Financial assets at fair value	**212**	**422**	**210**	–	545	545
Self-insurance reserves	**250**	**–**	**(250)**	254	–	(254)
Indemnification provisions	**681**	**–**	**(681)**	2,357	–	(2,357)
Employee benefit accruals	**9,672**	**–**	**(9,672)**	9,599	–	(9,599)
Operating loss carryforwards	**3,445**	**–**	**(3,445)**	1,519	–	(1,519)
Deferred revenue	**3,287**	**27**	**(3,260)**	3,348	48	(3,300)
Decommissioning provision	**2,525**	**–**	**(2,525)**	2,482	–	(2,482)
Other	**1,119**	**66**	**(1,053)**	1,335	115	(1,220)
Set-off of tax	**(14,508)**	**(14,508)**	**–**	(17,699)	(17,699)	–
Deferred tax liabilities, net	**12,748**	**14,252**	**1,504**	9,745	11,343	1,598

Deferred income taxes are provided for temporary differences between the carrying values of assets and liabilities and their respective tax values as well as available tax loss carryforwards. Management believes it is more likely than not that the Company's corporate subsidiaries will realize the benefits of these deductible differences.

The significant components of deferred income tax assets and liabilities and the movement in these balances during the year were as follows:

	Balance January 1, 2019	**Recognized in Net Earnings**	**Recognized in Other Comprehensive Income/Other**	**Recognized in Discontinued Operations**	**Change in Foreign Exchange**	**Balance December 31, 2019**
Property and equipment	**13,929**	**1,843**	**–**	**–**	**–**	**15,772**
Other assets	**683**	**(285)**	**–**	**–**	**(4)**	**394**
Deferred financing costs	**1,312**	**(461)**	**–**	**–**	**–**	**851**
Financial assets at fair value	**545**	**(335)**	**–**	**–**	**–**	**210**
Self-insurance reserves	**(254)**	**4**	**–**	**–**	**–**	**(250)**
Indemnification provisions	**(2,357)**	**288**	**–**	**1,314**	**74**	**(681)**
Intangible assets	**5,860**	**(697)**	**–**	**–**	**–**	**5,163**
Employee benefit accruals	**(9,599)**	**303**	**(376)**	**–**	**–**	**(9,672)**
Operating loss carryforwards	**(1,519)**	**(1,926)**	**–**	**–**	**–**	**(3,445)**
Deferred revenue	**(3,300)**	**40**	**–**	**–**	**–**	**(3,260)**
Decommissioning provision	**(2,482)**	**(43)**	**–**	**–**	**–**	**(2,525)**
Other	**(1,220)**	**167**	**–**	**–**	**–**	**(1,053)**
Deferred tax liabilities, net	**1,598**	**(1,102)**	**(376)**	**1,314**	**70**	**1,504**

	Balance January 1, 2018	Recognized in Net Earnings	Recognized in Other Comprehensive Income/Other	Recognized in Discontinued Operations	Change in Foreign Exchange	Balance December 31, 2018
Property and equipment	20,050	(6,121)	–	–	–	13,929
Other assets	963	(217)	–	–	(63)	683
Deferred financing costs	(280)	1,678	(86)	–	–	1,312
Financial assets at fair value	908	(363)	–	–	–	545
Self-insurance reserves	(276)	22	–	–	–	(254)
Indemnification provisions	(7,939)	232	–	5,830	(480)	(2,357)
Intangible assets	5,432	428	–	–	–	5,860
Employee benefit accruals	(10,013)	548	(134)	–	–	(9,599)
Operating loss carryforwards	(1,922)	403	–	–	–	(1,519)
Deferred revenue	(4,338)	1,038	–	–	–	(3,300)
Decommissioning provision	(2,248)	(234)	–	–	–	(2,482)
Other	88	(1,308)	–	–	–	(1,220)
Deferred tax liabilities, net	425	(3,894)	(220)	5,830	(543)	1,598

23. COMMITMENTS AND CONTINGENCIES

Property and Equipment Commitments

The Company has outstanding commitments of $0.6 million at December 31, 2019, in connection with retirement communities under development in Ontario.

Legal Proceedings 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 homes 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. Since July 2019, certain individual plaintiffs have served the Company with statements of claim alleging negligence by the Company in the operation of certain of its long-term care homes 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 seeking 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.

24. EMPLOYEE BENEFITS

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

Defined Benefit Plans

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

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

	Funded Defined Benefit Plan		Unfunded Supplementary Defined Benefit Plan		Total	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**
Fair value of plan assets	**5,325**	5,066	**–**	–	**5,325**	5,066
Present value of obligations	**8,137**	7,666	**33,678**	33,523	**41,815**	41,189
Deficit	**(2,812)**	(2,600)	**(33,678)**	(33,523)	**(36,490)**	(36,123)

FUNDING

As required by law, the registered defined benefit pension plan benefits are funded through a trust, and the Company is responsible for meeting the statutory obligations for funding this plan. The funding requirement for past service is determined based on separate actuarial valuations for funding purposes, which are completed every three years. The last actuarial review was performed effective October 1, 2018 and completed in early 2019.

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

DEFINED BENEFIT OBLIGATIONS

	2019	**2018**
Present Value of Defined Benefit Obligations		
Accrued benefit obligations		
Balance at beginning of year	**41,189**	42,081
Current service cost	**98**	104
Benefits paid	**(2,614)**	(2,680)
Interest costs	**1,399**	1,330
Actuarial losses	**1,743**	354
Balance at end of year	**41,815**	41,189
Plan assets		
Fair value at beginning of year	**5,066**	5,443
Employer contributions	**159**	88
Actual return on plan assets	**321**	(241)
Interest income on plan assets	**172**	172
Benefits paid	**(393)**	(396)
Fair value at end of year	**5,325**	5,066
Defined benefit obligations	**36,490**	36,123

The expected contribution to the supplementary plan for the coming year is approximately $3.4 million.

	2019	**2018**
Current accrued liabilities	**3,881**	2,637
Other long-term liabilities *(Note 13)*	**32,609**	33,486
Accrued benefit liability at end of year	**36,490**	36,123

EFFECT OF CHANGES TO DEFINED BENEFIT OBLIGATIONS

	2019	2018
Expense Recognized in Net Earnings		
Annual benefit plan expense		
Current service cost	**98**	104
Interest costs	**1,227**	1,158
Plan benefit expense recognized in the year - included in operating expenses and administrative costs	**1,325**	1,262
Actuarial Losses Recognized in Other Comprehensive Income		
Amount accumulated in accumulated deficit at January 1	**(10,236)**	(9,863)
Actuarial loss arising from changes in liability experience and assumption changes	**(1,740)**	(266)
Return on assets	**321**	(241)
Income tax recovery on actuarial losses	**376**	134
Amount recognized in accumulated deficit at December 31	**(11,279)**	(10,236)

PLAN ASSETS

	2019	2018
Equities	**47%**	42%
Fixed income securities	**33%**	38%
Real estate / commercial mortgage	**20%**	20%
	100%	100%

ACTUARIAL ASSUMPTIONS

	2019	2018
Discount rate for year-end accrued obligation	**3.00%**	3.50%
Discount rate for period expense	**3.50%**	3.25%
Rate of compensation increase	**–**	2.00%
Income Tax Act limit increase	**3.00%**	3.00%
Average remaining service years of active employees	**2**	2

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

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

Changes to the following actuarial assumptions, while holding the other assumptions constant, would have affected the defined benefit obligation and related expense for 2019 by the amounts shown below.

	Increase (Decrease) in Benefit Obligation	Increase (Decrease) in Net Earnings
Discount rate		
1% increase	(3,602)	(204)
1% decrease	4,255	263
Rate of compensation increase*		
1% increase	–	–
1% decrease	–	–
Mortality rate		
10% increase	(811)	24
10% decrease	917	(28)

* No impact as actual salary rates are used in valuation for 2019

Defined Contribution Plans

The Company maintains registered savings and defined contribution plans and matches up to 120% of the employees' contributions according to seniority, subject to a maximum based on the salary of the plan participants. Contributions expensed by Canada in 2019 and 2018 were $17.1 million and $16.7 million, respectively.

25. MANAGEMENT OF RISKS AND FINANCIAL INSTRUMENTS

(a) Management of Risks

LIQUIDITY RISK

Liquidity risk is the risk that the Company will encounter difficulty in meeting its contractual obligations. The Company manages our liquidity risk through the use of budgets and forecasts. Cash requirements are monitored regularly based on actual financial results and actual cash flows to ensure that there are sufficient resources to meet operational requirements. In addition, since there is a risk that current borrowings and long-term debt may not be refinanced or may not be refinanced on as favourable terms or with interest rates as favourable as those of the existing debt, the Company attempts to appropriately structure the timing of contractual long-term debt renewal obligations and exposures.

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

As at December 31, 2019	Carrying Amount	Contractual Cash Flows	Less than 1 Year	1-2 Years	2-5 Years	More than 5 Years
Convertible debentures	**120,675**	**161,288**	6,325	6,325	18,975	129,663
CMHC mortgages	**128,878**	**152,981**	38,652	14,472	45,167	54,690
Non-CMHC mortgages	**164,349**	**212,800**	33,128	10,820	86,533	82,319
Construction loans	**64,601**	**66,026**	66,026	–	–	–
Lease liabilities	**86,208**	**111,521**	15,236	15,652	40,625	40,008
Accounts payable and accrued	**136,922**	**136,922**	136,922	–	–	–
Income taxes payable	**1,606**	**1,606**	1,606	–	–	–
	703,239	**843,144**	**297,895**	**47,269**	**191,300**	**306,680**

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

In addition to cash generated from its operations and cash on hand, the Company has available undrawn credit facilities totalling $70.0 million (2018 – $69.1 million).

CREDIT RISK

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

	Carrying Amount	
	2019	**2018**
Cash and short-term investments	**94,457**	65,893
Restricted cash	**2,441**	2,290
Accounts receivables, net of allowance	**50,382**	50,570
Investments held for self-insured liabilities	**27,562**	67,938
Government note receivables	**47,854**	53,341
	222,696	240,032

Cash and Short-term Investments

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

Restricted Cash

The restricted cash is cash held mainly on account of lender capital reserves with no credit risk.

Accounts Receivables, Net of Allowance

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

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

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

	2019	**2018**
Trade receivables	**38,633**	39,894
Other receivables	**11,749**	10,676
	50,382	50,570

As at December 31, 2019, receivables from government agencies represented approximately 80% of the total receivables (2018 – 85%). Management continuously monitors reports from trade associations or notes from provincial or federal agencies that announce possible delays that are rare to occur and usually associated with changes of fiscal intermediaries or changes in information technology or forms.

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

As at December 31, 2019, the Company had trade receivables of $38.6 million (2018 – $39.9 million). All the receivables were fully performing and collectible in the amounts outlined above.

The aging analysis of these trade receivables is as follows:

	2019	2018
Current	**24,538**	28,889
Between 30 and 90 days	**12,704**	10,122
Over 90 days	**3,553**	2,479
Less: provision for receivable impairment	**(2,162)**	(1,596)
	38,633	39,894

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

	2019	2018
At January 1	**1,596**	1,597
Increase in provision for receivable impairment	**1,941**	2,910
Receivables written off as uncollectible	**(1,375)**	(2,911)
At December 31	**2,162**	**1,596**

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

Investments Held for Self-insured Liabilities

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

Notes, Mortgages and Amounts Receivable

Included in notes, mortgages and amounts receivable were $47.9 million (2018 – $53.3 million) of discounted amounts receivable due from government agencies. These represent amounts funded by the Ontario government for a portion of LTC home construction costs over a 20-year or 25-year period *(Note 10)*. The Company does not believe there is any credit exposure for these amounts due from government agencies.

CURRENCY RISK

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

As a result of the U.S. Sale Transaction, our exposure to foreign currency risk has been significantly reduced. The following table outlines the net asset exposure to both the U.S. continuing operations and other items retained from the U.S. Sale Transaction as at December 31, 2019.

		2019
	US$	C$
Assets		
Current assets	*16,962*	**22,032**
Investments held for self-insured liabilities	*21,218*	**27,562**
Liabilities		
Current liabilities	*3,955*	**5,137**
Indemnification provisions	*5,717*	**7,426**
Non-current liabilities	*6,663*	**8,655**
Net asset exposure	*21,845*	**28,376**

Net Earnings Sensitivity Analysis

Prior to the U.S. Sale Transaction, the majority of the Company's operations were conducted in the United States. As at December 31, 2019, U.S. operations have no revenue from continuing operations (2018 – less than 1%).

Every one cent strengthening of the Canadian dollar against the U.S. dollar in 2019 would favourably impact net earnings by $0.1 million and OCI by $0.1 million. This analysis assumes that all other variables, in particular the interest rates, remain constant.

INTEREST RATE RISK

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

To mitigate interest rate risk, the Company's long-term care debt portfolio includes fixed-rate debt and variable-rate debt with interest rate swaps in place. At December 31, 2019, construction loans of $64.6 million are variable-rate debt, which do not have interest rate swaps in place. The Company's credit facility, and future borrowings, may be at variable rates which would expose the Company to the risk of interest rate volatility (*Note 12*).

Although the majority of the Company's long-term debt is effectively at fixed rates, there can be no assurance that as debt matures, renewal rates will not significantly impact future income and cash flow. The Company does not account for any fixed-rate liabilities at FVTPL; consequently, changes in interest rates have no impact on our fixed-rate debt and therefore, would not impact net earnings.

Below is the interest rate profile of our interest-bearing financial instruments, which reflects the impact of the interest rate swaps:

	Carrying Amount	
	2019	**2018**
Fixed-rate instruments:		
Long-term debt [1]	**500,110**	484,520
Total liability in fixed-rate instruments	**500,110**	484,520
Variable-rate instruments:		
Long-term debt [1]	**64,601**	52,866
	64,601	52,866

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

Fair Value Sensitivity Analysis for Variable-rate Instruments

All long-term debt with variable rates are classified as other financial liabilities, which are measured at amortized cost using the effective interest method of amortization; therefore, changes in interest rates would not affect OCI or net earnings with respect to variable-rate debt. As at December 31, 2019, long-term debt with variable rates represented 11.4% of total debt (2018 – 9.8%). The value of the interest rate swaps is subject to fluctuations in interest rates, changes in fair value of these swaps are recognized in net earnings.

Cash Flow Sensitivity Analysis for Variable-rate Instruments

An increase of 100 basis points in interest rates would have decreased net earnings by $0.5 million and a decrease of 100 basis points in interest rates would have increased net earnings by $0.5 million. This analysis assumes that all other variables, in particular foreign currency rates, remains constant, and excludes variable interest rate debt that is locked in through interest rate swaps.

(b) Fair values of Financial Instruments

As at December 31, 2019	**Amortized Cost**	**Fair Value through Profit and Loss**	**Total Carrying Amount**	**Fair Value**	**Fair Value Hierarchy**
Financial assets:					
Cash and short-term investments	**94,457**	**–**	**94,457**	**94,471**	Level 2
Restricted cash	**2,441**	**–**	**2,441**	**2,441**	
Invested assets (1)	**354**	**–**	**354**	**354**	
Accounts receivable	**50,382**	**–**	**50,382**	**50,382**	
Interest rate swaps	**–**	**1,480**	**1,480**	**1,480**	Level 2
Amounts receivable and other assets (2) (3)	**47,854**	**–**	**47,854**	**51,950**	Level 2
Investments held for self-insured liabilities	**6,316**	**21,246**	**27,562**	**27,562**	Level 1
	201,804	**22,726**	**224,530**	**228,640**	
Financial liabilities:					
Accounts payable	**18,021**	**–**	**18,021**	**18,021**	
Interest rate swaps	**–**	**702**	**702**	**702**	
Long-term debt excluding convertible debentures (3) (4)	**444,036**	**–**	**444,036**	**450,382**	Level 2
Convertible debentures	**120,675**	**–**	**120,675**	**132,585**	Level 1
	582,732	**702**	**583,434**	**601,690**	

As at December 31, 2018	**Amortized Cost**	**Fair Value through Profit and Loss**	**Total Carrying Amount**	**Fair Value**	**Fair Value Hierarchy**
Financial assets:					
Cash and short-term investments	65,893	–	65,893	65,907	Level 2
Restricted cash	2,290	–	2,290	2,290	
Invested assets (1)	442	–	442	442	
Accounts receivable	50,570	–	50,570	50,570	
Interest rate swaps	–	2,556	2,556	2,556	Level 2
Amounts receivable and other assets (2) (3)	53,341	–	53,341	55,142	Level 2
Investments held for self-insured liabilities	2,242	65,696	67,938	67,938	Level 1
	174,778	68,252	243,030	244,845	
Financial liabilities:					
Accounts payable	6,239	–	6,239	6,239	
Interest rate swaps	–	523	523	523	
Long-term debt excluding convertible debentures (3) (4)	417,611	–	417,611	444,092	Level 2
Convertible debentures	119,775	–	119,775	125,551	Level 1
	543,625	523	544,148	576,405	

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

BASIS FOR DETERMINING FAIR VALUES

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

Fair values for investments designated as FVTPL are based on quoted market prices. Accounts receivable are recorded at amortized cost. The carrying values of accounts receivable approximate fair values due to their short-term maturities, with the exception of the amounts receivable due from the government of Ontario, which are valued at discounted future cash flows using current applicable rates for similar instruments of comparable maturity and credit quality (*Note 10*). The fair values of convertible debentures are based on the closing price of the publicly traded convertible debentures on each reporting date, and the fair values of mortgages and other debt are estimated based on discounted future cash flows using discount rates that reflect current market conditions for instruments with similar terms and risks.

FAIR VALUE HIERARCHY

The Company uses a fair value hierarchy to categorize the type of valuation techniques from which fair values are derived: Level 1 – use of quoted market prices; Level 2 – internal models using observable market information as inputs; and Level 3 – internal models without observable market information as inputs.

The fair value hierarchy for the fair values of financial instruments where carrying value is not a reasonable approximation of fair value, are indicated above.

26. CAPITAL MANAGEMENT

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

Capital Structure

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

	2019	**2018**
Current portion of long-term debt [(1)]	**133,771**	74,626
Long-term debt [(1)]	**422,535**	454,344
Total debt	**556,306**	528,970
Less: cash and short-term investments	**(94,457)**	(65,893)
Net debt	**461,849**	463,077
Share capital	**498,116**	492,064
	959,965	955,141

(1) Net of financing costs.

27. RELATED PARTY TRANSACTIONS

Transactions with Key Management Personnel

As previously disclosed, the Company's former President and Chief Executive Officer stepped down from his position on October 22, 2018. In connection therewith, the Company recorded a charge of $1.7 million in the three months ended September 30, 2018, representing a cash payment of $2.9 million reflected below as part of post-employment benefits, partially offset by the reversal of $1.2 million in respect of forfeited PSUs.

Compensation of Key Management Personnel

The remuneration of directors and other key management personnel of the Company was as follows:

	2019	**2018**
Salaries and short-term benefits	**2,636**	3,318
Post-employment benefits	**–**	2,917
Share-based compensation	**1,231**	(106)
	3,867	6,129

28. SEGMENTED INFORMATION

The Company reports the following segments: 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". The continuing U.S. operations consist of the Captive.

The long-term care segment represents the 58 long-term care homes that the Company owns and operates in Canada. The retirement living segment includes seven acquired retirement communities and four constructed retirement communities. The retirement communities provide accommodation and services to private-pay residents at rates set by the Company based on the services provided and market conditions. Through our wholly owned subsidiary ParaMed, ParaMed's home health care operations provide complex nursing care, occupational, physical and speech therapy, and assistance with daily activities to accommodate those living at home.

The Company's other Canadian operations are composed of its contract services, consulting and group purchasing divisions. Through our Extendicare Assist division, the Company provides contract services and consulting to third parties; and through our 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.

The Company continues to group its former and remaining U.S. operations as one segment. The Captive's expense incurred for self-insured liabilities related to the Company's U.S. general and professional liability risks up to the date of the U.S. Sale Transaction 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.

								2019
(in thousands of Canadian dollars)	**Long-term Care**	**Retirement Living**	**Home Health Care**	**Other Canadian Operations**	**Corporate Canada**	**Total Canada**	**Total U.S.**	**Total**
CONTINUING OPERATIONS								
Revenue	**643,785**	**41,276**	**422,995**	**23,894**	**–**	**1,131,950**	**–**	**1,131,950**
Operating expenses	**566,375**	**29,844**	**391,646**	**10,635**	**–**	**998,500**	**–**	**998,500**
Net operating income	**77,410**	**11,432**	**31,349**	**13,259**	**–**	**133,450**	**–**	**133,450**
Administrative costs					**41,151**	**41,151**	**1,188**	**42,339**
Earnings (loss) before depreciation, amortization, and other expense						**92,299**	**(1,188)**	**91,111**
Depreciation and amortization					**39,590**	**39,590**	**–**	**39,590**
Other expense					**2,404**	**2,404**	**–**	**2,404**
Earnings (loss) before net finance costs						**50,305**	**(1,188)**	**49,117**
Net interest costs					**26,240**	**26,240**	**648**	**26,888**
Foreign exchange and fair value adjustments					**2,081**	**2,081**	**(4,088)**	**(2,007)**
Net finance costs (income)					**28,321**	**28,321**	**(3,440)**	**24,881**
Earnings before income taxes						**21,984**	**2,252**	**24,236**
Income tax expense (recovery)								
Current					**8,287**	**8,287**	**–**	**8,287**
Deferred					**(1,102)**	**(1,102)**	**–**	**(1,102)**
Total income tax expense					**7,185**	**7,185**	**–**	**7,185**
Earnings from continuing operations						**14,799**	**2,252**	**17,051**
DISCONTINUED OPERATIONS								
Earnings from discontinued operations, net of income taxes					**–**	**–**	**11,579**	**11,579**
Net earnings						**14,799**	**13,831**	**28,630**

								2018
(in thousands of Canadian dollars)	Long-term Care	Retirement Living	Home Health Care	Other Canadian Operations	Corporate Canada	Total Canada	Total U.S.	Total
CONTINUING OPERATIONS								
Revenue	632,533	33,412	431,343	22,291	23	1,119,602	405	1,120,007
Operating expenses	559,489	24,430	393,354	8,750	–	986,023	–	986,023
Net operating income	73,044	8,982	37,989	13,541	23	133,579	405	133,984
Administrative costs	–	–	–	–	38,570	38,570	1,176	39,746
Earnings (loss) before depreciation, amortization, and other expense						95,009	(771)	94,238
Depreciation and amortization					35,270	35,270	–	35,270
Other expense					20,195	20,195	–	20,195
Earnings (loss) before net finance costs						39,544	(771)	38,773
Net interest costs					25,073	25,073	1,628	26,701
Foreign exchange and fair value adjustments					(149)	(149)	(98)	(247)
Net finance costs					24,924	24,924	1,530	26,454
Earnings (loss) before income taxes						14,620	(2,301)	12,319
Income tax expense (recovery)								
Current					8,129	8,129	–	8,129
Deferred					(3,894)	(3,894)	–	(3,894)
Total income tax expense					4,235	4,235	–	4,235
Earnings (loss) from continuing operations						10,385	(2,301)	8,084
DISCONTINUED OPERATIONS								
Loss from discontinued operations, net of income taxes					–	–	23,654	23,654
Net earnings						10,385	21,353	31,738

29. SIGNIFICANT SUBSIDIARIES

The following is a list of the significant subsidiaries as at December 31, 2019, all of which are 100% directly or indirectly owned by the Company.

	Jurisdiction of Incorporation
Extendicare (Canada) Inc.	Canada
ParaMed Inc.	Canada
Harvest Retirement Community Inc.	Canada
Stonebridge Crossing Retirement Community Inc.	Canada
Empire Crossing Retirement Community Inc.	Canada
Yorkton Crossing Retirement Community Inc.	Canada
West Park Crossing Retirement Community Inc.	Canada
Bolton Mills Retirement Community Inc.	Canada
Douglas Crossing Retirement Community Inc.	Canada
Lynde Creek Manor Retirement Community Inc.	Canada
9994165 Canada Inc.	Canada
Riverbend Crossing Retirement Community Inc.	Canada
Cedar Crossing Retirement Community Inc.	Canada
Laurier Indemnity Company, Ltd.	Bermuda