INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AND NOTES

Q3 2020

Extendicare Inc.
Dated: November 12, 2020

Extendicare Inc.
Interim Condensed Consolidated Financial Statements

Three and nine months ended September 30, 2020 and 2019

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

(in thousands of Canadian dollars)	*notes*	**September 30, 2020**	**December 31, 2019**
Assets			
Current assets			
Cash and cash equivalents		**170,061**	94,457
Restricted cash		**2,435**	2,441
Accounts receivable		**52,729**	50,382
Income taxes recoverable		**15,864**	15,958
Other assets	*4*	**31,286**	20,661
Total current assets		**272,375**	183,899
Non-current assets			
Property and equipment	*3*	**517,758**	530,527
Goodwill and other intangible assets		**86,503**	89,874
Other assets	*4*	**38,527**	71,752
Deferred tax assets		**15,393**	12,748
Total non-current assets		**658,181**	704,901
Total assets		**930,556**	888,800
Liabilities and Equity			
Current liabilities			
Accounts payable and accrued liabilities		**161,667**	136,922
Income taxes payable		**10,258**	1,606
Long-term debt	*6*	**71,669**	133,771
Provisions	*5*	**—**	3,572
Total current liabilities		**243,594**	275,871
Non-current liabilities			
Long-term debt	*6*	**499,556**	422,535
Provisions	*5*	**17,201**	25,541
Other long-term liabilities	*7*	**38,282**	35,187
Deferred tax liabilities		**11,768**	14,252
Total non-current liabilities		**566,807**	497,515
Total liabilities		**810,401**	773,386
Share capital		**500,577**	498,116
Equity portion of convertible debentures		**7,085**	7,085
Contributed surplus		**4,120**	3,675
Accumulated deficit		**(377,696)**	(382,189)
Accumulated other comprehensive loss		**(13,931)**	(11,273)
Shareholders' equity		**120,155**	115,414
Total liabilities and equity		**930,556**	888,800

See accompanying notes to unaudited interim condensed consolidated financial statements.
(1) Commitments and contingencies (Note 15).
(2) Subsequent events (Note 17).

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

(in thousands of Canadian dollars except for per share amounts)	*notes*	Three months ended September 30, 2020	Three months ended September 30, 2019 [1]	Nine months ended September 30, 2020	Nine months ended September 30, 2019 [1]
CONTINUING OPERATIONS					
Revenue	*18*	**296,786**	282,733	**850,551**	841,055
Operating expenses		**220,810**	247,866	**724,258**	740,482
Administrative costs		**12,182**	11,021	**34,201**	31,801
Total expenses	*10*	**232,992**	258,887	**758,459**	772,283
Earnings before depreciation, amortization, and other expense		**63,794**	23,846	**92,092**	68,772
Depreciation and amortization		**9,373**	9,861	**28,911**	28,993
Other expense	*11*	**—**	—	**2,780**	2,404
Earnings before net finance costs and income taxes		**54,421**	13,985	**60,401**	37,375
Interest expense		**7,141**	7,198	**21,369**	21,110
Interest revenue		**(534)**	(919)	**(2,084)**	(2,684)
Accretion		**311**	297	**922**	892
Foreign exchange and fair value adjustments	*12*	**46**	(185)	**3,041**	2,525
Net finance costs		**6,964**	6,391	**23,248**	21,843
Earnings before income taxes		**47,457**	7,594	**37,153**	15,532
Income tax expense (recovery)					
Current		**14,118**	2,666	**14,343**	7,219
Deferred		**(1,305)**	(425)	**(4,182)**	(2,019)
Total income tax expense		**12,813**	2,241	**10,161**	5,200
Earnings from continuing operations		**34,644**	5,353	**26,992**	10,332
DISCONTINUED OPERATIONS					
Earnings (loss) from discontinued operations, net of income taxes	*14*	**(178)**	1,906	**9,721**	8,210
Net earnings		**34,466**	7,259	**36,713**	18,542
Basic Earnings per Share					
Earnings from continuing operations	*13*	**\$0.39**	\$0.06	**\$0.30**	\$0.12
Net earnings	*13*	**\$0.38**	\$0.08	**\$0.41**	\$0.21
Diluted Earnings per Share					
Earnings from continuing operations	*13*	**\$0.36**	\$0.06	**\$0.30**	\$0.12
Net earnings	*13*	**\$0.36**	\$0.08	**\$0.41**	\$0.21

See accompanying notes to unaudited interim condensed consolidated financial statements.
[1] *Comparative figures have been re-presented to reflect discontinued operations (Notes 2, 14).*

Extendicare Inc.

Interim Condensed Consolidated Statements of Comprehensive Income

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
(in thousands of Canadian dollars)	**2020**	**2019**	**2020**	**2019**
Net earnings	**34,466**	7,259	**36,713**	18,542
Other comprehensive income (loss), net of taxes				
Items that will not be reclassified to profit or loss:				
Defined benefit plan actuarial gains (losses)	**470**	(215)	**(3,536)**	(2,740)
Tax recovery (expense) on defined benefit plan actuarial gains (losses)	**(125)**	57	**937**	726
Defined benefit plan actuarial income (loss), net of taxes	**345**	(158)	**(2,599)**	(2,014)
Items that are or may be reclassified subsequently to profit or loss:				
Net change in foreign currency translation adjustment	**(212)**	243	**(59)**	(1,379)
Other comprehensive income (loss), net of taxes	**133**	85	**(2,658)**	(3,393)
Total comprehensive income	**34,599**	7,344	**34,055**	15,149

See accompanying notes to unaudited interim condensed consolidated financial statements.

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

(in thousands of Canadian dollars, except for number of shares)	***notes***	***Number of shares***	**Share capital**	**Equity portion of convertible debentures**	**Contributed surplus**	**Accumulated deficit**	**Accumulated other comprehensive loss**	**Shareholders' equity**
Balance at January 1, 2020		***89,232,512***	**498,116**	**7,085**	**3,675**	**(382,189)**	**(11,273)**	**115,414**
DRIP		***231,813***	**1,705**	**—**	**—**	**—**	**—**	**1,705**
Share-based compensation	***8***	***74,760***	**756**	**—**	**445**	**—**	**—**	**1,201**
Net earnings		**—**	**—**	**—**	**—**	**36,713**	**—**	**36,713**
Dividends declared		**—**	**—**	**—**	**—**	**(32,220)**	**—**	**(32,220)**
Other comprehensive loss		**—**	**—**	**—**	**—**	**—**	**(2,658)**	**(2,658)**
Balance at September 30, 2020		**89,539,085**	**500,577**	**7,085**	**4,120**	**(377,696)**	**(13,931)**	**120,155**

(in thousands of Canadian dollars, except for number of shares)	***notes***	***Number of shares***	**Share capital**	**Equity portion of convertible debentures**	**Contributed surplus**	**Accumulated deficit**	**Accumulated other comprehensive loss**	**Shareholders' equity**
Balance at January 1, 2019		*88,489,984*	492,064	7,085	2,706	(368,147)	(7,717)	125,991
DRIP		*526,266*	3,996	—	—	—	—	3,996
Share-based compensation	*8*	*49,062*	629	—	593	—	—	1,222
Net earnings		—	—	—	—	18,542	—	18,542
Dividends declared		—	—	—	—	(31,971)	—	(31,971)
Other comprehensive loss		—	—	—	—	—	(3,393)	(3,393)
Balance at September 30, 2019		89,065,312	496,689	7,085	3,299	(381,576)	(11,110)	114,387

See accompanying notes to unaudited interim condensed consolidated financial statements.

Extendicare Inc.

Interim Condensed Consolidated Statements of Cash Flows

(Unaudited)

		Three months ended September 30,		Nine months ended September 30,	
(in thousands of Canadian dollars)	***notes***	**2020**	**2019**	**2020**	**2019**
Operating Activities					
Net earnings		**34,466**	7,259	**36,713**	18,542
Adjustments for:					
Depreciation and amortization	*3*	**9,373**	9,861	**28,911**	28,993
Share-based compensation	*8*	**710**	698	**1,201**	1,222
Deferred taxes		**(1,305)**	(425)	**(4,192)**	(1,997)
Current taxes		**14,118**	2,666	**14,353**	7,197
Net finance costs		**6,918**	6,665	**20,207**	19,876
Other income	*11, 14*	**—**	(2,012)	**(6,757)**	(3,980)
Foreign exchange and fair value adjustments	*12*	**63**	(426)	**1,854**	(518)
		64,343	24,286	**92,290**	69,335
Net change in operating assets and liabilities					
Accounts receivable		**289**	4,936	**(2,347)**	7,036
Other assets	*4*	**3,014**	(450)	**(10,801)**	78
Accounts payable and accrued liabilities		**(5,825)**	3,355	**18,702**	(3,010)
		61,821	32,127	**97,844**	73,439
Interest paid		**(4,534)**	(5,924)	**(18,073)**	(19,191)
Interest received		**534**	907	**2,084**	2,675
Income taxes received (paid)		**(3,360)**	1,445	**(5,354)**	(4,212)
Payments of self-insured liabilities		**—**	(193)	**(1,623)**	(12,517)
Net cash from operating activities		**54,461**	28,362	**74,878**	40,194
Investing Activities					
Purchase of property, equipment and other intangible assets	*3*	**(3,942)**	(8,066)	**(13,871)**	(23,492)
Decrease in investments held for self-insured liabilities	*4*	**13,789**	304	**29,307**	26,514
Decrease in other assets	*4*	**1,448**	1,371	**4,346**	4,115
Net cash from (used in) investing activities		**11,295**	(6,391)	**19,782**	7,137
Financing Activities					
Issuance of long-term debt	*6*	**—**	5,970	**62,362**	33,749
Repayment of long-term debt	*6*	**(7,029)**	(6,300)	**(47,590)**	(20,340)
Increase in restricted cash	*4*	**396**	(16)	**62**	(301)
Dividends paid		**(10,746)**	(9,294)	**(30,515)**	(27,950)
Financing costs		**(6)**	(32)	**(3,769)**	(1,023)
Net cash used in financing activities		**(17,385)**	(9,672)	**(19,450)**	(15,865)
Increase in cash and cash equivalents		**48,371**	12,299	**75,210**	31,466
Cash and cash equivalents at beginning of period		**121,969**	84,406	**94,457**	65,893
Foreign exchange gain (loss) on cash held in foreign currency		**(279)**	93	**394**	(561)
Cash and cash equivalents at end of period		**170,061**	96,798	**170,061**	96,798

See accompanying notes to unaudited interim condensed consolidated financial statements.

1. GENERAL INFORMATION AND NATURE OF THE BUSINESS

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

2. BASIS OF PREPARATION

a) Statement of Compliance

The interim condensed consolidated financial statements (the "consolidated financial statements") have been prepared in accordance with International Financial Reporting Standards (IFRS) IAS 34 "Interim Financial Reporting" as issued by the International Accounting Standards Board (IASB), and were approved by the board of directors of the Company on November 12, 2020.

The consolidated financial statements do not include all of the information required for full annual consolidated financial statements, and should be read in conjunction with the Company's 2019 annual audited consolidated financial statements. These consolidated financial statements follow the same accounting policies and methods of application as the consolidated financial statements for the year-ended December 31, 2019, except for those identified below. Certain comparative information has been reclassified to conform to the current year presentation.

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.

In March 2020, a global pandemic was declared related to a new strain of coronavirus (COVID-19). In response, the federal and provincial governments and public health officials initiated a number of measures to mitigate against the severity and spread of the virus. The federal and provincial governments have announced various programs and financial assistance to address the increased costs and other challenges and we continue to assess the extent to which they may impact our results. Any estimate of the length and severity of these impacts is therefore subject to significant uncertainty, and accordingly estimates of the extent to which COVID-19 may materially and adversely affect the Company's operations, financial results and condition in future periods are also subject to significant uncertainty. The areas of estimation and judgement uncertainty for the Company which may be impacted by the uncertainty of COVID-19 include estimates used to determine the recoverable amounts for long-lived assets and goodwill subject to an impairment test which rely on the outlook for future financial performance of the cash generating unit (CGU) and estimates regarding deferred income taxes.

The more subjective of such estimates are:

- determination of the recoverable amount of CGUs subject to an impairment test;
- accounting for tax uncertainties and valuation of deferred taxes;
- interpretation of legislation including the determination of the amount and timing of proposed government funding and subsidies established to address the increased costs of operations and other impacts as a result of COVID-19;

- determination of the lease term for leases that include renewal options and the appropriate discount rate used to recognize lease liability;
- valuation of financial assets and liabilities; and
- valuation of share-based compensation.

In addition, the assessment of contingencies (*Note 15*) 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.

d) Accounting Standards Adopted during the Period

Beginning on January 1, 2020, the Company adopted certain IFRS standards and amendments. As required by IAS 34 Interim Financial Reporting and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, the nature and the effect of these changes are disclosed below:

Definition of a business

Beginning on January 1, 2020, the Company adopted the IASB amendment regarding the definition of a business under IFRS 3 Business Combinations. This amendment narrowed and clarified the definition of a business, as well as permitted a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business. The adoption of the amendment to IFRS 3 did not have a material impact on the consolidated financial statements.

e) Future Changes in Accounting Standards

Derecognition of financial liabilities

Beginning on January 1, 2022, the Company will adopt the IASB amendment *Annual Improvements to IFRS Standards 2018-2020*. The particular amendment to IFRS 9 *Financial instruments* among *Annual Improvements to IFRS Standards 2018-2020* will clarify which fees are included for the purposes of performing the '10 per cent test' for derecognition of financial liabilities. The adoption of the IFRS 9 *Financial instruments* among *Annual Improvements to IFRS Standards 2018-2020* is not expected to have a material impact on the consolidated financial statements.

Rent concessions related to COVID-19

Beginning on January 1, 2021, the Company will adopt the IASB amendment *Covid-19-Related Rent Concessions (Amendment to IFRS 16)*. This amendment exempts lessees from having to consider individual lease contracts to determine whether rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications and allows lessees to account for such rent concessions as if they were not lease modifications. It applies to COVID-19-related rent concessions that reduce lease payments due on or before June 30, 2021. The adoption of the *IASB amendment Covid-19-Related Rent Concessions* is not expected to have a material impact on the consolidated financial statements.

3. PROPERTY AND EQUIPMENT

	Land & Land Improvements	Buildings	Furniture & Equipment	Leasehold Improvements	Construction in Progress (CIP)	Total
Cost or Deemed Cost						
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	13,763	6,147	406	21,666	42,229
Write-off of fully depreciated assets	(197)	(906)	(5,213)	(1,029)	—	(7,345)
Transfer from CIP	3,080	33,746	2,543	—	(39,369)	—
December 31, 2019	61,410	639,544	66,524	1,304	13,148	781,930
January 1, 2020	**61,410**	**639,544**	**66,524**	**1,304**	**13,148**	**781,930**
Additions	**91**	**4,470**	**3,061**	**45**	**6,297**	**13,964**
Write-off of fully depreciated assets	**(133)**	**(6,668)**	**(2,671)**	**(919)**	**—**	**(10,391)**
Impairment (*Note 11*)	**—**	**(2,780)**	**—**	**—**	**—**	**(2,780)**
Transfer from CIP	**129**	**273**	**380**	**—**	**(782)**	**—**
September 30, 2020	**61,497**	**634,839**	**67,294**	**430**	**18,663**	**782,723**

	Land & Land Improvements	Buildings	Furniture & Equipment	Leasehold Improvements	Construction in Progress (CIP)	Total
Accumulated Depreciation						
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	(197)	(906)	(5,213)	(1,029)	—	(7,345)
December 31, 2019	5,030	215,649	29,512	1,212	—	251,403
January 1, 2020	**5,030**	**215,649**	**29,512**	**1,212**	**—**	**251,403**
Additions	**504**	**18,095**	**5,295**	**59**	**—**	**23,953**
Write-off of fully depreciated assets	**(133)**	**(6,668)**	**(2,671)**	**(919)**	**—**	**(10,391)**
September 30, 2020	**5,401**	**227,076**	**32,136**	**352**	**—**	**264,965**
Carrying amounts						
At December 31, 2019	56,380	423,895	37,012	92	13,148	530,527
At September 30, 2020	**56,096**	**407,763**	**35,158**	**78**	**18,663**	**517,758**

The right-of-use assets included in buildings were $99.4 million (December 31, 2019 – $97.8 million) with accumulated depreciation of $42.9 million (December 31, 2019 – $37.1 million).

New and renewed leases have been recognized as right-of-use asset within Buildings of $0.1 million during the three months ended September 30, 2020 (three months ended September 30, 2019 – $0.3 million) and $1.7 million during the nine months ended September 30, 2020 (nine months ended September 30, 2019 – $10.6 million).

No borrowing costs were capitalized related to development projects under construction during the three and nine months ended September 30, 2020 (three months ended September 30, 2019 – $0.2 million and nine months ended September 30, 2019 – $0.7 million at an average capitalization rate of 4.5%).

4. OTHER ASSETS

	September 30, 2020	December 31, 2019
Amounts receivable and other assets	**69,813**	63,371
Investments held for self-insured liabilities	**—**	27,562
Interest rate swaps	**—**	1,480
	69,813	92,413
less: current portion	**(31,286)**	(20,661)
	38,527	71,752

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 $43.5 million (December 31, 2019 – $47.9 million) of which $5.6 million (December 31, 2019 – $5.8 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 15 years.

Amounts receivable and other assets also include inventory of $16.4 million (December 31, 2019 - $6.8 million), which includes pandemic supplies inventory of $9.7 million (December 31, 2019 - nil). In addition, there is a $1.3 million receivable as at September 30, 2020 (December 31, 2019 – $1.3 million) resulting from the U.S. Sale Transaction. The remaining balance of $8.6 million primarily relates to prepaid expenses and deposits (December 31, 2019 – $7.4 million) of which $8.0 million is current (December 31, 2019 - $6.7 million).

Investments Held for Self-insured Liabilities

After the sale of the U.S. business in 2015 (the “U.S. Sale Transaction”), 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 held U.S. dollar-denominated investments within the Captive for settlements of the self-insured liabilities that were subject to insurance regulatory requirements.

On June 23, 2020, the Board of Directors of the Captive approved a wind up plan to deregister and dissolve the Captive (*note 14*). As a result, the U.S. dollar-denominated investments were reclassified to restricted cash pending the completion of the deregistration, following which the restricted cash would be released to the Company. On September 21, 2020, the Bermuda Monetary Authority (BMA) approved the deregistration of the Captive and the restricted cash was released to the Company.

Interest Rate Swaps

The interest rate swaps include swap contracts relating to mortgages, with notional amount totalling $88.9 million (December 31, 2019 – $82.1 million), to lock in the rates between 3.11% and 5.04% for the full term of the loans being three to ten years (*Note 6*).

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 16)*. As at September 30, 2020, the interest rate swaps were valued as a liability of $2.8 million (December 31, 2019 – $0.8 million net asset, including a liability of $0.7 million) (*Note 7*).

5. PROVISIONS

	Accrual for Self-insured	Indemnification Provisions	Decommissioning Provisions	Total
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
January 1, 2020	**12,161**	**7,426**	**9,526**	**29,113**
Provisions released	**(9,537)**	**—**	**—**	**(9,537)**
Provisions used	**(3,246)**	**(61)**	**(4)**	**(3,311)**
Accretion	**—**	**—**	**146**	**146**
Effect of movements in exchange rates	**622**	**168**	**—**	**790**
September 30, 2020	**—**	**7,533**	**9,668**	**17,201**

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, remained with the Company, and was funded through the Captive.

Effective June 30, 2020, the accrual for self-insured general and professional liabilities was reduced to $nil and any expense incurred or release of reserves for U.S. self-insured liabilities are presented as discontinued operations (*Note 14*).

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 will be recorded as a part of discontinued operations (*Note 14*). As at September 30, 2020, the remaining provisions totaled $7.5 million (US$5.7 million) (December 31, 2019 – $7.4 million or US$5.7 million).

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, 2019 – $10.7 million) was discounted using a rate of 1.64% (December 31, 2019 – 1.64%) over an estimated time to settle of 6 years. This represents management's best estimate and actual amounts may differ.

6. LONG-TERM DEBT

	Interest Rate	Year of Maturity	September 30, 2020	December 31, 2019
Convertible unsecured subordinated debentures	5.00 %	2025	**121,386**	120,675
CMHC mortgages, fixed rate	2.19% - 7.70%	2022 - 2037	**144,709**	128,878
CMHC mortgages, variable rate	Variable	2025	**23,043**	—
Non-CMHC mortgages	3.11% - 5.64%	2022 - 2038	**169,087**	164,349
Construction loans	Variable	on demand	**43,113**	64,601
Lease liabilities	0.92% - 7.19%	2021 - 2034	**80,540**	86,208
			581,878	564,711
Deferred financing costs			**(10,653)**	(8,405)
Total debt, net of deferred financing costs			**571,225**	556,306
Less: current portion			**(71,669)**	(133,771)
Long-term debt, net of deferred financing costs			**499,556**	422,535

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.

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 2.19% to 7.70% with maturity dates through to 2037.

In June 2020, the Company renewed a CMHC-insured mortgage of $23.2 million, inclusive of fees, on a long-term care home. The renewed mortgage matures in July 2025, with a variable rate based on the lenders cost of funds plus 225 basis points.

In April 2020, the Company secured a CMHC-insured mortgage of $47.8 million, inclusive of fees, on a retirement community. The mortgage matures in June 2030 with a fixed rate of 2.19% per annum. The previously existing construction loan of $25.8 million was repaid in full on closing.

In October 2019, the Company secured a CMHC-insured mortgage of $9.3 million, inclusive of fees, on a retirement community. The new mortgage matures in September 2029, with a fixed rate of 2.49% per annum.

In April 2019, the Company secured a CMHC-insured mortgage of $16.0 million, inclusive of fees, on a retirement community. The new mortgage matures in September 2029, with a fixed rate of 2.81% per annum.

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 May 2020, the Company secured mortgages of $10.3 million, inclusive of fees, on two retirement communities that mature in May 2023 and the Company entered into interest rate swap contracts to lock in the interest rate on each of these mortgages at 3.55% per annum.

In March 2020, the Company extended maturing mortgages of $21.7 million on certain long-term care homes. These extended mortgages mature in April 2025 with a fixed rate of 3.49% per annum.

Construction Loans

Construction loans of $48.0 million are available for two retirement home communities and provide for additional letter of credit facilities of $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 or 2023.

All construction loans have been reflected as current.

As at September 30, 2020, an aggregate of $43.1 million was drawn on the construction loans (December 31, 2019 – $64.6 million), leaving $4.9 million available (December 31, 2019 – $13.1 million); in addition, as at September 30, 2020, letters of credit totalling $1.1 million were issued under credit facilities (December 31, 2019 – $1.3 million), leaving $0.7 million available (December 31, 2019 – $1.3 million).

Lease Liabilities

Lease liabilities as at September 30, 2020 include leases on long-term care homes and the liability related to office leases. 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.

During the three months ended September 30, 2020, the Company has recognized new and renewed lease liabilities of $0.1 million and the nine months ended September 30, 2020 of $1.7 million (three months ended September 30, 2019 of $0.3 million and nine months ended September 30, 2019 of $10.6 million).

Credit Facilities

The Company has two demand credit facilities totalling $112.3 million. One is secured by 13 Class C long-term care homes in Ontario and the other is secured by the assets of the home health care business. Neither of these facilities has financial covenants but do contain normal and customary terms. As at September 30, 2020, $35.6 million of the facilities secure the Company's defined benefit pension plan obligations (December 31, 2019 – $38.1 million), $5.4 million was used in connection with obligations relating to long-term care homes and retirement communities (December 31, 2019 – $5.5 million), leaving $71.3 million unutilized (December 31, 2019 – $68.7 million).

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.

Principal Repayments

	Convertible Debentures	Mortgages Regular	Mortgages Maturity	Construction Loans	Lease Liabilities	Total
2020 remaining	—	4,453	—	43,113	3,783	51,349
2021	—	19,155	—	—	16,575	35,730
2022	—	15,008	48,041	—	14,331	77,380
2023	—	10,713	47,729	—	13,752	72,194
2024	—	9,451	—	—	13,480	22,931
2025 and thereafter	126,500	89,708	92,581	—	39,352	348,141
Total debt principal and lease liability	126,500	148,488	188,351	43,113	101,273	607,725
Unamortized accretion of 2025 convertible debentures	(5,114)	—	—	—	—	(5,114)
Interest on lease liabilities	—	—	—	—	(20,733)	(20,733)
	121,386	148,488	188,351	43,113	80,540	581,878

Long-term Debt Continuity

	Amount
January 1, 2019	528,970
Initial recognition of lease liabilities upon transition to IFRS 16	5,780
Issuance of long-term debt	45,987
New lease liabilities	10,316
Accretion and other	900
Repayments	(35,658)
Addition - deferred financing costs	(1,628)
Amortization of deferred financing costs and other	1,639
December 31, 2019	556,306
January 1, 2020	**556,306**
Issuance of long-term debt	**62,362**
New lease liabilities	**1,684**
Accretion and other	**711**
Repayments	**(47,590)**
Addition - deferred financing costs	**(3,769)**
Amortization of deferred financing costs and other	**1,521**
September 30, 2020	**571,225**

Interest Rates

The weighted average interest rate of all long-term debt as at September 30, 2020, was approximately 4.4% (December 31, 2019 – 4.7%). As at September 30, 2020, 88.6% of the long-term debt, including interest rate swaps, was at fixed rates (December 31, 2019 – 88.6%).

Financial Covenants

The Company is subject to debt service coverage covenants on certain of its loans. The Company was in compliance with all of these covenants as at September 30, 2020.

7. OTHER LONG-TERM LIABILITIES

	September 30, 2020	December 31, 2019
Accrued pension plan obligation	**32,889**	32,609
Interest rate swaps (*Note 4*)	**2,797**	702
Other	**2,596**	1,876
	38,282	35,187

8. SHARE-BASED COMPENSATION

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 performance share units (PSUs) for employees and deferred share units (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 the three months ended September 30, 2020, the Company did not settle any DSUs or PSUs. During the nine months ended September 30, 2020, the Company settled PSUs and DSUs totalling 104,387, of which 29,627 were settled in cash to cover withholding taxes payable ($0.2 million) and 74,760 were settled with Common Shares issued from treasury.

The Company's DSUs and PSUs were an expense of $0.7 million for the three months ended September 30, 2020 (three months ended September 30, 2019 – $0.8 million) and $1.4 million for the nine months ended September 30, 2020 (nine months ended September 30, 2019 - $1.3 million).

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

	September 30, 2020	December 31, 2019
Contributed surplus – DSUs	**2,436**	2,594
Contributed surplus – PSUs	**1,684**	1,081
	4,120	3,675

As at September 30, 2020, an aggregate of 4,264,152 Common Shares are reserved and available for issuance pursuant to the LTIP.

DSU and PSU activity is as follows:

	Deferred Share Units		Performance Share Units	
	Nine months ended September 30, 2020	Twelve months ended December 31, 2019	Nine months ended September 30, 2020	Twelve months ended December 31, 2019
Units outstanding, beginning of period	**337,029**	239,725	**399,521**	188,909
Granted	**79,368**	82,384	**323,168**	292,581
Reinvested dividend equivalents	**17,877**	14,920	**35,089**	17,889
Forfeited	**—**	—	**(62,207)**	(38,573)
Settled	**(79,155)**	—	**(25,232)**	(61,285)
Units outstanding, end of period	**355,119**	337,029	**670,339**	399,521
Weighted average fair value of units granted during the period at grant date	**$5.54**	$8.26	**$7.44**	$9.62

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:

	Nine months ended September 30, 2020	**Twelve months ended December 31, 2019**
Grant date	**March 10, 2020**	May 31, 2019
Vesting date	**March 10, 2023**	May 31, 2022
PSUs granted	**323,168**	292,581
Fair value of AFFO component	**$3.64**	$4.04
Fair value of TSR component	**$3.80**	$5.58
Grant date fair value	**$7.44**	$9.62
Expected volatility of the Company's Common Shares	**19.79 %**	20.49 %
Expected volatility of the Index	**11.05 %**	9.42 %
Risk-free rate	**0.55 %**	1.40 %
Dividend yield	**nil**	nil

9. SHARE CAPITAL

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 the three months ended September 30, 2020 and 2019, the Company declared cash dividends of $0.12 per share. During the nine months ended September 30, 2020 and 2019, the Company declared cash dividends of $0.36 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. On March 19, 2020, the Company suspended its DRIP in respect of any future declared dividends until further notice. Accordingly, the dividend paid on April 15, 2020 to shareholders of record on March 31, 2020 was the last dividend payment eligible for reinvestment by participating shareholders under the DRIP. Subsequent dividends will be paid only in cash.

During the three months ended September 30, 2020, the Company did not issue any Common Shares in connection with DRIP (three months ended September 30, 2019 - 167,491 Common shares at a value of $1.4 million). During the nine months ended September 30, 2020, the Company issued 231,813 Common Shares at a value of $1.7 million (nine months ended September 30, 2019 – 526,266 Common Shares at a value of $4.0 million).

Normal Course Issuer Bid (NCIB)

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.

During the nine months ended September 30, 2020, the Company did not purchase any Common Shares under the NCIB.

10. EXPENSES BY NATURE

	Three months ended September 30,		Nine months ended September 30,	
	2020	**2019 (1)**	**2020**	**2019 (1)**
Employee wages and benefits	**235,301**	219,696	**676,816**	654,639
Government grants	**(50,767)**	—	**(50,767)**	—
Food, drugs, supplies and other variable costs	**21,333**	13,530	**54,441**	39,159
Property based and leases	**11,305**	11,011	**35,898**	34,740
Other	**15,820**	14,650	**42,071**	43,745
Total operating expenses and administrative costs	**232,992**	258,887	**758,459**	772,283

(1) *Comparative figures have been re-presented to reflect discontinued operations (Notes 2, 14).*

On April 11, 2020, the Government of Canada enacted the Canada Emergency Wage Subsidy (CEWS) program, which was designed to help Canadian employers that have experienced revenue declines to re-hire workers laid off as a result of COVID-19, help prevent further job losses and better position the employers to resume normal operations after the COVID-19 pandemic. Further changes to the CEWS program were announced on July 17, 2020 and October 14, 2020, extending the program until June 2021. The Company's home health care subsidiary, ParaMed Inc., applied for and received $50.8 million in CEWS during the three months ended September 30, 2020 in respect of the initial four claims periods (March 15, 2020 to July 4, 2020). Payments under the CEWS program are accounted for as government grants under IAS 20 and are recorded on a net basis as a reduction to operating expenses of the home health care segment, thereby impacting the home health care segment net operating income for the three and nine months ended September 30, 2020. Subsequent to September 30, 2020, ParaMed Inc. applied for and received an additional $31.4 million in CEWS in respect of an additional three claims periods (July 5, 2020 to September 26, 2020). The Company anticipates filing for additional funding under the CEWS program.

11. OTHER EXPENSE

	Three months ended September 30,		Nine months ended September 30,	
	2020	**2019**	**2020**	**2019**
Impairment	**—**	—	**2,780**	—
Other costs	**—**	—	**—**	975
Termination of B.C. market home health care contracts	**—**	—	**—**	1,429
	—	—	**2,780**	2,404

Impairment

In the second quarter of 2020, the Company recorded a pre-tax impairment charge of $2.8 million ($2.0 million after tax), in respect of certain of its retirement communities in Saskatchewan.

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, with Sandpiper Real Estate Fund 2 Limited Partnership, Sandpiper Real Estate Fund 3 Limited Partnership, Sandpiper GP 2 Inc., and Sandpiper GP 3 Inc.

Termination of B.C. Market Home Health Care Contracts

In the first quarter of 2019, the Company was informed by the health authorities in British Columbia with whom it had contracts, that such contracts would not be renewed in March 2020. Accordingly, the Company ceased its home health care operations in British Columbia during the first quarter of 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.

12. FOREIGN EXCHANGE AND FAIR VALUE ADJUSTMENTS

Foreign Exchange and Investments

Foreign exchange gains or losses related to deferred consideration and other balances denominated in U.S. dollars for the three months ended September 30, 2020 is a loss of $0.1 million (three months ended September 30, 2019 – gain of $0.1 million) (*Note 14*), and for the nine months ended September 30, 2020 is a gain of $0.6 million (nine months ended September 30, 2019 - loss of $0.5 million).

Fair Value Adjustments

Fair value adjustments related to interest rate swap contracts on certain mortgages were a gain of $0.1 million for the three months ended September 30, 2020 (three months ended September 30, 2019 – gain of $0.1 million), and are a loss of $3.6 million for the nine months ended September 30, 2020 (nine months ended September 30, 2019 - loss of $2.0 million) (*Notes 4, 7*).

13. 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 calculation of diluted earnings per share does not assume conversion, exercise, or other issue of potential ordinary shares that would have an antidilutive effect on earnings per share.

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

	Three months ended September 30,		Nine months ended September 30,	
	2020	**2019 (1)**	**2020**	**2019 (1)**
Numerator for Basic and Diluted Earnings per Share				
Earnings from continuing operations				
Net earnings for basic earnings per share	**34,466**	7,259	**36,713**	18,542
Less: earnings (loss) from discontinued operations, net of tax	**178**	(1,906)	**(9,721)**	(8,210)
Earnings from continuing operations for basic earnings per share	**34,644**	5,353	**26,992**	10,332
Add: after-tax interest on convertible debt	**1,545**	1,531	**4,623**	4,582
Earnings from continuing operations for diluted earnings per share	**36,189**	6,884	**31,615**	14,914
Net earnings				
Net earnings for basic earnings per share	**34,466**	7,259	**36,713**	18,542
Add: after-tax interest on convertible debt	**1,545**	1,531	**4,623**	4,582
Net earnings for diluted earnings per share	**36,011**	8,790	**41,336**	23,124
Denominator for Basic and Diluted Earnings (loss) per Share				
Actual weighted average number of shares	**89,539,085**	88,961,447	**89,466,987**	88,773,616
DSUs	**324,778**	291,163	**311,088**	266,876
Weighted average number of shares for basic earnings per share	**89,863,863**	89,252,610	**89,778,075**	89,040,492
Shares issued if all convertible debt was converted	**10,326,531**	10,326,531	**10,326,531**	10,326,531
PSUs	**32,769**	34,872	**40,293**	45,188
Total for diluted earnings per share	**100,223,163**	99,614,013	**100,144,899**	99,412,211
Basic Earnings per Share (*in dollars*)				
Earnings from continuing operations	**$0.39**	$0.06	**$0.30**	$0.12
Earnings from discontinued operations	**$—**	$0.02	**$0.11**	$0.09
Net earnings	**$0.38**	$0.08	**$0.41**	$0.21
Diluted Earnings per Share (*in dollars*)				
Earnings from continuing operations	**$0.36**	$0.06	**$0.30**	$0.12
Earnings from discontinued operations	**$—**	$0.02	**$0.10**	$0.08
Net earnings	**$0.36**	$0.08	**$0.41**	$0.21

(1) *Comparative figures have been re-presented to reflect discontinued operations (Notes 2, 14).*

14. DISCONTINUED OPERATIONS

After the U.S. Sale Transaction, the Company retained 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, and was reported as the U.S. segment.

On June 23, 2020, the Board of Directors of the Captive approved a wind up plan to deregister the Captive with the BMA and subsequently dissolve the Captive, ceasing the operations of the U.S. segment. Concurrently, the Company entered into a termination agreement with the Captive to assume the remaining obligations and certain liabilities of the Captive effective June 30, 2020.

As a result, the remaining portion of the U.S. segment has been classified as a discontinued operation. Accordingly, the comparative interim condensed consolidated statement of earnings has been re-presented.

Financial information relating to the discontinued operations for the periods are set out below:

	Three months ended September 30,		Nine months ended September 30,	
	2020	**2019**	**2020**	**2019**
Earnings from Discontinued Operations				
Administrative costs	**162**	258	**1,004**	659
Other income	**—**	(2,012)	**(9,537)**	(6,384)
Earnings (loss) before net finance costs	**(162)**	**1,754**	**8,533**	**5,725**
Accretion	**—**	89	**—**	558
Foreign exchange and fair value adjustments	**16**	(241)	**(1,188)**	(3,043)
Earnings (loss) from discontinued operations	**(178)**	1,906	**9,721**	8,210

Earnings from discontinued operations includes the release of the accrual for self-insured liabilities of $nil for the three months ended September 30, 2020 (three months ended September 30, 2019 – $2.0 million) and $9.5 million for the nine months ended September 30, 2020 (nine months ended September 30, 2019 – $6.4 million), foreign exchange and fair value loss of $nil for the three months ended September 30, 2020 (three months ended September 30, 2019 – a gain of $0.2 million) and gain of $1.2 million for the nine months ended September 30, 2020 (nine months ended September 30, 2019 – $3.0 million), net of administrative costs and interest expense.

The net cash flows provided by (used in) the discontinued operations in the consolidated statements of cash flow are as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2020	**2019**	**2020**	**2019**
Cash Flows from Discontinued Operations				
Net cash used in operating activities	**(413)**	(306)	**(6,029)**	(13,083)
Net cash from investing activities	**413**	306	**6,029**	13,083
Effect on cash flows	**—**	—	—	—

The assets and liabilities of the discontinued operation as at September 30, 2020 and December 31, 2019 are as follows:

	September 30, 2020	**December 31, 2019**
Assets [(1)]		
Other assets	—	27,562
Total assets	—	27,562
Liabilities		
Accounts payable and accrued liabilities	—	1,565
Provisions	—	12,160
Total liabilities	—	13,725
Net assets directly associated with discontinued operations	—	13,837

[(1)] *Please refer to Note 4*

15. COMMITMENTS AND CONTINGENCIES

Legal Proceedings and Regulatory Actions

In the ordinary course of business, the Company is involved in and potentially subject to legal proceedings brought against it from time to time in connection with its operations. The COVID-19 pandemic has increased the risk that litigation or other legal proceedings, regardless of merit, will be commenced against the Company. The potential outcome of legal proceedings and claims is uncertain and could have a materially adverse impact on the Company's business, results of operations and financial condition.

On June 30, 2020, the Company was served with an amended statement of claim adding the Company to a statement of claim previously issued to the owner of a long-term care and retirement community to which the Company provides contracted services under its Extendicare Assist division. The claim seeks an order certifying the claim as a class action pursuant to the *Class Proceedings Act* (Ontario) and alleges negligence and breach of contract in respect of all persons who contracted COVID-19 at the residence or subsequently contracted COVID-19 from such persons, all residents of the residence and all family members of such individuals. The claim seeks damages in the aggregate of $40.0 million.

On October 6, 2020, the Company was served with a statement of claim naming it and multiple other defendants, including multiple LTC homes and their respective owners and operators, the Government of Ontario and several Ontario cities, including the City of Toronto. The claim seeks an order certifying the action as a class action and alleges negligence, breach of fiduciary duty and breach of section 7 of the *Canadian Charter of Rights and Freedoms* by the multiple defendants, including the Company, in the operation of certain LTC homes and provision of care to residents. The statement of claim seeks aggregate damages of $600 million from the multiple defendants.

On October 14, 2020, the Company was served with a statement of claim alleging negligence, breach of contract, breach of certain statutory duties and Human Rights Code breaches in respect of all residents of a Company LTC home as well as their family members. The claim seeks an order certifying the action as a class action and damages in the amount of $16.0 million.

The Company intends to vigorously defend itself against these claims. However, given the status of the proceedings, management is unable to assess their potential impact on the Company's financial results.

On October 20, 2020, the Ontario government introduced the *Supporting Ontario's Recovery Act, 2020* (Bill 218), which would bar COVID-19 exposure-related claims against any individual, corporation, or other entity that made a "good faith" or "honest" effort to act in accordance with public health guidance and laws relating to COVID-19 and did not otherwise act with "gross negligence". This legislation's protections would be retroactive to March 17, 2020, when Ontario first implemented emergency measures as part of its response to the COVID-19 pandemic.

16. 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 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 impact of COVID-19 has increased the uncertainty of the Company's outlook on revenue and operating costs which impact the budgets and forecasts used to manage liquidity risk. In addition, the impact of COVID-19 on the capital and credit markets and our ability to access sufficient capital or capital on favourable terms are also subject to significant uncertainty.

During the nine months ended September 30, 2020, the Company renewed non-CMHC mortgages on three long-term care homes and finalized new non-CMHC mortgages on two retirement communities. The Company also renewed one CMHC mortgage on a long-term care home and finalized a new CMHC mortgage on a retirement community (*Note 6*).

In addition to cash generated from its operations and cash on hand, the Company has available undrawn credit facilities totalling $71.3 million (December 31, 2019 – $68.7 million).

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 loss 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 items retained from the U.S. Sale Transaction.

	September 30, 2020		December 31, 2019	
	US$	C$	*US$*	C$
Assets				
Current assets	*13,845*	**18,441**	*17,115*	22,239
Investments held for self-insured liabilities	—	**—**	*21,218*	27,562
Other long-term assets	229	**305**	221	287
Liabilities				
Current liabilities	*1,233*	**1,641**	*3,955*	5,137
Indemnification provisions	*5,656*	**7,533**	*5,717*	7,426
Other non-current liabilities	*551*	**734**	*6,663*	8,654
Net asset exposure	*6,634*	**8,838**	*22,219*	28,871

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 September 30, 2020, construction loans and a CMHC mortgage totalling $66.2 million have variable-rates (December 31, 2019 – $64.6 million) and do not have interest rate swaps in place. The Company's demand credit facilities, and future borrowings, may be at variable rates which would expose the Company to the risk of interest rate volatility (*Note 6*).

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	
	September 30, 2020	December 31, 2019
Fixed-rate long-term debt [(1)]	**515,722**	500,110
Variable-rate long-term debt [(1)]	**66,156**	64,601
Total	**581,878**	**564,711**

[(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 September 30, 2020, long-term debt with variable rates represented 11.4% of total debt (December 31, 2019 – 11.4%). 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 $0.1 million and a decrease of 100 basis points in interest rates would have increased net earnings by $0.1 million, for the three months ended September

30, 2020. This analysis assumes that all other variables remain constant, and excludes variable interest rate debt that is locked in through interest rate swaps.

(b) Fair values of Financial Instrument

As at September 30, 2020	**Amortized Cost**	**Fair Value through Profit and Loss**	**Total Carrying Amount**	**Fair Value**	**Fair Value Hierarchy**
Financial assets:					
Cash and cash equivalents	**170,061**	**—**	**170,061**	**170,061**	Level 1
Restricted cash	**2,435**	**—**	**2,435**	**2,435**	Level 1
Invested assets (1)	**335**	**—**	**335**	**335**	Level 2
Accounts receivable	**52,729**	**—**	**52,729**	**52,729**	
Amounts receivable and other assets (2) (3)	**43,509**	**—**	**43,509**	**45,461**	Level 2
	269,069	**—**	**269,069**	**271,021**	
Financial liabilities:					
Accounts payable	**12,256**	**—**	**12,256**	**12,256**	
Interest rate swaps	**—**	**2,797**	**2,797**	**2,797**	Level 2
Long-term debt excluding convertible debentures (3) (4)	**460,492**	**—**	**460,492**	**471,265**	Level 2
Convertible debentures	**121,386**	**—**	**121,386**	**124,097**	Level 1
	594,134	**2,797**	**596,931**	**610,415**	

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

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 cash equivalents	94,457	—	94,457	94,471	Level 1
Restricted cash	2,441	—	2,441	2,441	Level 1
Invested assets (1)	354	—	354	354	Level 2
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	Level 2
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	

(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 4*). 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.

17. SUBSEQUENT EVENTS

Subsequent to September 30, 2020, the Company entered into a $47.3 million fixed-price construction agreement in connection with the construction of a new 256-bed LTC home in Sudbury, Ontario. Construction is scheduled to commence in the fourth quarter of 2020 and is targeted to be completed in the fourth quarter of 2022.

Subsequent to September 30, 2020, the Company's home health care subsidiary, ParaMed Inc., applied for and received $31.4 million in CEWS (*Note 10*).

18. 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 operations"; and v) the corporate functions and any intersegment eliminations as "corporate".

The long-term care segment represents the 58 long-term care homes that the Company owns and operates in Canada. The retirement living segment represents 11 retirement communities that the Company owns and operates in Canada. 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 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 ceased operation of the U.S. segment and is treating it as a discontinued operation (*Note 14*), thus it is no longer presented as a separate segment.

(in thousands of Canadian dollars)	Long-term Care	Retirement Living	Home Health Care	Other Operations	Corporate	Total
						Three months ended September 30, 2020
CONTINUING OPERATIONS						
Revenue	**184,727**	**11,978**	**93,235**	**6,846**	**—**	**296,786**
Operating expenses	**171,763**	**8,756**	**37,737**	**2,554**	**—**	**220,810**
Net operating income	**12,964**	**3,222**	**55,498**	**4,292**	**—**	**75,976**
Administrative costs					**12,182**	**12,182**
Earnings before depreciation, amortization, and other expense						**63,794**
Depreciation and amortization					**9,373**	**9,373**
Earnings before net finance costs and income taxes						**54,421**
Net interest costs					**6,918**	**6,918**
Foreign exchange and fair value adjustments					**46**	**46**
Net finance costs					**6,964**	**6,964**
Earnings before income taxes						**47,457**
Income tax expense (recovery)						
Current					**14,118**	**14,118**
Deferred					**(1,305)**	**(1,305)**
Total income tax expense					**12,813**	**12,813**
Earnings from continuing operations						**34,644**
DISCONTINUED OPERATIONS						
Loss from discontinued operations, net of income taxes						**(178)**
Net earnings						**34,466**

(in thousands of Canadian dollars)	Long-term Care	Retirement Living	Home Health Care	Other Operations	Corporate	Total
						Three months ended September 30, 2019
CONTINUING OPERATIONS						
Revenue	160,972	10,406	105,414	5,941	—	282,733
Operating expenses	140,351	7,463	97,313	2,739	—	247,866
Net operating income	20,621	2,943	8,101	3,202	—	34,867
Administrative costs					11,021	11,021
Earnings before depreciation, amortization, and other expense						23,846
Depreciation and amortization					9,861	9,861
Earnings before net finance costs and income taxes						13,985
Net interest costs					6,576	6,576
Foreign exchange and fair value adjustments					(185)	(185)
Net finance costs					6,391	6,391
Earnings before income taxes						7,594
Income tax expense (recovery)						
Current					2,666	2,666
Deferred					(425)	(425)
Total income tax expense					2,241	2,241
Earnings from continuing operations						5,353
DISCONTINUED OPERATIONS						
Earnings from discontinued operations, net of income taxes						1,906
Net earnings						7,259

(in thousands of Canadian dollars)	Long-term Care	Retirement Living	Home Health Care	Other Operations	Corporate	Total
						Nine months ended September 30, 2020
CONTINUING OPERATIONS						
Revenue	**523,438**	**35,754**	**271,802**	**19,557**	**—**	**850,551**
Operating expenses	**480,927**	**25,307**	**210,568**	**7,456**	**—**	**724,258**
Net operating income	**42,511**	**10,447**	**61,234**	**12,101**	**—**	**126,293**
Administrative costs					**34,201**	**34,201**
Earnings before depreciation, amortization, and other expense						**92,092**
Depreciation and amortization					**28,911**	**28,911**
Other expense					**2,780**	**2,780**
Earnings before net finance costs and income taxes						**60,401**
Net interest costs					**20,207**	**20,207**
Foreign exchange and fair value adjustments					**3,041**	**3,041**
Net finance costs					**23,248**	**23,248**
Earnings before income taxes						**37,153**
Income tax expense (recovery)						
Current					**14,343**	**14,343**
Deferred					**(4,182)**	**(4,182)**
Total income tax expense					**10,161**	**10,161**
Earnings from continuing operations						**26,992**
DISCONTINUED OPERATIONS						
Earnings from discontinued operations, net of income taxes						**9,721**
Net earnings						**36,713**

(in thousands of Canadian dollars)	Long-term Care	Retirement Living	Home Health Care	Other Operations	Corporate	Total
						Nine months ended September 30, 2019
CONTINUING OPERATIONS						
Revenue	477,129	29,920	316,296	17,710	—	841,055
Operating expenses	420,240	21,481	290,868	7,893	—	740,482
Net operating income	56,889	8,439	25,428	9,817	—	100,573
Administrative costs					31,801	31,801
Earnings before depreciation, amortization, and other expense						68,772
Depreciation and amortization					28,993	28,993
Other expense					2,404	2,404
Earnings before net finance costs and income taxes						37,375
Net interest costs					19,318	19,318
Foreign exchange and fair value adjustments					2,525	2,525
Net finance costs					21,843	21,843
Earnings before income taxes						15,532
Income tax expense (recovery)						
Current					7,219	7,219
Deferred					(2,019)	(2,019)
Total income tax expense					5,200	5,200
Earnings from continuing operations						10,332
DISCONTINUED OPERATIONS						
Earnings from discontinued operations, net of income taxes						8,210
Net earnings						18,542