EXTENDICARE®

... helping people live better

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year ended December 31, 2020

Extendicare Inc.
Dated: February 25, 2021

Management's Discussion and Analysis

Year ended December 31, 2020
Dated: February 25, 2021

TABLE OF CONTENTS

BASIS OF PRESENTATION

This Management's Discussion and Analysis (MD&A) provides information on Extendicare Inc. and its subsidiaries, and unless the context otherwise requires, references to "Extendicare", the "Company", "we", "us" and "our" or similar terms refer to Extendicare Inc., either alone or together with its subsidiaries. The Company's common shares (the "Common Shares") are listed on the Toronto Stock Exchange (TSX) under the symbol "EXE". The registered office of Extendicare is located at 3000 Steeles Avenue East, Suite 700, Markham, Ontario, Canada, L3R 9W2.

The Company and its predecessors have been in operation since 1968 and is one of the largest private-sector owner/operators of long-term care (LTC) homes in Canada and the largest private-sector provider of publicly funded home health care services in Canada through its wholly owned subsidiary ParaMed Inc. (ParaMed). In addition, the Company owns and operates retirement communities in secondary markets under the Esprit Lifestyle Communities brand. As well, the Company provides business-to-business services through its Extendicare Assist division (contract and consulting) and SGP Purchasing Partner Network (SGP) division (group purchasing). The Company's qualified and highly trained workforce of over 23,000 individuals is passionate about providing high quality services to help people live better.

In June 2020, the Company initiated a wind-up plan to cease operations of its wholly owned Bermuda-based captive insurance company, Laurier Indemnity Company, Ltd. (the "Captive"), which the Company had been presenting as a separate U.S. segment. As a result of the wind-up plan, the Company has classified the U.S. segment as a discontinued operation and re-presented its comparative consolidated statement of earnings. Accordingly, the Company is no longer presenting a separate U.S. segment and has re-presented the comparative financial information presented in this MD&A (refer to the discussion under "Discontinued Operations").

The Company has prepared this MD&A to provide information to current and prospective investors of the Company to assist them to understand the Company's financial results for the year ended December 31, 2020. This MD&A should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2020 and 2019, and the notes thereto, prepared in accordance with International Financial Reporting Standards (IFRS).

In this document, "Q1" refers to the three-month period ended March 31; "Q2" refers to the three-month period ended June 30; "Q3" refers to the three-month period ended September 30; and "Q4" refers to the three-month period ended December 31. Except as otherwise specified, references to years indicate the fiscal year ended December 31, 2020, or December 31 of the year referenced.

In this MD&A, the Company uses a number of performance measures and indicators to monitor and analyze the financial results that do not have standardized meanings prescribed by generally accepted accounting principles (GAAP) and, therefore, may not be comparable to similar performance measures and indicators used by other issuers. Please refer to the "Key Performance Indicators" and "Non-GAAP Measures" sections of this MD&A for details.

The annual and interim MD&A, financial statements and notes thereto are available on the Company's website at www.extendicare.com. All currencies are in Canadian dollars unless otherwise indicated.

This MD&A is dated as of February 25, 2021, the date this report was approved by the Company's board of directors (the "Board of Directors" or "Board"), and is based upon information available to management as of that date. This MD&A should not be considered all-inclusive, as it does not include all changes that may occur in general economic, political and environmental conditions. Additionally, other events may or may not occur, which could affect the Company in the future.

ADDITIONAL INFORMATION

Additional information about the Company, including its latest Annual Information Form, may be found on SEDAR's website at www.sedar.com under the Company's issuer profile and on the Company's website at www.extendicare.com.

FORWARD-LOOKING STATEMENTS

This Annual Report contains certain forward-looking statements within the meaning of applicable Canadian securities laws ("forward-looking statements" or "forward-looking information"). Statements other than statements of historical fact contained in this Annual Report may be forward-looking statements, including, without limitation, management's expectations, intentions and beliefs concerning anticipated future events, results, circumstances, economic performance or expectations with respect to the Company, including, without limitation: statements regarding its business operations, business strategy, growth strategy, results of operations and financial condition; statements relating to the expected annual revenue, net operating income yield (NOI Yield) and adjusted funds from operations (AFFO) to be derived from development projects; statements relating to indemnification provisions in respect of disposed operations; and in particular statements in respect of the impact of measures taken to mitigate the impact of COVID-19, the availability of various government programs and financial assistance announced in respect of COVID-19, the impact of COVID-19 on the Company's operating costs, staffing, procurement, occupancy levels and volumes in its home health care business, the impact on the capital and credit markets and the Company's ability to access the credit markets as a result of COVID-19, increased litigation and regulatory exposure and the outcome of any litigation and regulatory proceedings. Forward-looking statements can often be identified by the expressions "anticipate", "believe", "estimate", "expect", "intend", "objective", "plan", "project", "will" or other similar expressions or the negative thereof. These forward-looking statements reflect the Company's current expectations regarding future results, performance or achievements and are based upon information currently available to the Company and on assumptions that the Company believes are reasonable. Actual results and developments may differ materially from results and developments discussed in the forward-looking statements, as they are subject to a number of risks and uncertainties.

Although forward-looking statements are based upon estimates and assumptions that the Company believes are reasonable based upon information currently available, these statements are not representations or guarantees of future results, performance or achievements of the Company and are inherently subject to significant business, economic and competitive uncertainties and contingencies. In addition to the assumptions and other factors referred to specifically in connection with these forward-looking statements, the risks, uncertainties and other factors that could cause the actual results, performance or achievements of the Company to differ materially from those expressed or implied by the forward-looking statements, include, without limitation, the following: the occurrence of a pandemic, epidemic or outbreak of a contagious illness, such as COVID-19; changes in the overall health of the economy and changes in government; the availability and ability of the Company to attract and retain qualified personnel; changes in the health care industry in general and the long-term care industry in particular because of political, legal and economic influences; changes in applicable accounting policies; changes in regulations governing the health care and long-term care industries and the compliance by the Company with such regulations; changes in government funding levels for health care services; the ability of the Company to renew its government licenses and customer contracts; changes in labour relations and costs; changes in tax laws; resident care and class action litigation, including the Company's exposure to punitive damage claims, increased insurance costs and other claims; the ability of the Company to maintain and increase resident occupancy levels and business volumes; changes in competition; changes in demographics and local environment economies; changes in foreign exchange and interest rates; changes in the financial markets, which may affect the ability of the Company to refinance debt; and the availability and terms of capital to the Company to fund capital expenditures and acquisitions; changes in the anticipated outcome and benefits of dispositions, acquisitions and development projects, including risks relating to completion; and those other risks, uncertainties and other factors identified in the Company's other public filings with the Canadian securities regulators available on SEDAR's website at www.sedar.com under the Company's issuer profile.

In particular, risks and uncertainties related to the effects of COVID-19 on Extendicare include: the length, spread and severity of the pandemic; the nature and extent of the measures taken by all levels of governments and public health officials, both short and long term, in response to COVID-19; domestic and global credit and capital markets; the Company's ability to access capital on favourable terms or at all due to the potential for reduced revenue and increased operating expenses as a result of COVID-19; the availability of insurance on favourable terms; litigation and/or regulatory proceedings against or involving the Company, regardless of merit; the health and safety of the Company's employees and its residents and clients; and domestic and global supply chains, particularly in respect of personal protective equipment (PPE). Given the evolving circumstances surrounding COVID-19, it is difficult to predict how significant the adverse impact will be on the global and domestic economy and the business operations and financial position of Extendicare.

Readers are cautioned that the preceding list of material factors or assumptions is not exhaustive. Although forward-looking statements contained in this Annual Report are based upon what management believes are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements. Accordingly, readers should not place undue reliance on such forward-looking statements and assumptions as management cannot provide assurance that actual results or developments will be realized or, even if substantially realized, that they will have the expected consequences to, or effects on, the Company. The forward-looking statements speak only as of the date of this Annual Report. Except as required by applicable securities laws, the Company assumes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

BUSINESS STRATEGY

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

Our long-term care business provides high quality care in the homes we own and operate across the country. Capital investment is focused on redeveloping our older LTC homes in the portfolio; the timing and extent of such redevelopment depends primarily upon the government funding available and general development factors, such as construction costs. We also provide contract services and consulting to a growing list of third-party LTC homes and retirement communities through our Extendicare Assist division. Both our operations and those of our Extendicare Assist clients are supported by our SGP Purchasing Partner Network division. We intend to continue to grow our third-party services offerings to gain market share and capitalize on the organic growth in the Canadian seniors care market.

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

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

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

SIGNIFICANT EVENTS

Impact of COVID-19 Pandemic

The fourth quarter of 2020 saw a resurgence of COVID-19 cases across the country, along with the discovery of new variants of the virus. This second wave has been more severe than the first due to higher rates of community spread, making it more challenging to stop the spread of the virus to senior care homes, despite increased measures having been implemented.

Emergency measures enacted by Canada's federal and provincial governments to combat the spread of COVID-19 remain in place or have been reinstated in most regions. These measures include the implementation of travel bans, self-imposed quarantine periods, social distancing, and a number of changes in the regulatory regimes in which our businesses operate, particularly in respect of health and labour requirements. We continue to work closely with all levels of government, health authorities, our industry partners and advocacy groups on various initiatives to help ensure our collective response to the crisis is focused on the protection and care of our residents, clients and staff.

As part of our efforts to further enhance our operations, we welcomed Dr. Matthew Morgan to Extendicare in the newly-created role of Chief Medical Officer on October 19, 2020. His focus is on developing and coordinating the implementation of clinical strategies that result in better outcomes for residents, clients and their families. Dr. Morgan is a practicing General Internal Medicine physician with a Masters in Clinical Epidemiology, and an Assistant Professor in the Faculty of Medicine at the University of Toronto.

As of February 24, 2021 eight of our 69 long-term care homes and retirement communities are in outbreak with active cases, with a total of only three residents who have an active infection. We continue to work closely with our Extendicare Assist clients to help them manage outbreaks in their homes.

Vaccinations play a vital role in minimizing the impact of COVID-19 and we are actively working to vaccinate residents and staff at our homes. As of February 24, 2021, approximately 91% of our LTC residents and 33% of our LTC staff have received the first dose of the vaccine, and approximately 65% of our LTC residents have received their second dose. In respect of our retirement communities, approximately 71% of our residents and 33% of our staff have received the first dose of the vaccine. Vaccination of our home health care staff is also now under way. We are encouraging our staff to be vaccinated as soon as the vaccine is available and we are compensating them for time and travel expenses required to access the vaccine. Our staff have responded enthusiastically to the program. As increased supply is made available, we expect to see a significant increase in the number of staff vaccinated.

To realize the full benefit of vaccines to provide immunity from COVID-19, a sufficient number of residents and staff, and the broader population, will have to be fully vaccinated. Vaccines are only a part of our response to COVID-19. We continue to maintain our enhanced infection prevention measures, focused on reducing transmission risk and points of potential exposure, to address the emergence of new variants of concern. This includes routine testing of staff in cooperation with local public health authorities, increased staffing levels in our homes and disciplined use of PPE. We are maintaining our enhanced infection prevention measures to address the unique nature of the COVID-19 virus, including such measures as universal masking, maintaining sufficient levels of PPE, single-site employer policies, limiting LTC occupancy to no more than two residents per room and voluntary testing of staff in our Ontario LTC homes. Routine staff testing enables us to identify positive staff, which in many cases are asymptomatic or presymptomatic, to minimize the potential for the virus to enter our homes. In the absence of herd immunity, we continue to believe that testing is the best preventative measure currently available to avoid outbreaks in our LTC homes. Following a successful point-of-care antigen testing pilot program in Ontario in the fourth quarter of 2020, we are now in the process of implementing this across Ontario using the Abbott Panbio test for all staff and visitors increasing testing frequency to two to three times a week, particularly in areas where there is higher virus prevalence in the surrounding community. We are also expanding the use of the point-of-care antigen testing in our western provinces where we operate LTC homes. These changes to our testing program enable instantaneous results, thereby reducing the likelihood that infected staff work in the home undetected.

Since the COVID-19 outbreak, our LTC home occupancy has declined from historical levels and in Ontario dropped below 97% beginning in Q2 2020. The Ontario government provided full funding related to basic occupancy for LTC homes in the province since the inception of the pandemic, which currently is in place until March 31, 2021. To date, each of the western provinces in which we operate LTC homes have provided additional funding to support COVID-19 costs. In certain provinces, this funding includes specific funding to address occupancy reductions.

Our retirement communities have experienced declines in stabilized occupancy and slower growth in lease-up occupancy as move-ins and tours have been impacted by COVID-19. We expect challenges in occupancy to continue as ongoing restrictions on in-person tours and protocols and restrictions related to move-ins continue.

In our home health care operations, the cancellation or disruption of elective procedures in acute care hospitals, the adoption of social distancing and self-isolation by clients, restrictions on non-urgent care services and reductions in our workforce capacity, resulted in a significant drop in our average daily volumes (ADV) in Q2 2020 and increased the workload of the back-office staff, primarily to manage suspended services and staff scheduling changes due to the impact of COVID-19. The volume declines and resultant revenue decreases led to our home health care operating subsidiary, ParaMed Inc., qualifying for, and receiving, funding under the Federal government's Canada Emergency Wage Subsidy (CEWS) program (refer to "Key Performance Indicators – ParaMed Canada Emergency Wage Subsidy"). We have experienced a gradual recovery in ADV since the low point in April 2020; however, our ADV remains below prior year and pre-COVID-19 levels.

Weekly referrals returned to pre-COVID-19 levels during Q4 2020, but industry-wide shortfalls in workforce capacity have prevented ADV from reaching pre-pandemic levels. The workforce limitations continue to be exacerbated by the pandemic, including increased demand for health care workers from hospitals and LTC, challenges securing child care and the availability of federal income support programs. As a result, our workforce capacity remains well below our pre-COVID-19 capacity, resulting in lower referral acceptance levels and a slower pace of recovery of our home health care volumes. To address this shortfall in our workforce capacity, we have made long-term investments in 2020 in key initiatives designed to accelerate growth in our workforce. In partnership with various colleges in Ontario, we launched a personal support worker (PSW) program designed to "fast-track" PSW students by combining their education with concurrent on the job training and tuition assistance. We also launched an in-house program to attract new health support workers (HSW), providing candidates with training and work experience in addition to a path to completing their PSW certification. During 2020, we graduated and hired almost 300 new caregivers through these programs, and are targeting to increase capacity to over 600 annually. We continue to focus on returning our employees who have been on a leave of absence due to constraints or concerns as a result of COVID-19 to our active workforce. In addition, in Q4 2020 we implemented a wage harmonization program for all non-unionized front-line workers in our home health care operations to simplify and enhance our pay levels.

For the year ended December 31, 2020, we have incurred an estimated $71.0 million of pandemic-related operating expenses and $3.5 million in COVID-19 related administrative costs. These costs are partially offset by $44.4 million in revenue or expense recovery associated with the various provincial government programs, resulting in a reduction of our consolidated net operating income (NOI) and Adjusted EBITDA of approximately $26.6 million and $30.1 million, respectively. We have incurred a further estimated $43.9 million in pandemic pay, funded by programs announced by the Ontario and Alberta governments, to temporarily increase hourly wages for certain eligible front-line employees. We have recorded the pandemic pay in operating expenses and recognized the related offsetting funding for these programs as revenue. In addition, as at December 31, 2020, we have $15.7 million in PPE inventory to ensure that we continue to have sufficient supply to provide the necessary level of protection to our residents, clients and staff as COVID-19 measures continue to be in place.

The following table provides a summary of the estimated revenue recognized and the operating and administrative costs incurred related to COVID-19 for the three and twelve months ended December 31, 2020.

Estimated COVID-19 Revenue, Operating Expenses and Administrative Costs

	Three months ended December 31, 2020				Year ended December 31, 2020			
(millions of dollars)	Long-term Care	Retirement Living	Home Health Care	Total	Long-term Care	Retirement Living	Home Health Care	Total
Revenue	**25.6**	—	**6.4**	**32.0**	**64.7**	—	**23.6**	**88.3**
Operating expenses	**34.3**	**0.1**	**7.2**	**41.6**	**88.9**	**1.1**	**24.9**	**114.9**
NOI impact	**(8.7)**	**(0.1)**	**(0.8)**	**(9.6)**	**(24.2)**	**(1.1)**	**(1.3)**	**(26.6)**
Administrative costs	—	—	—	**0.7**	—	—	—	**3.5**
Adjusted EBITDA impact	**(8.7)**	**(0.1)**	**(0.8)**	**(10.3)**	**(24.2)**	**(1.1)**	**(1.3)**	**(30.1)**

Subsequent to December 31, 2020, the Ontario Ministry of Long-Term Care (MLTC), announced an additional $398.0 million in funding to support the province's LTC sector in managing the second wave. The announcement included $268.0 million in additional prevention and containment funding to LTC homes to further support the additional costs associated with screening, staffing and PPE. This newly announced funding is intended to cover COVID costs incurred during 2020 through to March 31, 2021, the MLTC's fiscal year end. Subsequent to year end, we received additional funding related to 2020 of $6.6 million and expect additional funding related to 2020 may be further allocated from the $268.0 million, the amount and timing of which is uncertain.

The Federal Government and the provincial governments where we operate have all announced various programs and financial assistance to address the increased costs and other challenges presented by COVID-19, and we continue to access such programs where appropriate to mitigate the financial impacts of COVID-19. The amount and timing of these payments does not always align with the additional expenses incurred. As a result, we expect to see ongoing significant volatility in our operating and financial results until the effects of COVID-19 are behind us.

While we believe that the financial impacts of COVID-19 that we are experiencing will largely reverse as we emerge from the pandemic, there can be no assurance that they will so reverse and that COVID-19 or any other pandemic, epidemic or outbreak will not have a material adverse effect on the business, results of operations and financial condition of the Company.

Ontario Long-Term Care Home Capital Development Funding Program

During 2020, the Ontario Ministry of Long-Term Care (MLTC) announced a new Long-Term Care Home Capital Development Funding program (New Funding Program) for the development of new and replacement LTC beds. The program includes a $1.75 billion investment to redevelop 12,000 beds and add an additional 8,000 beds over the next five years. The New Funding Program provides for new base construction funding subsidy (CFS) per diems ranging from $20.53 to $23.78 per bed, depending on the size and geography of the LTC home, representing a 14% to 32% increase from the $18.03 CFS under the previous program. The CFS is payable over 25 years following completion of the project. The New Funding Program also introduces a capital development grant of between 10% and 17% of total eligible project costs, up to an applicable maximum grant amount based on the geographic location of the project, payable upon substantial completion of the project. This New Funding Program is an important step to address the aging infrastructure within long-term care for which the industry has been advocating for more than a decade.

Long-term Care Redevelopment

We have submitted applications to the MLTC in respect of 22 projects to build over 4,200 beds to redevelop our existing 3,285 Class C beds and to add new LTC beds, in keeping with the Ontario government's focus on replacing aging infrastructure and increasing the number of LTC beds in the province. Construction began on our first project in November 2020, as discussed below, and we have five projects in advanced stages of approvals with the MLTC. We are in the final approval stages to proceed with the construction of a 192-bed LTC home in Kingston in Q2 2021, with an additional project anticipated to break ground in 2021 and three additional projects in 2022. We continue to work closely with our industry partners and the government to consider further enhancements to the New Funding Program to address specific requirements for certain geographic areas and to streamline the related approval and licensing processes to expedite those projects that are feasible within this new program.

In October 2020, the Company received all of the necessary approvals to commence construction of the first of its redevelopment projects, a new 256-bed LTC home in Sudbury, Ontario that will replace an existing 234-bed Class C LTC home close by. The new LTC home will include 154 private rooms, with the balance providing semi-private accommodation. Construction commenced in Q4 2020 under a fixed-price construction agreement ($47.3 million) and is anticipated to be completed in Q4 2022. Total Adjusted Development Costs of the new LTC home are estimated at $62.3 million, which is net of a $5.4 million capital development grant, receivable on the substantial completion of the project. As at December 31, 2020, the Company had incurred $3.0 million of the estimated Adjusted Development Costs. Stabilized NOI of the new home is estimated to be $3.1 million and the home will receive CFS payments of approximately $1.9 million per annum over 25 years. The NOI Yield of the project is anticipated to be approximately 8.0%. Refer to the discussion under "Non-GAAP Measures" in respect of references to "Adjusted Development Costs" and "NOI Yield".

Ontario Government COVID-19 Long-Term Care Commission

On July 29, 2020, the Ontario government launched an independent commission into COVID-19 and long-term care (the "Commission"). Led by three commissioners, the Commission's mandate is to investigate and provide a report of findings and recommendations in respect of how COVID-19 spread within LTC homes, how residents, staff, and families were impacted, and the adequacy of measures taken by the province and other parties to prevent, isolate and contain the virus and the impact of existing physical infrastructure, staffing approaches, labour relations, clinical oversight and other features of the LTC system.

During Q4 2020, the Commission issued interim recommendations based upon meetings with approximately 200 individuals from almost 50 different organizations in the LTC sector, including government, LTC service providers, family associations, unions and medical professionals. Extendicare, which presented to the Commission on October 8, 2020, fully supports the Commission's interim recommendations, which include enhanced funding and recruitment in respect of LTC staff, priority COVID-19 testing for LTC residents and staff and mandated collaboration with hospitals. The commissioners are expected to deliver their final report by April 2021.

Following an announcement in November 2020 and a subsequent announcement on December 17, 2020, the Ontario government released its staffing plan (the "LTC Staffing Plan"). The LTC Staffing Plan outlines the government's strategy to invest up to $1.9 billion annually by 2024-2025, to increase the hours of direct care for LTC residents to four hours a day per resident on a phased-in approach over the next four years and to introduce programs to accelerate the education and recruitment of thousands of additional PSWs, registered practical nurses and registered nurses required to increase the direct care hours. In addition, the LTC Staffing Plan includes plans to support continued professional development and growth of LTC staff to improve retention; improve conditions by increasing full-time employment and promoting innovative approaches to work and technology and improve oversight and guidance of medical outcomes and measurement of key performance indicators. This new program is in response to the Commission's interim recommendations and the Long-Term Care Staffing Study published on July 30, 2020, in connection with the July 31, 2019 report released by Justice Gillese on the *Public Inquiry into the Safety and Security of Residents in the Long-Term Care System.* The industry has long advocated for increases to the direct care hours for residents and welcomes the proposed legislative changes and the acknowledgement of the need to introduce enhanced education and recruitment programs to support this important change.

Saskatchewan Ombudsman Long-term Care Investigation

On February 8, 2021, the Company received formal notification that the Saskatchewan Ombudsman is commencing an investigation into the COVID-19 outbreak at the Extendicare Parkside LTC home in Regina, which began in late November 2020 and, has since been cleared. As part of this investigation, the Ombudsman will be investigating the Company's response to the pandemic at the home, both in advance of and during the outbreak, as well as the Saskatchewan Ministry of Health and the Saskatchewan Health Authority's (SHA) governance, oversight and support of the home throughout the pandemic to date. The Company worked closely with the Government of Saskatchewan and the SHA prior to and during the outbreak at Extendicare Parkside and intends to fully co-operate with the work of the Ombudsman.

Financing Activity

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.

In April 2020, the Company secured a Canadian Mortgage and Housing Corporation (CMHC) insured mortgage of $47.8 million, inclusive of fees, on a retirement community. The mortgage matures in June 2030 and has a fixed rate of 2.19% per annum. The previously existing construction loan of $25.8 million was repaid on closing.

In May 2020, the Company secured mortgages of $10.3 million, inclusive of fees, on two retirement communities. The mortgages 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 June 2020, the Company renewed a CMHC-insured mortgage of $23.2 million, inclusive of fees, on a long-term care home. The extended mortgage matures in July 2025, with a variable rate based on the lenders cost of funds plus 225 basis points.

BUSINESS OVERVIEW

As at December 31, 2020, the Company owned and operated 58 LTC homes and 11 retirement communities, through its Extendicare and Esprit Lifestyle Communities divisions, respectively, and provided contract services to 52 LTC homes and retirement communities for third parties through Extendicare Assist. In total, Extendicare operated or provided contract services to a network of 121 LTC homes and retirement communities across four provinces in Canada, with capacity for 15,567 residents. The majority of these homes are in Ontario and Alberta, which accounted for approximately 77% and 11% of residents served, respectively.

In addition to providing group purchasing services to the Company's own operations, SGP supports third-party clients representing approximately 78,900 senior residents across Canada, as at December 31, 2020.

With respect to the Company's home health care operations, ParaMed delivered approximately 8.4 million hours of home health care services for the year ended December 31, 2020, excluding the British Columbia (B.C.) contracts that expired in January 2020. The majority of ParaMed's volumes are generated in Ontario and Alberta, representing 93% and 4%, respectively. As noted in "Significant Events – Impact of COVID-19 Pandemic", volumes have been significantly impacted in ParaMed as a result of COVID-19. In addition, the ongoing recovery of ParaMed's volumes continues to be impacted by the COVID-19 related reduction in our workforce capacity that has not recovered as quickly as our referrals. While we are unable to predict with any certainty the extent and duration of these COVID-19 related factors on our workforce capacity and volumes, as well as any long-term effects, we believe that the impacts we are experiencing will reverse as we emerge from the pandemic.

The Company reports on 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". For financial reporting purposes, the Company's owned and operated homes are reported under the "long-term care" or the "retirement living" operating segment based on the predominant level of care provided. The Company's homes under contract with Extendicare Assist are reported under the "other operations" segment, as the revenue from those operations is earned on a fee-for-service basis.

In June 2020, the Company initiated a wind-up plan to cease operations of the Captive. As a result, the remaining portion of the U.S. segment has been classified as a discontinued operation and is no longer being presented as a separate segment (refer to the discussion under "Discontinued Operations").

The following table summarizes the contribution of the business segments to the Company's consolidated revenue and NOI for the three months and year ended December 31, 2020 and 2019. The impact of COVID-19 on all segments and the impact of CEWS on the home health care segment impacts the comparability of the contributions of the business segments to the Company's consolidated revenue and NOI. Refer to "Significant Events – Impact of COVID-19 Pandemic" and "Key Performance Indicators – ParaMed Canada Emergency Wage Subsidy" for additional details to understand the impacts on the business segments.

	Three months ended December 31				Year ended December 31			
	2020		2019		2020		2019	
Operating Segments as % of	**Revenue**	**NOI**	**Revenue**	**NOI**	**Revenue**	**NOI**	**Revenue**	**NOI**
Long-term care	**62.4 %**	**16.6 %**	57.3 %	62.4 %	**61.8 %**	**28.4 %**	56.9 %	58.0 %
Retirement living	**3.9 %**	**6.0 %**	3.9 %	9.1 %	**4.1 %**	**7.6 %**	3.6 %	8.6 %
Home health care	**31.3 %**	**69.3 %**	36.7 %	18.0 %	**31.8 %**	**54.9 %**	37.4 %	23.5 %
Other	**2.4 %**	**8.1 %**	2.1 %	10.5 %	**2.3 %**	**9.1 %**	2.1 %	9.9 %
Total	**100.0 %**	**100.0 %**	100.0 %	100.0 %	**100.0 %**	**100.0 %**	100.0 %	100.0 %

The following describes the operating segments of the Company.

Long-term Care

The Company owns and operates 58 LTC homes with capacity for 8,138 residents, inclusive of a stand-alone designated supportive living home (140 suites) and a designated supportive living wing (60 suites) in Alberta and two retirement wings (76 suites) in Ontario.

Provincial legislation and regulations closely control all aspects of the operation and funding of LTC homes and government-funded supportive living homes, including the fee structure, subsidies, the adequacy of physical homes, standards of care and accommodation, equipment and personnel. A substantial portion of the fees paid to providers of these services are funded by provincial programs, with a portion to be paid by the resident. No individual is refused access to long-term care due to an inability to pay, as a government subsidy, generally based on an income test, is available for residents who are unable to afford the resident co-payment. Long-term care funding in Ontario is provided in four envelopes allocated to personal care, programming, food and accommodation, respectively. The first three envelopes must be spent entirely on residents and are independently audited with any surplus funding returned to the government. The additional COVID-19 pandemic related funding being provided in Ontario is expected to be subject to this same reconciliation process. In Alberta, designated supportive living homes provide an alternative setting for residents not yet requiring the needs of a more expensive LTC home. Such homes are licensed, regulated and funded by Alberta Health Services (AHS) in a similar manner to LTC homes, including a government-determined fee structure.

In Ontario, long-term care operators have the opportunity to receive additional funding through higher accommodation rates charged to residents for private and semi-private accommodation, at maximum preferred accommodation rates that are fixed by the government. Long-term care operators are permitted to designate up to 60% of the resident capacity of a home as preferred accommodation and charge higher accommodation rates that vary according to the structural classification of the LTC home.

The following summarizes the government funding rate changes for LTC during 2020 in Ontario and Alberta, the Company's largest LTC markets, exclusive of one-time funding in respect of COVID-19 (refer to the discussion under "Significant Events – Impact of COVID-19 Pandemic").

Ontario LTC Funding Changes

Effective April 1, 2020, the MLTC implemented a global inflationary funding increase across the accommodation and flow-through envelopes of 1.5% for Ontario LTC providers. This represents incremental annual revenue for the Company of approximately $5.1 million, of which approximately $1.6 million applies to the accommodation envelope (non flow-through). In comparison, in 2019, the MLTC provided a global funding increase of 1%, representing approximately $3.3 million of annual revenue for the Company, of which approximately $1.1 million related to the accommodation envelope.

In addition, effective April 1, 2020, the MLTC eliminated structural compliance premium (SCP) funding for eligible Class A, B and C beds and replaced it with a new LTC minor capital funding program to be phased in over three years. For the first year under the new program, the Company's funding remains unchanged at $1.3 million, with modest increases during the phase in period.

In respect of the annual inflationary rate increases for preferred accommodation premiums paid for by residents to LTC providers for private and semi-private accommodation, the MLTC implemented a 1.9% increase effective July 1, 2020 (2019 – 2.3%). However, to provide relief to families experiencing challenges due to COVID-19, this increase in rates for residents has been deferred until July 1, 2021, and LTC providers will instead be compensated directly by the MLTC. For older LTC beds that are not classified as "New" or "A" beds, the maximum daily preferred accommodation premiums increased to $8.69 and $19.54 for semi-private and private rooms, respectively. For newer LTC beds that are classified as "New" or "A" beds, the maximum daily preferred accommodation premiums increased to $13.02 and $27.15 for semi-private and private rooms, respectively.

Alberta LTC Funding Changes

In 2020, the annual inflationary increase for the portion of the accommodation rates paid directly by residents of LTC and designated supportive living homes to providers was deferred from July to October. Effective October 1, 2020, AHS increased the accommodation rates by 2.5%, representing additional annual revenue for the Company of approximately $0.7 million (2019 – 1.6%, $0.5 million).

In September 2020, AHS announced adjustments to the government funding for providers of LTC and designated supportive living homes retroactive to April 1, 2020, representing additional annual revenue for the Company of approximately $0.3 million (2019 – $0.4 million).

Retirement Living

Under the Esprit Lifestyle Communities brand, the Company owns and operates 11 retirement communities with 1,050 suites. Four of these communities (341 suites) are located in Saskatchewan and seven communities (709 suites) are located in Ontario.

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

Home Health Care

The Company provides home health care services through ParaMed, whose professionals and staff members are skilled in providing complex nursing care, occupational, physical and speech therapy and assistance with daily activities to accommodate clients of all ages living at home.

Provincial governments fund a wide range of home health care services and contract these services to providers such as ParaMed. ParaMed receives approximately 98% of its revenue from contracts tendered by locally administered provincial agencies, with the remainder coming from private clients.

Other Operations

The Company leverages its size, scale and operational expertise in the senior care industry to provide contract services and consulting to third-parties through other operations, which are composed of its Extendicare Assist and SGP divisions.

CONTRACT SERVICES AND CONSULTING

Through its Extendicare Assist division, the Company provides a wide range of contract services and consulting to third parties. Extendicare Assist partners with not-for-profit and for-profit organizations, hospitals and municipalities seeking to improve their management practices, quality of care practices and operating efficiencies. Extendicare Assist provides a broad range of services aimed at meeting the needs of its partners, including: financial administration, record keeping, regulatory compliance and purchasing. In addition, Extendicare Assist provides consulting services to third parties for the development and redevelopment of LTC homes. Extendicare Assist's contract services portfolio consisted of 52 LTC homes and retirement communities with capacity for 6,379 residents as at December 31, 2020.

GROUP PURCHASING SERVICES

Through its SGP division, the Company offers cost-effective purchasing contracts to other senior care providers for food, capital equipment, furnishings, cleaning and nursing supplies and office products. SGP negotiates long-term, high volume contracts with suppliers that provide members with preferred pricing, thereby providing a cost-effective means to secure quality national brand-name products, along with a range of innovative services. As at December 31, 2020, SGP provided services to third parties representing approximately 78,900 senior residents across Canada, which increased to 79,900 by January 31, 2021.

KEY PERFORMANCE INDICATORS

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

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

"Average Daily Volume" or "ADV" in the context of the home health care operations, is measured as the number of hours of service provided divided by the number of days in the period;

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

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

"Lease-up" is any LTC home or retirement community not classified as stabilized;

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

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

Long-term Care

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

Long-term Care Homes					**2020**					**2019**
Average Occupancy *(%)*	**Q4**	**Q3**	**Q2**	**Q1**	**Year**	**Q4**	**Q3**	**Q2**	**Q1**	**Year**
Total LTC	**87.7 %**	**90.0 %**	**93.5 %**	**97.0 %**	**92.0 %**	97.8 %	97.9 %	97.5 %	96.9 %	97.5 %
Change over prior year period (bps)	**(1,010)**	**(790)**	**(400)**	**10**	**(550)**	20	10	30	50	20
Sequential quarterly change (bps)	**(230)**	**(350)**	**(350)**	**(80)**		(10)	40	60	(70)	
Ontario LTC										
Total ON LTC	**85.3 %**	**87.9 %**	**92.9 %**	**97.6 %**	**90.9 %**	98.2 %	98.5 %	98.2 %	97.5 %	98.1 %
Preferred Accommodation(1)										
"New" homes – private	**88.4 %**	**88.0 %**	**91.7 %**	**95.4 %**	**90.8 %**	95.8 %	95.9 %	96.3 %	95.1 %	95.8 %
"C" homes – private	**80.7 %**	**86.5 %**	**89.5 %**	**92.8 %**	**87.4 %**	93.1 %	94.2 %	93.8 %	96.2 %	94.3 %
"C" homes – semi-private	**54.6 %**	**58.6 %**	**63.5 %**	**66.3 %**	**60.7 %**	66.7 %	66.5 %	65.6 %	65.3 %	66.0 %

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

The average occupancy at the Company's LTC homes was 87.7% for Q4 2020, down from 97.8% in Q4 2019 and down by 230 bps from Q3 2020. Occupancy levels throughout 2020 were significantly impacted by COVID-19, resulting in an average occupancy for the year of 92.0%, down 550 bps from 2019. In terms of the quarterly trends prior to the impact of the pandemic in 2020, occupancy softness is to be expected during the winter months as a result of seasonal influenza outbreaks, which can lead to a temporary freeze on admissions.

In Ontario, overall government funding is occupancy-based, but once the average occupancy level of 97% or higher for the calendar year is achieved, operators receive government funding based on 100% occupancy. In the event of closure to admissions related to an outbreak, full funding is preserved in Ontario, otherwise referred to as occupancy protection funding. The Company's Ontario LTC homes generally average above the 97% occupancy threshold, with all but one having done so in 2019. In response to COVID-19, the Ontario government provided basic occupancy protection funding for all LTC homes to the end of 2020, which was further extended to March 31, 2021. However, the current occupancy protection does not compensate for the loss of preferred accommodation premiums from private and semi-private room vacancies. The impact of the loss of preferred accommodation revenue was $0.7 million for the year ended December 31, 2020.

To date, each of the western provinces in which we operate LTC homes have provided additional funding to support COVID-19 costs. In certain provinces, this funding includes specific funding to address occupancy shortfalls.

Retirement Living

The following table summarizes the composition of the Company's 11 retirement communities in operation as at December 31, 2020. The Barrieview opened in October 2019 and is classified as non same-store and in lease-up. Bolton Mills, which opened at the beginning of 2019, and West Park Crossing remain classified as lease-up.

Retirement Communities	Location	Total	Stabilized	Lease-up	Same Store	Non-Same Store
Cedar Crossing	Simcoe, ON	69	69		69	
Douglas Crossing	Uxbridge, ON	148	148		148	
Empire Crossing	Port Hope, ON	63	63		63	
Harvest Crossing	Tillsonburg, ON	100	100		100	
Riverbend Crossing	Regina, SK	67	67		67	
Stonebridge Crossing	Saskatoon, SK	116	116		116	
Yorkton Crossing	Yorkton, SK	79	79		79	
Lynde Creek Manor	Whitby, ON	93	93		93	
West Park Crossing	Moose Jaw, SK	79		79	79	
The Barrieview	Barrie, ON	124		124		124
Bolton Mills	Bolton, ON	112		112	112	
Total suites		**1,050**	**735**	**315**	**926**	**124**
Total communities		**11**	**8**	**3**	**10**	**1**

AS AT OCCUPANCY

The following table provides the period end occupancy of the retirement communities in total and for each of the stabilized, lease-up, same-store and non same-store groupings for the past eight quarters, with the prior period information for such groupings restated based on the classifications as at December 31, 2020.

Sequential occupancy declines in stabilized retirement communities are generally to be expected during the winter months; however, occupancy levels during 2020 have been negatively impacted by COVID-19, which has experienced periods of restricted move-ins and in-person tours of prospective residents since March 2020. As a result, stabilized occupancy of 90.7% as at December 31, 2020, was down 440 bps from December 31, 2019. In-person tours for prospective residents recommenced in our retirement communities in Ontario in the latter part of Q2 2020 and early Q3 2020, contributing to the sequential improvement in stabilized occupancy levels in Q3 2020 by 180 bps. However, in-person tour restrictions were reinstated in certain markets in Ontario in October 2020, resulting in a sequential decline in stabilized occupancy at the end of 2020 by 240 bps from September 30, 2020. We have been restricted to virtual tours in our Saskatchewan communities throughout the pandemic which has also contributed to our occupancy decline. Subsequent to December 31, 2020, stabilized occupancy improved by 50 bps to 91.2%, as at January 31, 2021. We believe occupancy levels will continue to be negatively impacted temporarily by COVID-19.

Total occupancy levels of 84.6% as at December 31, 2020, represents a decline of 100 bps from December 31, 2019, and sequentially from September 30, 2020, reflecting the negative impact of COVID-19 on the stabilized portfolio, offset in part by improvement in lease-up occupancy compared to the same prior year period.

Other factors impacting the trends over the past eight quarters were the opening of Bolton Mills (112 suites) at the beginning of 2019 that resulted in a sequential decline in total and lease-up occupancy levels at the end of Q1 2019 and the opening of The Barrieview (124 suites) in October 2019 that resulted in a sequential decline in total occupancy at the end of Q4 2019.

Retirement Communities				2020				2019
As at Occupancy *(%)*	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Total communities	**84.6 %**	**85.6 %**	**84.1 %**	**86.0 %**	85.6 %	86.6 %	83.8 %	80.9 %
Change over prior year period (bps)	**(100)**	**(100)**	**30**	**510**	(300)	(290)	(220)	10
Sequential quarterly change (bps)	**(100)**	**150**	**(190)**	**40**	(100)	280	290	(770)
Stabilized communities	**90.7 %**	**93.1 %**	**91.3 %**	**92.8 %**	95.1 %	94.1 %	92.5 %	91.0 %
Change over prior year period (bps)	**(440)**	**(100)**	**(120)**	**180**	530	250	380	780
Sequential quarterly change (bps)	**(240)**	**180**	**(150)**	**(230)**	100	160	150	120
Lease-up communities	**70.2 %**	**68.3 %**	**67.3 %**	**70.2 %**	63.5 %	57.6 %	50.3 %	41.9 %
SS communities	**84.1 %**	**85.4 %**	**84.1 %**	**86.2 %**	88.0 %	86.6 %	83.8 %	80.9 %
NSS communities	**87.9 %**	**87.1 %**	**83.9 %**	**84.7 %**	67.7 %	— %	— %	— %

AVERAGE OCCUPANCY

The following table provides the average occupancy of the retirement communities in total and for each of the same-store, non same-store, stabilized and lease-up groupings for the past eight quarters, with the prior period information for such groupings restated based on the classifications as at December 31, 2020. The same factors discussed above under "As at Occupancy" contributed to the variances in average occupancy.

Retirement Communities					**2020**					**2019**
Average Occupancy *(%)*	**Q4**	**Q3**	**Q2**	**Q1**	**Year**	**Q4**	**Q3**	**Q2**	**Q1**	**Year**
Total communities	**84.6 %**	**84.4 %**	**84.4 %**	**85.7 %**	**84.8 %**	81.7 %	85.5 %	82.0 %	79.3 %	82.1 %
Change over prior year period (bps)	**290**	**(110)**	**240**	**640**	**270**	(670)	(240)	(240)	(110)	(340)
Sequential quarterly change (bps)	**20**	**—**	**(130)**	**400**		(380)	350	270	(910)	
Stabilized communities	**91.3 %**	**91.9 %**	**91.5 %**	**93.5 %**	**92.1 %**	94.9 %	94.0 %	91.4 %	90.7 %	92.7 %
Change over prior year period (bps)	**(360)**	**(210)**	**10**	**280**	**(60)**	510	390	430	810	510
Sequential quarterly change (bps)	**(60)**	**40**	**(200)**	**(140)**		90	260	70	90	
Lease-up communities	**69.0 %**	**67.0 %**	**67.9 %**	**67.5 %**	**67.8 %**	50.7 %	52.7 %	45.8 %	35.7 %	46.9 %
SS communities	**84.4 %**	**84.4 %**	**84.5 %**	**86.7 %**	**85.0 %**	87.0 %	85.5 %	82.0 %	79.3 %	83.5 %
NSS communities	**86.6 %**	**84.5 %**	**84.0 %**	**77.9 %**	**83.3 %**	41.0 %	— %	— %	— %	41.0 %

Home Health Care

AVERAGE DAILY VOLUME

The table set out below provides the service volumes and ADV of the home health care operations, including and excluding volumes related to the B.C. contracts, for the past eight quarters.

ParaMed's ADV has declined significantly due to the impact of COVID-19. Excluding the impact of the B.C. contracts, ParaMed's ADV declined by 9.8% in 2020 as compared to 2019.

The peak impact of COVID-19 on ParaMed's ADV occurred in April 2020, which resulted in a 20.7% decline in Q2 2020 over Q2 2019. Since that time we have experienced a gradual recovery in ADV, with sequential improvements of 11.6% and 5.2%, in Q3 2020 and Q4 2020, respectively. The recovery of ADV during Q4 2020 was tempered by seasonal softness around the December holidays and the implementation of further lockdown measures, particularly school closures, which negatively impacts our workforce capacity. ADV in Q4 2020 remained below pre-COVID-19 levels by 5.4% when compared to Q4 2019. For the four weeks ending February 14, 2021, our ADV was 24,324, an increase of 1.6% from ADV for Q4 2020. Our referral activity recovered to pre-COVID-19 levels in Q4 2020; however, our workforce capacity remains well below our pre-COVID-19 capacity, resulting in lower referral acceptance levels and a slower pace of recovery of our home health care volumes (refer to the discussion under "Significant Events – Impact of COVID-19 Pandemic").

Home Health Care					**2020**					**2019**
Service Volumes	**Q4**	**Q3**	**Q2**	**Q1**	**Year**	**Q4**	**Q3**	**Q2**	**Q1**	**Year**
Total Operations										
Hours of service *(000's)*	**2,202.7**	**2,093.2**	**1,854.6**	**2,319.5**	**8,470.0**	2,661.2	2,652.7	2,660.5	2,595.3	10,569.7
ADV	**23,943**	**22,752**	**20,380**	**25,489**	**23,142**	28,926	28,834	29,236	28,837	28,958
Change over prior year period	**(17.2)%**	**(21.1)%**	**(30.3)%**	**(11.6)%**	**(20.1)%**	(3.2)%	(2.1)%	(2.7)%	(4.1)%	(3.0)%
Sequential quarterly change	**5.2 %**	**11.6 %**	**(20.0)%**	**(11.9)%**		0.3 %	(1.4)%	1.4 %	(3.5)%	
Excluding B.C.										
Hours of service *(000's)*	**2,202.7**	**2,093.2**	**1,854.6**	**2,246.1**	**8,396.6**	2,329.2	2,322.5	2,340.0	2,291.9	9,283.6
ADV	**23,943**	**22,752**	**20,380**	**24,682**	**22,942**	25,318	25,245	25,714	25,465	25,435
Change over prior year period	**(5.4)%**	**(9.9)%**	**(20.7)%**	**(3.1)%**	**(9.8)%**	(4.6)%	(3.3)%	(3.7)%	(4.9)%	(4.1)%
Sequential quarterly change	**5.2 %**	**11.6 %**	**(17.4)%**	**(2.5)%**		0.3 %	(1.8)%	1.0 %	(4.0)%	

PARAMED CANADA EMERGENCY WAGE SUBSIDY

On April 11, 2020, the Government of Canada enacted the 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. We have remained focused on maintaining our workforce capacity to ensure we are able to respond quickly to increases in demand for home health care services and resume operating at normalized levels as the pandemic recedes. In addition, we continue to make investments aimed at increasing our workforce capacity within our home health care segment, including the introduction of new programs in Q3 2020 designed to accelerate the hiring and training of home health care front-line workers (refer to "Significant Events – Impact of COVID-19 Pandemic").

As a result of the revenue declines experienced by ParaMed, the Company's home health care subsidiary, ParaMed applied for and received $91.2 million in CEWS in respect of all claims periods in 2020 ($50.8 million recorded in Q3 2020 for the claims periods March 15, 2020 to July 4, 2020, and $40.4 million recorded in Q4 2020 for the claims periods July 5, 2020 to December 19, 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 Q3 2020, Q4 2020 and the year ended December 31, 2020. ParaMed may file for additional CEWS funding contingent on the rate of volume recovery and resulting impact on revenue in 2021 under the extended program.

PARAMED TRANSFORMATION

In 2017, we initiated a $12.0 million project to transform ParaMed's business (the "ParaMed Transformation"), which includes the implementation of a new cloud-based system to optimize scheduling and automate work processes, in an effort to increase workforce capacity, reduce staff turnover and in turn improve volumes. By the end of Q1 2020, 95% of ParaMed's volumes had been converted to the new cloud-based platform and the remaining volumes in Alberta were converted in Q4 2020, which was delayed due to COVID. Total project costs incurred were $11.7 million over the life of the project with $0.9 million impacting NOI in 2020 ($0.1 million in Q4 2020).

PARAMED B.C. CONTRACT EXPIRATION

As previously announced, ParaMed ceased providing services to the B.C. health authorities at the end of January 2020 (the "ParaMed B.C. Contract Expiration"). In connection with the expiration of the contracts, the Company recorded a charge of $1.4 million in Q1 2019, primarily for facilities related costs.

For the year ended December 31, 2020, ParaMed's B.C. contracts contributed revenue of $3.0 million and NOI of less than $0.1 million, all of which was earned in Q1 2020. For Q4 2019, ParaMed's B.C. contracts contributed revenue of $13.3 million and NOI of $0.1 million. For the year ended December 31, 2019, the B.C. contracts represented approximately 12% of ParaMed's annual volumes, generated $50.7 million of revenue and incurred a net operating loss of $0.3 million.

Other Operations

The following table provides information in respect of the third-party clients receiving services from Extendicare Assist and SGP at the end of each period for the past eight quarters. At December 31, 2020, Extendicare Assist was providing contract services to third-parties representing 52 LTC homes and retirement communities with capacity for 6,379 senior residents. SGP continues to grow its market share, increasing its third-party residents served by 21.9% at December 31, 2020, over December 31, 2019. The underlying demand for SGP's services remains strong and at the end of January 2021, the number of residents served by SGP had grown to 79,900.

				2020				2019
Other Operations	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Extendicare Assist Contract Services								
Homes at period end	**52**	**53**	**53**	**53**	53	53	53	54
Resident capacity	**6,379**	**6,543**	**6,543**	**6,601**	6,601	6,601	6,601	6,661
Change over prior year period	**(3.4)%**	**(0.9)%**	**(0.9)%**	**(0.9)%**	1.6 %	(0.5)%	(0.5)%	0.4 %
Sequential quarterly change	**(2.5)%**	**— %**	**(0.9)%**	**— %**	— %	— %	(0.9)%	2.5 %
SGP Clients								
Third-party senior residents	**78,937**	**79,372**	**75,165**	**72,886**	64,762	64,261	58,673	57,050
Change over prior year period	**21.9 %**	**23.5 %**	**28.1 %**	**27.8 %**	26.8 %	26.1 %	16.6 %	24.8 %
Sequential quarterly change	**(0.5)%**	**5.6 %**	**3.1 %**	**12.5 %**	0.8 %	9.5 %	2.8 %	11.7 %

SELECT ANNUAL INFORMATION

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

(thousands of dollars unless otherwise noted)	**2020**	**2019**	**2018**
Financial Results			
Revenue	**1,158,293**	1,131,950	1,119,602
Earnings before depreciation, amortization and other expense (Adjusted EBITDA)	**133,138**	92,299	95,009
Earnings from continuing operations	**42,586**	14,799	10,385
per basic and diluted share *($)*	**0.47**	0.17	0.12
Earnings from discontinued operations	**11,603**	13,831	21,353
Net earnings	**54,189**	28,630	31,738
per basic and diluted share *($)*	**0.60**	0.32	0.36
AFFO	**79,167**	52,600	57,751
per basic share *($)*	**0.88**	0.59	0.65
per diluted share *($)*	**0.83**	0.57	0.63
Cash dividends declared	**42,963**	42,672	42,351
per share *($)*	**0.480**	0.480	0.480
Financial Position ***(at year end)***			
Total assets	**963,127**	888,800	896,324
Total non-current liabilities	**555,418**	497,515	543,359
Long-term debt	**493,207**	422,535	454,344
Long-term debt, including current portion	**564,597**	556,306	528,970

Financial Results – The selected information provided for each of the years under the heading “Financial Results” reflects the classification of disposed U.S. operations and those of the Captive as discontinued (refer to the discussion under “Discontinued Operations”).

Effective January 1, 2019, the Company adopted IFRS 16 *Leases*, using the modified retrospective approach, under which the comparative information presented for 2018 has not been restated. The impact of adopting this standard on net earnings and overall cash flow was neutral; however, it reduced administrative costs in 2019 by $2.9 million, thereby increasing Adjusted EBITDA, and increased depreciation costs by $2.6 million and interest costs of $0.5 million.

The financial results for 2019 reflect an improvement in earnings from continuing operations of $4.4 million in comparison to 2018 primarily as a result of a pre-tax impairment charge of $16.2 million in respect of certain of the Company’s retirement communities and long-term care homes recorded in 2018 partially offset by an increase in depreciation and amortization costs of $1.7 million (exclusive of the impact of the adoption of IFRS 16 in 2019), a net change in foreign exchange and fair value adjustments of $2.2 million and a decline in Adjusted EBITDA. The decrease in Adjusted EBITDA in 2019 as compared to 2018, reflects growth in NOI of the LTC and retirement living operations, offset by lower volumes and higher back office operating costs of the home health care operations, and an increase in administrative costs (exclusive of the impact of the adoption of IFRS 16).

Financial Position – Total assets and non-current liabilities declined at the end of 2019 from the prior year largely due to the “run off” of the former U.S. self-insured liabilities and related investments held by the Captive and an increase in current portion of long-term debt due to maturities, partially offset by an increase in property and equipment that included the completion of a retirement living community in October 2019, and the recognition of right-of-use assets on transition to IFRS 16. Long-term debt, including the current portion, increased in 2019 as compared to 2018, reflecting new mortgages on retirement communities of $25.3 million draws on construction financing of $20.7 million and the recognition of lease liabilities of $5.8 million on transition to IFRS 16, partially offset by scheduled debt repayments.

A comparison between the 2020 and 2019 financial results and financial position of the Company is provided in the discussion under the headings “2020 Financial Review” and “Liquidity and Capital Resources”.

SELECT QUARTERLY FINANCIAL INFORMATION

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

				2020				2019
(thousands of dollars unless otherwise noted)	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Revenue	**307,742**	**296,786**	**281,947**	**271,818**	290,895	282,733	284,053	274,269
Net operating income	**55,804**	**75,976**	**19,934**	**30,383**	32,877	34,867	35,320	30,386
NOI margin	***18.1%***	***25.6%***	***7.1%***	***11.2%***	*11.3%*	*12.3%*	*12.4%*	*11.1%*
Adjusted EBITDA	**41,046**	**63,794**	**8,167**	**20,131**	23,527	23,846	25,152	19,774
Adjusted EBITDA margin	***13.3%***	***21.5%***	***2.9%***	***7.4%***	*8.1%*	*8.4%*	*8.9%*	*7.2%*
Earnings (loss) from continuing operations	**15,594**	**34,644**	**(8,889)**	**1,237**	4,467	5,353	4,966	13
per basic share *($)*	**0.17**	**0.39**	**(0.10)**	**0.01**	0.05	0.06	0.06	—
per diluted share *($)*	**0.17**	**0.36**	**(0.10)**	**0.01**	0.05	0.06	0.06	—
Earnings (loss) from discontinued operations	**1,882**	**(178)**	**5,230**	**4,669**	5,621	1,906	3,359	2,945
Net earnings	**17,476**	**34,466**	**(3,659)**	**5,906**	10,088	7,259	8,325	2,958
per basic share *($)*	**0.19**	**0.38**	**(0.04)**	**0.07**	0.11	0.08	0.10	0.03
per diluted share *($)*	**0.19**	**0.36**	**(0.04)**	**0.07**	0.11	0.08	0.10	0.03
AFFO	**21,804**	**42,787**	**2,946**	**11,630**	11,365	13,693	14,927	12,615
per basic share *($)*	**0.24**	**0.48**	**0.03**	**0.13**	0.13	0.15	0.17	0.14
per diluted share *($)*	**0.23**	**0.44**	**0.03**	**0.13**	0.12	0.15	0.16	0.14
Maintenance Capex	**7,573**	**2,381**	**2,157**	**1,755**	6,028	3,056	2,312	916
Cash dividends declared	**10,743**	**10,746**	**10,743**	**10,731**	10,701	10,680	10,657	10,634
per share *($)*	**0.120**	**0.120**	**0.120**	**0.120**	0.120	0.120	0.120	0.120
Weighted Average Number of Shares *(000's)*								
Basic	**89,898**	**89,864**	**89,826**	**89,644**	89,467	89,253	89,039	88,825
Diluted	**100,362**	**100,223**	**100,177**	**100,023**	99,850	99,614	99,415	99,186

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

				2020				2019
(thousands of dollars)	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Earnings (loss) from continuing operations before income taxes	**21,717**	**47,457**	**(11,907)**	1,603	6,452	7,594	7,169	769
Add (Deduct):								
Depreciation and amortization	**9,884**	**9,373**	**9,685**	9,853	10,597	9,861	9,705	9,427
Net finance costs	**6,959**	**6,964**	**7,609**	8,675	6,478	6,391	7,303	8,149
Other expense	**2,486**	**—**	**2,780**	—	—	—	975	1,429
Adjusted EBITDA	**41,046**	**63,794**	**8,167**	20,131	23,527	23,846	25,152	19,774
Administrative costs	**14,758**	**12,182**	**11,767**	10,252	9,350	11,021	10,168	10,612
Net operating income	**55,804**	**75,976**	**19,934**	30,383	32,877	34,867	35,320	30,386

There are a number of factors affecting the trend of the Company's quarterly results from continuing operations. With respect to the core operations, while year-over-year quarterly comparisons will generally remain comparable, sequential quarters can vary materially for seasonal and other trends. In respect of 2020, COVID-19 has impacted the Company's quarterly results from continuing operations (refer to "Significant Events – Impact of COVID-19 Pandemic" and "Key Performance Indicators – ParaMed Canada Emergency Wage Subsidy"). The significant factors that impact the results from period to period, in addition to the impacts that result from COVID-19, are as follows:

- Ontario long-term care funding tied to flow-through funding envelopes requires revenue be deferred until it is matched with the related costs for resident care in the periods in which the costs are incurred, resulting in a fluctuation in revenue and operating expenses by quarter, with both generally being at their lowest in the Q1 and at their highest in Q4;
- Ontario long-term care providers generally receive annual flow-through funding increases and case mix index adjustments effective April 1st and accommodation funding increases effective July 1st, and Alberta long-term care

providers generally receive annual inflationary rate increases and acuity-based funding adjustments on April 1st and accommodation funding increases effective July 1st;

- maintenance capex spending, which impacts AFFO, fluctuates on a quarterly basis with the timing of projects and seasonality and is generally at its lowest in Q1 and its highest in Q4;
- utility costs are generally at their highest in Q1 and their lowest in Q2 and Q3; and
- certain line items that are reported separately due to their transitional nature that would otherwise distort the comparability of the historical trends, being "other expense" and "foreign exchange and fair value adjustments".

STATEMENT OF EARNINGS

The following provides the consolidated statement of earnings for the periods ended December 31, 2020 and 2019.

	Three months ended December 31			Year ended December 31		
(thousands of dollars unless otherwise noted)	**2020**	**2019**	**Change**	**2020**	**2019**	**Change**
Revenue	**307,742**	290,895	16,847	**1,158,293**	1,131,950	26,343
Operating expenses	**251,938**	258,018	(6,080)	**976,196**	998,500	(22,304)
Net operating income	**55,804**	32,877	22,927	**182,097**	133,450	48,647
Administrative costs	**14,758**	9,350	5,408	**48,959**	41,151	7,808
Adjusted EBITDA	**41,046**	23,527	17,519	**133,138**	92,299	40,839
Depreciation and amortization	**9,884**	10,597	(713)	**38,795**	39,590	(795)
Other expense	**2,486**	—	2,486	**5,266**	2,404	2,862
Earnings before net finance costs and income taxes	**28,676**	12,930	15,746	**89,077**	50,305	38,772
Interest expense (net of capitalized interest)	**7,109**	7,623	(514)	**28,478**	28,733	(255)
Interest revenue	**(597)**	(1,004)	407	**(2,681)**	(3,688)	1,007
Accretion	**315**	303	12	**1,237**	1,195	42
Foreign exchange and fair value adjustments	**132**	(444)	576	**3,173**	2,081	1,092
Net finance costs	**6,959**	6,478	481	**30,207**	28,321	1,886
Earnings from continuing operations before income taxes	**21,717**	6,452	15,265	**58,870**	21,984	36,886
Income tax expense (recovery)						
Current	**7,280**	1,068	6,212	**21,623**	8,287	13,336
Deferred	**(1,157)**	917	(2,074)	**(5,339)**	(1,102)	(4,237)
Total income tax expense	**6,123**	1,985	4,138	**16,284**	7,185	9,099
Earnings from continuing operations	**15,594**	4,467	11,127	**42,586**	14,799	27,787
Earnings from discontinued operations	**1,882**	5,621	(3,739)	**11,603**	13,831	(2,228)
Net earnings	**17,476**	10,088	7,388	**54,189**	28,630	25,559
Earnings from continuing operations	**15,594**	4,467	11,127	**42,586**	14,799	27,787
Add (Deduct) [(1)]**:**						
Foreign exchange and fair value adjustments	**145**	(255)	400	**2,255**	1,732	523
Other expense	**2,486**	—	2,486	**4,515**	2,070	2,445
Earnings from continuing operations before separately reported items, net of taxes	**18,225**	4,212	14,013	**49,356**	18,601	30,755

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

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

	Three months ended December 31			Year ended December 31		
(thousands of dollars)	**2020**	**2019**	**Change**	**2020**	**2019**	**Change**
Earnings from continuing operations before income taxes	**21,717**	6,452	15,265	**58,870**	21,984	36,886
Add (Deduct):						
Depreciation and amortization	**9,884**	10,597	(713)	**38,795**	39,590	(795)
Net finance costs (income)	**6,959**	6,478	481	**30,207**	28,321	1,886
Other expense	**2,486**	—	2,486	**5,266**	2,404	2,862
Adjusted EBITDA	**41,046**	23,527	17,519	**133,138**	92,299	40,839
Administrative costs	**14,758**	9,350	5,408	**48,959**	41,151	7,808
Net operating income	**55,804**	32,877	22,927	**182,097**	133,450	48,647

2020 FOURTH QUARTER FINANCIAL REVIEW

The following is an analysis of the consolidated results from operations for Q4 2020, as compared to Q4 2019. Refer to the discussion that follows under "Summary of Results of Operations by Segment" for an analysis of the revenue and net operating income by operating segment.

Revenue

Revenue of $307.7 million for Q4 2020 increased by $16.8 million or 5.8% from $290.9 million in Q4 2019. Excluding the year-over-year decline in revenue from the ParaMed B.C. contracts ($13.3 million) from Q4 2019, revenue increased by $30.1 million or 10.9% in Q4 2020 from $277.6 million in the same prior year period. This increase in revenue was driven primarily by funding related to COVID-19 ($32.0 million), LTC funding enhancements, expansion of the retirement living operations and growth in other operations, partially offset by a decline in home health care volumes, timing of LTC flow-through funding and lower preferred accommodation revenue in the LTC operations.

Operating Expenses

Operating expenses of $251.9 million for Q4 2020 declined by $6.1 million or 2.4% from Q4 2019. Excluding the year-over-year decline in operating expenses from the ParaMed B.C. contracts ($13.2 million) from Q4 2019 and the CEWS ($40.4 million) received by the home health care segment in Q4 2020, operating expenses increased by $47.5 million or 19.4% to $292.3 million in Q4 2020 from $244.8 million in the same prior year period. The increase in operating expenses was driven by increased estimated costs related to COVID-19 and pandemic pay programs ($41.6 million), higher costs of resident care in the LTC operations, increased workers compensation and benefits costs and investments in training and technology programs and a wage harmonization program for non-unionized front-line workers in the home health care operations, and growth in the lease-up retirement living operations, offset by the impact of lower home health care volumes.

Net Operating Income

Net operating income improved by $22.9 million to $55.8 million for Q4 2020 as compared to $32.9 million for Q4 2019 and represented 18.1% of revenue as compared to 11.3% for Q4 2019. Excluding the impact of the ParaMed B.C. contracts ($0.1 million) from Q4 2019 and the CEWS ($40.4 million) received by the home health care segment in Q4 2020, NOI declined by $17.4 million or 53.0% to $15.4 million in Q4 2020 from $32.8 million in the same prior year period, representing 5.0% and 11.8% of revenue, respectively. Growth in NOI from the retirement living and other operations segments was offset by estimated costs of COVID-19 in excess of funding ($9.6 million), lower volumes and increased operating costs, including one-time costs, in the home health care operations and increased costs of resident care, along with lower preferred accommodation revenue, in the LTC operations.

Administrative Costs

Administrative costs increased by $5.4 million or 57.8% to $14.8 million for Q4 2020 and include the impact of lower costs associated with the ParaMed Transformation project of $0.9 million incurred in Q4 2019, increased severance provisions of $1.8 million as compared to Q4 2019 related to management back office functions and administrative costs related to COVID-19 of $0.7 million incurred in Q4 2020. Excluding these impacts, administrative costs increased by $3.8 million primarily due to higher labour costs associated with increased management and support staff of key back office functions and increased insurance costs.

Adjusted EBITDA

Adjusted EBITDA increased by $17.5 million to $41.0 million for Q4 2020 as compared to $23.5 million for Q4 2019, and represented 13.3% of revenue as compared to 8.1%, respectively, primarily due to higher NOI, partially offset by increased administrative costs, as discussed above.

Depreciation and Amortization

Depreciation and amortization costs declined by $0.7 million to $9.9 million for Q4 2020.

Other Expense

Other expense of $2.5 million recorded in Q4 2020 represents a non-cash, non-recurring actuarial adjustment in respect of a legacy post-retirement benefits plan.

Net Finance Costs

Net finance costs increased by $0.5 million for Q4 2020, primarily due to lower interest revenue of $0.4 million earned on cash on hand as a result of lower interest rates, and a net unfavourable change of $0.6 million in foreign exchange and fair value adjustments related to the Company's interest rate swaps, partially offset by lower interest expense. Interest expense of $7.1 million declined by $0.5 million reflecting a lower weighted average interest rate, partially offset by increased debt levels.

Income Taxes

The income tax provision was $6.1 million for Q4 2020, representing an effective tax rate of 28.2%, as compared to $2.0 million and an effective tax rate of 30.8% for Q4 2019. The Q4 2020 income tax provision includes $10.7 million of current income taxes payable on the CEWS ($40.4 million) received by the home health care segment in Q4 2020, partially offset by a decline in taxable income in the other operating segment legal entities.

Earnings from Continuing Operations

Earnings from continuing operations were $15.6 million ($0.17 per basic share) for Q4 2020 as compared to $4.5 million ($0.05 per basic share) for Q4 2019, largely driven by the impact of the CEWS ($40.4 million) received by the home health care segment ($29.7 million, net of tax, or $0.33 per basic share), partially offset by the estimated costs of COVID-19 in excess of funding ($7.6 million, net of tax, or $0.08 per basic share), the increase in administrative costs, other expense of $2.5 million and the decline in NOI from the home health care operations (excluding the impact of the CEWS) and from the LTC operations.

Summary of Results of Operations by Segment

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

Three months ended December 31 *(thousands of dollars unless otherwise noted)*	**Long-term Care**	**Retirement Living**	**Home Health Care**	**Other Operations**	**Total**
2020					
Revenue	**192,112**	**12,047**	**96,387**	**7,196**	**307,742**
Operating expenses	**182,863**	**8,725**	**57,705**	**2,645**	**251,938**
Net operating income	**9,249**	**3,322**	**38,682**	**4,551**	**55,804**
NOI margin %	***4.8 %***	***27.6 %***	***40.1 %***	***63.2 %***	***18.1 %***
2019					
Revenue	166,656	11,356	106,699	6,184	290,895
Operating expenses	146,135	8,363	100,778	2,742	258,018
Net operating income	20,521	2,993	5,921	3,442	32,877
NOI margin %	*12.3 %*	*26.4 %*	*5.5 %*	*55.7 %*	*11.3 %*
Change					
Revenue	25,456	691	(10,312)	1,012	16,847
Operating expenses	36,728	362	(43,073)	(97)	(6,080)
Net operating income	(11,272)	329	32,761	1,109	22,927

LONG-TERM CARE OPERATIONS

Revenue from the LTC operations grew by $25.5 million or 15.3% to $192.1 million for Q4 2020, largely driven by funding of $25.6 million to support the costs associated with COVID-19 and pandemic pay programs, with the balance primarily due to funding enhancements largely tied to the Ontario flow-through funding envelopes, offset by timing of flow-through funding, and lower preferred accommodation revenue due to the impact of COVID-19.

Net operating income from the LTC operations was $9.2 million for Q4 2020 as compared to $20.5 million for Q4 2019, a decrease of $11.3 million or 54.9%, with NOI margins of 4.8% and 12.3%, respectively. Operating expenses included increased costs associated with COVID-19 and pandemic pay programs, estimated at $34.3 million, that were $8.7 million in excess of COVID-19 related funding of $25.6 million (refer to "Significant Events – Impact of COVID-19 Pandemic"). In addition, results for Q4 2019 included favourable labour accrual adjustments of $1.4 million. The balance of the decline in NOI of $1.2 million was due to increased costs of resident care in excess of funding, primarily higher labour costs, and lower preferred accommodation revenue.

RETIREMENT LIVING OPERATIONS

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

Three months ended December 31					**Retirement Living**	
(thousands of dollars unless otherwise noted)	**Same-store**		**Non same-store**		**Total**	
2020						
Revenue	**10,445**		**1,602**		**12,047**	
Operating expenses	**7,818**		**907**		**8,725**	
Net operating income / margin %	**2,627**	***25.2 %***	**695**	***43.4 %***	**3,322**	***27.6 %***
Average occupancy / weighted average available suites	***84.4 %***	***926***	***86.6 %***	***124***	***84.6 %***	***1,050***
2019						
Revenue	10,661		695		11,356	
Operating expenses	7,512		851		8,363	
Net operating income / margin %	3,149	*29.5 %*	(156)	*(22.4)%*	2,993	*26.4 %*
Average occupancy / weighted average available suites	*87.0 %*	*925*	*41.0 %*	*123*	*81.7 %*	*1,048*
Change						
Revenue	(216)		907		691	
Operating expenses	306		56		362	
Net operating income	(522)		851		329	

Revenue from retirement living operations grew by $0.7 million or 6.1% to $12.0 million for Q4 2020, primarily attributable to the contribution from non same-store operations of $0.9 million related to the opening of The Barrieview in October 2019. This was partially offset by a decline in revenue from same-store operations due to occupancy declines in the stabilized communities as a result of the impact of COVID-19.

Net operating income from the retirement living operations was $3.3 million for Q4 2020 as compared to $3.0 million for Q4 2019, an increase of $0.3 million or 11.0%, reflecting the contribution from The Barrieview. The decline from same-store operations of $0.5 million was due to the impact of the pandemic on occupancy levels of the stabilized communities, increased costs related to lease-up activity and estimated costs related to COVID-19 of $0.1 million in Q4 2020.

HOME HEALTH CARE OPERATIONS

The following discussion of the home health care operations excludes the B.C. contracts, which contributed revenue of $13.3 million and NOI of $0.1 million in Q4 2019, and the CEWS received in Q4 2020 of $40.4 million (refer to "Key Performance Indicators – ParaMed Canada Emergency Wage Subsidy").

Revenue from the home health care operations increased by $3.0 million or 3.2% to $96.4 million for Q4 2020 from $93.4 million for Q4 2019, reflecting funding of $6.4 million recognized in Q4 2020 to support the costs associated with COVID-19 and pandemic pay programs, partially offset by a decline in ADV of 5.4% due to the impact of COVID-19.

Net operating income from the home health care operations was a loss of $1.7 million for Q4 2020 as compared to NOI of $5.8 million for Q4 2019, a decrease of $7.5 million, with NOI margins of (1.8)% and 6.2%, respectively. The decline in NOI of $7.5 million includes one-time costs of $3.7 million associated with implementing a wage harmonization program for non-unionized front-line workers and $2.4 million in investments in technology and training aids to support the new in-house and college partnership training programs and continued back-office efficiencies. Excluding these items, NOI declined by $1.4 million, largely attributable to lower volumes, increased workers compensation and benefits costs, and net costs of $0.8 million associated with COVID-19 in excess of pandemic pay programs and other COVID assistance (refer to the discussion under "Significant Events – Impact of COVID-19 Pandemic"), partially offset by lower costs associated with the ParaMed Transformation project.

OTHER OPERATIONS

Revenue from other operations increased by $1.0 million or 16.4% to $7.2 million in Q4 2020 compared to Q4 2019, largely due to the increase in group purchasing clients.

Net operating income from other operations increased by $1.1 million or 32.2% to $4.6 million for Q4 2020 compared to Q4 2019, due to revenue growth from an increase in group purchasing clients and lower operating expenses related to reduced travel and business promotion, partially offset by increased staff to support the growth in operations.

2020 FINANCIAL REVIEW

The following is an analysis of the consolidated results from operations for the year ended December 31, 2020, as compared to the same period in 2019. Refer to the discussion that follows under "Summary of Results of Operations by Segment" for an analysis of the revenue and net operating income by operating segment, including the components of non same-store revenue and net operating income.

Revenue

Revenue of $1,158.3 million for the year ended December 31, 2020, increased by $26.3 million or 2.3% from the year ended December 31, 2019. Excluding the year-over-year decline in revenue from the ParaMed B.C. contracts ($47.7 million) and the incremental funding related to Bill 148 recorded in Q2 2019 ($2.2 million), revenue increased by $76.2 million or 7.1% to $1,155.3 million this period from $1,079.1 million in the same prior year period. The increase in revenue was driven primarily by funding related to COVID-19 ($88.3 million), LTC funding enhancements, expansion of the retirement living operations, growth in other operations and the impact of the leap day in Q1 2020, offset by a decline in home health care volumes and lower preferred accommodation revenue in LTC operations.

Operating Expenses

Operating expenses of $976.2 million for the year ended December 31, 2020, declined by $22.3 million or 2.2% from the year ended December 31, 2019. Excluding the year-over-year decline in operating expenses from the ParaMed B.C. contracts ($48.0 million) and the CEWS ($91.2 million) received by the home health care segment in 2020, operating expenses increased by $116.9 million or 12.3% to $1,064.4 million for the year ended December 31, 2020, from $947.5 million in the same prior year period. The increase in operating expenses was driven by increased estimated costs related to COVID-19 and pandemic pay programs ($114.9 million), higher costs of resident care in the LTC operations, increased workers compensation, benefits and back-office costs and investments in training and technology programs and a wage harmonization program for non-unionized front-line workers in the home health care operations, and expansion of the retirement living operations, and the impact of the leap day in Q1 2020, partially offset by the impact of lower home health care volumes.

Net Operating Income

Net operating income improved by $48.6 million to $182.1 million for the year ended December 31, 2020, and represented 15.7% of revenue as compared to 11.8% for the year ended December 31, 2019. Excluding the year-over-year impact of the incremental funding related to Bill 148 ($2.2 million) received in Q2 2019, partially offset by the favourable impact of the ParaMed B.C. contracts ($0.3 million) and the CEWS ($91.2 million) received by the home health care segment in 2020, NOI declined by $40.7 million or 30.9% to $90.9 million for the year ended December 31, 2020, from $131.6 million in the same prior year period, representing 7.9% and 12.2% of revenue, respectively. Growth in NOI from the retirement living and other operations segments was offset by estimated costs of COVID-19 in excess of funding ($26.6 million), lower volumes and increased operating costs, including one-time costs, in the home health care operations and increased costs of resident care, along with lower preferred accommodation revenue in the LTC operations.

Administrative Costs

Administrative costs increased by $7.8 million or 19.0% to $49.0 million for the year ended December 31, 2020 and include the impact of lower costs associated with the ParaMed Transformation project of $3.6 million incurred in 2019, increased severance provisions of $0.7 million as compared to 2019, and administrative costs related to COVID-19 of $3.5 million incurred in 2020. Excluding these impacts, administrative costs increased by $7.2 million primarily due to higher labour costs associated with increased management and support staff of key back office functions and higher insurance costs.

Adjusted EBITDA

Adjusted EBITDA increased by $40.8 million to $133.1 million for the year ended December 31, 2020, as compared to $92.3 million for the year ended December 31, 2019, and represented 11.5% of revenue as compared to 8.2%, respectively, primarily due to higher NOI, partially offset by increased administrative costs, as discussed above.

Depreciation and Amortization

Depreciation and amortization costs declined by $0.8 million to $38.8 million for the year ended December 31, 2020,

Other Expense

Other expense of $5.3 million recorded in the year ended December 31, 2020, related to an impairment charge of $2.7 million in respect of certain of the Company's retirement communities in Saskatchewan recorded in Q2 2020, and $2.5 million for a non-cash, non-recurring actuarial adjustment in respect of a legacy post-retirement benefits plan recorded in Q4 2020. Other expense of $2.4 million recorded in the year ended December 31, 2019, related to costs associated with the ParaMed B.C. Contract Expiration and a representation and standstill agreement entered into with the Sandpiper group.

Net Finance Costs

Net finance costs increased by $1.9 million for the year ended December 31, 2020, primarily due to lower interest revenue of $1.0 million earned on cash on hand due to lower interest rates, and a net unfavourable change of $1.1 million in foreign exchange and fair value adjustments related to the Company's interest rate swaps, partially offset by lower interest expense. Interest expense of $28.5 million declined by $0.3 million reflecting a lower weighted average interest rate, partially offset by a reduction in the amount of capitalized interest of $0.7 million and higher debt levels in 2020, as compared to 2019.

Income Taxes

The income tax provision was $16.3 million for the year ended December 31, 2020, representing an effective tax rate of 27.7%, as compared to $7.2 million and an effective tax rate of 32.7% for the year ended December 31, 2019. The income tax provision for the year ended December 31, 2020, includes $24.2 million of current income taxes payable on the CEWS ($91.2 million) received by the home health care segment, partially offset by a decline in remaining taxable income in the other operating segments legal entities. Tax rates were impacted by, among other things, the tax impact of foreign exchange and fair value adjustments and the "other expense" items, as noted above. Excluding the impact of these separately reported items, the effective tax rate was 26.7% for the year ended December 31, 2020, as compared to 29.7% for the year ended December 31, 2019, reflecting the applicable level of taxable income or loss of the Company's legal entities.

Earnings from Continuing Operations

Earnings from continuing operations were $42.6 million ($0.47 per basic share) for the year ended December 31, 2020, as compared to earnings of $14.8 million ($0.17 per basic share) for the year ended December 31, 2019, largely driven by the impact of the CEWS ($91.2 million) received by the home health care segment ($67.0 million, net of tax, or $0.75 per basic share), partially offset by the estimated costs of COVID-19 in excess of funding ($22.1 million, net of tax, or $0.25 per basic share), higher administrative costs, increased other expense of $2.9 million, and the decline in NOI from the home health care operations (excluding the impact of the CEWS) and from the LTC operations.

Summary of Results of Operations by Segment

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

Year ended December 31 *(thousands of dollars unless otherwise noted)*	**Long-term Care**	**Retirement Living**	**Home Health Care**	**Other Operations**	**Total**
2020					
Revenue	**715,550**	**47,801**	**368,189**	**26,753**	**1,158,293**
Operating expenses	**663,790**	**34,032**	**268,273**	**10,101**	**976,196**
Net operating income	**51,760**	**13,769**	**99,916**	**16,652**	**182,097**
NOI margin %	***7.2 %***	***28.8 %***	***27.1 %***	***62.2 %***	***15.7 %***
2019					
Revenue	643,785	41,276	422,995	23,894	1,131,950
Operating expenses	566,375	29,844	391,646	10,635	998,500
Net operating income	77,410	11,432	31,349	13,259	133,450
NOI margin %	*12.0 %*	*27.7 %*	*7.4 %*	*55.5 %*	*11.8 %*
Change					
Revenue	71,765	6,525	(54,806)	2,859	26,343
Operating expenses	97,415	4,188	(123,373)	(534)	(22,304)
Net operating income	(25,650)	2,337	68,567	3,393	48,647

LONG-TERM CARE OPERATIONS

Revenue from LTC operations grew by $71.8 million or 11.1% to $715.6 million for the year ended December 31, 2020, largely driven by funding of $64.7 million to support the costs associated with COVID-19 and pandemic pay programs, approximately $4.9 million from increases in the Ontario flow-through funding envelopes which are offset by increased operating expenses associated with resident care, and other funding enhancements, including incremental funding of $0.8 million in certain provinces for the leap day in Q1 2020, partially offset by lower preferred accommodation revenue.

Net operating income from the LTC operations was $51.8 million for the year ended December 31, 2020, as compared to $77.4 million for the year ended December 31, 2019, a decrease of $25.7 million or 33.1%, with NOI margins of 7.2% and 12.0%, respectively. Operating expenses included costs associated with COVID-19 and pandemic pay programs, estimated at $88.9 million, that were $24.2 million in excess of COVID-19 related funding of $64.7 million (refer to “Significant Events – Impact of COVID-19 Pandemic”). In addition, results for 2019 included favourable labour accrual adjustments of $1.1 million. The balance of the decline in NOI of $0.4 million was due to increased costs of resident care in excess of funding, primarily related to higher labour costs, and lower preferred accommodation revenue, partially offset by the leap day in Q1 2020.

RETIREMENT LIVING OPERATIONS

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

Year ended December 31					**Retirement Living**	
(thousands of dollars unless otherwise noted)	**Same-store**		**Non same-store**		**Total**	
2020						
Revenue	**41,837**		**5,964**		**47,801**	
Operating expenses	**30,317**		**3,715**		**34,032**	
Net operating income / margin %	**11,520**	***27.5 %***	**2,249**	***37.7 %***	**13,769**	***28.8 %***
Average occupancy / weighted average available suites	***85.0 %***	***925***	***83.3 %***	***124***	***84.8 %***	***1,049***
2019						
Revenue	40,581		695		41,276	
Operating expenses	28,643		1,201		29,844	
Net operating income / margin %	11,938	*29.4 %*	(506)	*— %*	11,432	*27.7 %*
Average occupancy / weighted average available suites	*83.5 %*	*925*	***41.0 %***	*31*	*82.1 %*	*956*
Change						
Revenue	1,256		5,269		6,525	
Operating expenses	1,674		2,514		4,188	
Net operating income	(418)		2,755		2,337	*— %*

Revenue from retirement living operations grew by $6.5 million or 15.8% to $47.8 million for the year ended December 31, 2020, of which non same-store operations contributed $5.3 million as a result of the opening of The Barrieview in October 2019. Organic growth from same-store operations of $1.3 million, was primarily due to lease-up activity, partially offset by the impact of COVID-19 on occupancy levels of the stabilized communities in 2020.

Net operating income from the retirement living operations was $13.8 million for the year ended December 31, 2020, as compared to $11.4 million for the year ended December 31, 2019, an increase of $2.3 million or 20.4%, reflecting the contribution from The Barrieview of $2.8 million. The decline from same-store operations of $0.4 million reflected growth in occupancy to 85.0% from 83.5% due to lease-up activity, offset by the impact of the pandemic on occupancy levels of the stabilized communities and the increased estimated costs related to COVID-19 of $1.1 million for the year ended December 31, 2020.

HOME HEALTH CARE OPERATIONS

The following discussion of the home health care operations excludes the impact of: the B.C. contracts, which contributed revenue of $3.0 million and NOI of less than $0.1 million for the year ended December 31, 2020, as compared to revenue of $50.7 million and a net operating loss of $0.3 million for the year ended December 31, 2019; incremental funding of $2.2 million related to Bill 148 received in Q2 2019; and the CEWS received in 2020 of $91.2 million (refer to "Key Performance Indicators – ParaMed Canada Emergency Wage Subsidy").

Revenue from the home health care operations declined by $4.9 million or 1.3% to $365.2 million for the year ended December 31, 2020, from $370.1 million in the same prior year period, primarily due to a decline in ADV of 9.8% due to COVID-19, partially offset by funding of $23.6 million to support the costs associated with COVID-19 and pandemic pay programs, and approximately $1.0 million of incremental leap day revenue in Q1 2020.

Net operating income from the home health care operations was $8.7 million for the year ended December 31, 2020, as compared to $29.5 million for the year ended December 31, 2019, a decrease of $20.8 million, with NOI margins of 2.4% and 8.0%, respectively. The decline in NOI of $20.8 million was largely attributable to lower volumes, higher workers compensation, benefits and back office costs, one-time costs of $3.7 million associated with implementing a wage harmonization program for non-unionized front-line workers and $2.8 million in investments in technology and training aids to support the new in-house and college partnership training programs and continued back-office efficiencies, and net costs associated with COVID-19 of $1.3 million in excess of pandemic pay programs and other COVID assistance (refer to the discussion under "Significant Events – Impact of COVID-19 Pandemic"), partially offset by lower costs associated with the ParaMed Transformation project of $1.4 million.

OTHER OPERATIONS

Revenue from other operations increased by $2.9 million or 12.0% to $26.8 million, largely due to an increase in group purchasing clients.

Net operating income from other operations increased by $3.4 million or 25.6% to $16.7 million for the year ended December 31, 2020, due to revenue growth from an increase in clients and lower operating expenses related to reduced travel and business promotion, partially offset by increased staff to support the growth in operations.

ADJUSTED FUNDS FROM OPERATIONS

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

	Three months ended December 31			Year ended December 31		
(thousands of dollars unless otherwise noted)	**2020**	**2019**	**Change**	**2020**	**2019**	**Change**
Earnings from continuing operations	**15,594**	4,467	11,127	**42,586**	14,799	27,787
Add (Deduct):						
Depreciation and amortization	**9,884**	10,597	(713)	**38,795**	39,590	(795)
Depreciation for FFEC (maintenance capex) [(1)]	**(1,868)**	(1,855)	(13)	**(7,520)**	(6,898)	(622)
Depreciation for office leases [(2)]	**(610)**	(621)	11	**(2,489)**	(2,588)	99
Other expense	**2,486**	—	2,486	**5,266**	2,404	2,862
Foreign exchange and fair value adjustments	**132**	(444)	576	**3,173**	2,081	1,092
Current income tax expense (recovery) on other expense, foreign exchange and fair value adjustments [(3)]	—	(7)	7	—	(265)	265
Deferred income tax expense (recovery)	**(1,157)**	917	(2,074)	**(5,339)**	(1,102)	(4,237)
FFO (continuing operations)	**24,461**	13,054	11,407	**74,472**	48,021	26,451
Amortization of deferred financing costs	**489**	436	53	**2,010**	1,714	296
Accretion costs	**315**	303	12	**1,237**	1,195	42
Non-cash share-based compensation	**797**	376	421	**2,002**	1,598	404
Principal portion of government capital funding	**1,447**	1,369	78	**5,792**	5,486	306
Additional maintenance capex [(1)]	**(5,705)**	(4,173)	(1,532)	**(6,346)**	(5,414)	(932)
AFFO	**21,804**	11,365	10,439	**79,167**	52,600	26,567
Per Basic Share *($)*						
FFO	**0.27**	0.15	0.12	**0.83**	0.54	0.29
AFFO	**0.24**	0.13	0.11	**0.88**	0.59	0.29
Per Diluted Share *($)*						
FFO	**0.26**	0.15	0.11	**0.80**	0.54	0.26
AFFO	**0.23**	0.12	0.11	**0.83**	0.57	0.26
Dividends *($)*						
Declared	**10,743**	10,701	42	**42,963**	42,672	291
Declared per share *($)*	**0.12**	0.12	—	**0.48**	0.48	—
Weighted Average Number of Shares *(thousands)*						
Basic	**89,898**	89,467		**89,808**	89,148	
Diluted	**100,362**	99,850		**100,275**	99,539	
Current income tax expense (recovery) included in FFO	**7,280**	1,075	6,205	**21,623**	8,552	13,071
Total maintenance capex [(1)]	**7,573**	6,028	1,545	**13,866**	12,312	1,554

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

(2) Represents depreciation related to office leases under IFRS 16.

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

AFFO 2020 Financial Review

For Q4 2020, AFFO improved by $10.4 million to $21.8 million ($0.24 per basic share) from $11.4 million ($0.13 per basic share) for Q4 2019, reflecting the increase in Adjusted EBITDA, partially offset by higher maintenance CAPEX, current income taxes and net interest costs. AFFO in Q4 2020 included the CEWS received by the home health care segment, net of tax, of $29.7 million ($0.33 per basic share) and estimated COVID-19 related costs in excess of funding, net of tax, of $7.6 million ($0.08 per basic share).

For the year ended December 31, 2020, AFFO improved by $26.6 million to $79.2 million ($0.88 per basic share) from $52.6 million ($0.59 per basic share) for the year ended December 31, 2019, reflecting the increase in Adjusted EBITDA, partially offset by higher current income taxes and net interest costs. AFFO for the year ended December 31, 2020, included the

CEWS received by the home health care segment, net of tax, of $67.0 million ($0.75 per basic share) and estimated COVID-19 related costs in excess of funding, net of tax, of $22.1 million ($0.25 per basic share).

Dividends declared as a percentage of AFFO for the year ended December 31, 2019, represented a payout ratio of 54%. In addition to cash generated from operations and cash on hand of $180.0 million at December 31, 2020, the Company has available undrawn credit facilities totalling $71.3 million (refer to the discussion under "Liquidity and Capital Resources").

A discussion of the factors impacting net earnings and Adjusted EBITDA can be found under "2020 Fourth Quarter Financial Review" and "2020 Financial Review".

The effective tax rate on FFO from continuing operations was 22.5% for the year ended December 31, 2020, as compared to 15.1% for the year ended December 31, 2019. The Company's current income taxes for 2020 have been impacted by the effects of COVID-19 and the impact of the CEWS received by the home health care segment. In particular, increased costs as a result of COVID-19 and the CEWS received by ParaMed have had an impact on the level of taxable income in our various legal entities and the resulting effective tax rate on the Company's FFO. The determination of FFO includes a deduction for current income tax expense and does not include deferred income tax expense. As a result, the effective tax rates on FFO can be impacted by: adjustments to estimates of annual deferred timing differences, particularly when dealing with cash-based tax items versus accounting accruals; changes in the proportion of earnings between taxable and non-taxable entities; book-to-file adjustments for prior year filings; and the ability to utilize loss carryforwards. In 2021, the Company expects the effective tax rate on FFO will be in the range of 13% to 15%. However, the continuing impact of the COVID-19 pandemic on the Company's operations and financial results may impact the effective tax rate on FFO.

Maintenance capex was $7.6 million for Q4 2020 as compared to $6.0 million for Q4 2019 and to $2.4 million for Q3 2020, representing 2.5%, 2.1% and 0.8% of revenue, respectively. Maintenance capex was $13.9 million for the year ended December 31, 2020, as compared to $12.3 million for the year ended December 31, 2019, representing 1.2% and 1.1% of revenue, respectively. These costs fluctuate on a quarterly and annual basis with the timing of projects and seasonality.

Reconciliations of Net Cash from Operating Activities and Adjusted EBITDA to AFFO

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

	Three months ended December 31		Year ended December 31	
(thousands of dollars)	**2020**	**2019**	**2020**	**2019**
Net cash from operating activities	**46,387**	4,996	**121,265**	45,190
Add (Deduct):				
Net change in operating assets and liabilities, including interest, taxes and payments for U.S. self-insured liabilities	**(17,847)**	12,419	**(32,562)**	17,215
Current income tax on items excluded from AFFO (1)	—	(1,299)	**10**	(1,579)
Depreciation for office leases (2)	**(610)**	(621)	**(2,489)**	(2,588)
Depreciation for FFEC (maintenance capex) (3)	**(1,868)**	(1,855)	**(7,520)**	(6,898)
Additional maintenance capex (3)	**(5,705)**	(4,173)	**(6,346)**	(5,414)
Principal portion of government capital funding	**1,447**	1,369	**5,792**	5,486
Amounts offset through investments held for self-insured liabilities (4)	—	529	**1,017**	1,188
AFFO	**21,804**	11,365	**79,167**	52,600

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

(2) Represents depreciation related to office leases under IFRS 16.

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

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

The following provides a reconciliation of "Adjusted EBITDA" to AFFO.

	Three months ended December 31			Year ended December 31		
(thousands of dollars unless otherwise noted)	**2020**	**2019**	**Change**	**2020**	**2019**	**Change**
Adjusted EBITDA	**41,046**	23,527	17,519	**133,138**	92,299	40,839
Add (Deduct):						
Depreciation for FFEC (maintenance capex) (1)	**(1,868)**	(1,855)	(13)	**(7,520)**	(6,898)	(622)
Depreciation for office leases (2)	**(610)**	(621)	11	**(2,489)**	(2,588)	99
Accretion costs	**(315)**	(303)	(12)	**(1,237)**	(1,195)	(42)
Interest expense	**(7,109)**	(7,623)	514	**(28,478)**	(28,733)	255
Interest revenue	**597**	1,004	(407)	**2,681**	3,688	(1,007)
	31,741	14,129	17,612	**96,095**	56,573	39,522
Current income tax expense (3)	**7,280**	1,075	6,205	**21,623**	8,552	13,071
FFO (continuing operations)	**24,461**	13,054	11,407	**74,472**	48,021	26,451
Amortization of deferred financing costs	**489**	436	53	**2,010**	1,714	296
Accretion costs	**315**	303	12	**1,237**	1,195	42
Non-cash share-based compensation	**797**	376	421	**2,002**	1,598	404
Principal portion of government capital funding	**1,447**	1,369	78	**5,792**	5,486	306
Additional maintenance capex (1)	**(5,705)**	(4,173)	(1,532)	**(6,346)**	(5,414)	(932)
AFFO	**21,804**	11,365	10,439	**79,167**	52,600	26,567

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

(2) Represents depreciation related to office leases under IFRS 16.

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

LIQUIDITY AND CAPITAL RESOURCES

Sources and Uses of Cash

The following summarizes the sources and uses of cash between continuing and discontinued operations for 2020 and 2019.

	Year ended December 31, 2020			Year ended December 31, 2019		
(thousands of dollars unless otherwise noted)	**Continuing**	**Discontinued**	**Total**	**Continuing**	**Discontinued**	**Total**
Net cash from (used in) operating activities	**127,294**	**(6,029)**	**121,265**	58,919	(13,729)	45,190
Net cash from (used in) investing activities	**(4,028)**	**6,029**	**2,001**	(960)	13,729	12,769
Net cash used in financing activities	**(38,163)**	—	**(38,163)**	(28,668)	—	(28,668)
Foreign exchange gain (loss) on U.S. cash held	**396**	—	**396**	(727)		(727)
Increase in cash and cash equivalents	**85,499**	—	**85,499**	28,564	—	28,564
Cash and cash equivalents at beginning of year	**94,457**	—	**94,457**	65,893		65,893
Cash and cash equivalents at end of period	**179,956**	—	**179,956**	94,457	—	94,457

As at December 31, 2020, the Company had cash and cash equivalents on hand of $180.0 million, reflecting an increase in cash of $85.5 million from the beginning of the year. Cash flow generated from operating activities of the continuing operations of $127.3 million was in excess of cash dividends paid of $41.3 million.

Net cash from operating activities of the continuing operations was a source of cash of $127.3 million for the year ended 2020, up $68.4 million or 116.0% as compared to a source of cash of $58.9 million for the year ended 2019, due to the increase in earnings and a favourable net change in working capital between periods. Accounts payable and accrued liabilities increased primarily due to deferred funding related to COVID-19 and timing of income tax payments and payroll cycles. This was partially offset by an increase in other assets and accounts receivable, primarily due to an increase in PPE inventory and timing of payments and funding in connection with pandemic pay programs.

Net cash from investing activities of the continuing operations was a use of cash of $4.0 million for the year ended 2020 as compared to a use of cash of $1.0 million for the year ended 2019. The 2020 activity included purchases of property, equipment and other intangible assets of $33.1 million, partially offset by the repatriation of $23.3 million (US$17.0 million) from the Captive and collection of other assets of $5.8 million. The 2019 activity included purchases of property, equipment and other intangible assets of $33.2 million, partially offset by the repatriation of cash of $26.7 million (US$20.0 million) from the Captive and collection of other assets of $5.5 million.

The table that follows summarizes the capital expenditures. Growth capex relates to the construction of new beds, building improvements, IT projects, or other capital projects, all of which are aimed at earnings growth. Maintenance capex relates to the actual capital expenditures incurred to sustain and upgrade existing property and equipment.

	Year ended December 31	
(thousands of dollars)	**2020**	**2019**
Growth capex	**19,234**	21,595
Deduct: capitalized interest	—	(725)
Growth capex, excluding capitalized interest	**19,234**	20,870
Maintenance capex	**13,866**	12,312
	33,100	33,182

Management monitors and prioritizes the capital expenditure requirements of its properties throughout the year, taking into account the urgency and necessity of the expenditure. In 2021, the Company expects to spend in the range of $14.0 million to $16.0 million in maintenance capex and in the range of $60.0 million to $70.0 million in growth capex related primarily to the construction of the 256-bed Sudbury LTC home, redevelopment activities and investments in technology as part of our ongoing strategy of transitioning our key IT platforms to the cloud to support our growth initiatives. Depending on the timing of further announcements of our LTC redevelopment projects during 2021 the level of our growth capex could change.

Net cash from financing activities of the continuing operations was a use of cash of $38.2 million for the for the year ended 2020, an increase of $9.5 million from $28.7 million for the year ended 2019. The 2020 activity included new debt of $62.4 million, which included the refinancing of a $25.8 million construction loan, and draws on construction financing of $4.3 million, offset by debt repayments of $55.4 million, cash dividends paid of $41.3 million and financing costs. The 2019 activity included debt repayments of $35.7 million, cash dividends paid of $37.2 million, partially offset by new mortgages on retirement communities of $25.3 million and draws on construction financing of $20.7 million.

Discontinued operations reflect the payment of claims for U.S. self-insured liabilities and the Captive's costs to administer and manage the settlement of the claims as a component of net cash from operating activities, which payments and costs were funded by the Captive. Changes in the Captive's investments held for U.S. self-insured liabilities, prior to its deregistration, were reported as a component of net cash from investing activities, as those invested funds were not included in the Company's cash and cash equivalents (refer to "Discontinued Operations").

Capital Structure

SHAREHOLDERS' EQUITY

Total shareholders' equity as at December 31, 2020, was $128.2 million as compared to $115.4 million at December 31, 2019. The improvement was primarily attributable to contributions from net earnings and dividend reinvestments pursuant to the Company's Dividend Reinvestment Plan (the "DRIP"), partially offset by dividends declared of $43.0 million.

As at December 31, 2020, the Company had 89.5 million Common Shares issued and outstanding (carrying value – $500.6 million) as compared to 89.2 million Common Shares (carrying value – $498.1 million) as at December 31, 2019. The increase in Common Shares was attributable to dividend reinvestments pursuant to the DRIP (231,813 Common Shares) and shares issued under the Company's equity-based compensation plan (74,760 Common Shares).

Share Information ***(thousands)***	**February 24, 2021**	**December 31, 2020**	**December 31, 2019**
Common Shares (TSX symbol: EXE) [(1)]	**89,539.1**	**89,539.1**	89,232.5

(1) Closing market value per the TSX on February 24, 2021, was $6.59.

As at February 25, 2021, the Company had an aggregate of 4,264,152 Common Shares reserved and available for issuance pursuant to the Company's long-term incentive plan, of which there were in aggregate 1,076,818 performance share units and deferred share units outstanding as at December 31, 2020 (refer to *Note 11* of the audited consolidated financial statements).

As at February 25, 2021, the Company had $126.5 million in aggregate principal amount of convertible subordinate debentures outstanding that mature in April 2025 (the "2025 Debentures"), which in the aggregate are convertible into 10,326,531 Common Shares.

Dividend Reinvestment Plan

The Company has a DRIP pursuant to which shareholders who are Canadian residents may elect to reinvest their cash distributions in additional Common Shares at a 3% discount. During the year ended December 31, 2020, pursuant to the DRIP, the Company issued Common Shares at a value of $1.7 million as compared with $5.4 million in the same prior year period.

On March 19, 2020, the Company announced the suspension of the DRIP in respect of any future declared dividends until further notice, as the Company believes it is in the best interests of the Company and its shareholders to not issue shares at current prices. 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.

Dividends

The Company declared cash dividends of $0.48 per share in the year ended December 31, 2020, consistent with that declared in the same 2019 period, representing dividends declared of $43.0 million and $42.7 million in each period respectively.

Normal Course Issuer Bid (NCIB)

During 2020, and prior to its expiration on January 14, 2021, the Company did not purchase any Common Shares under its NCIB that commenced on January 15, 2020, for which it sought and received approval from the TSX to purchase for cancellation up to 8,000,000 Common Shares. During 2019, the Company did not purchase any Common Shares under its NCIB that expired on January 14, 2020, for which it sought and received approval from the TSX to purchase for cancellation up to 8,830,000 Common Shares.

Long-term Debt

Long-term debt totalled $564.6 million as at December 31, 2020, as compared to $556.3 million as at December 31, 2019, representing an increase of $8.3 million, due to new debt of $62.4 million, which included the refinancing of a $25.8 million construction loan, draws on construction loans of $4.3 million and an increase in lease liabilities, partially offset by debt repayments of $55.4 million and an increase in deferred financing costs. The current portion of long-term debt as at December 31, 2020, was $71.4 million and included $43.1 million drawn on demand construction loans. The Company intends to fund repayments of construction loans from proceeds of permanent mortgage financing upon occupancy stabilization. The Company is subject to debt service coverage covenants on certain of its loans and was in compliance with all of these covenants as at December 31, 2020. Details of the components, maturities dates, terms and conditions of long-term debt are provided in *Note 9* of the audited consolidated financial statements.

CREDIT FACILITIES

The Company has two demand credit facilities totalling $112.3 million, one of which is secured by 13 Class C LTC homes in Ontario and the other is secured by the assets of the home health care business. Neither of these facilities has financial covenants but do contain normal and customary terms. As at December 31, 2020, $35.6 million of the facilities secure the Company's defined benefit pension plan obligations and $5.4 million was used in connection with obligations relating to LTC homes and retirement communities, leaving $71.3 million available.

LONG-TERM DEBT KEY METRICS

The following table presents the principal, or notional, amounts and related weighted average interest rates by year of maturity, of the Company's long-term debt obligations as at December 31, 2020. The Company had an aggregate of $43.1 million drawn on construction loans at the end of 2020, which are repayable on demand and, in any event, are to be fully repaid by the earlier of achieving stabilized occupancy as defined by the agreements and specified dates. Consequently, these loans are reflected as current and due in 2021 in the following table. Permanent financing for each of the communities may be sought upon maturity of the construction financing.

(millions of dollars unless otherwise noted)	2021	2022	2023	2024	2025	After 2025	Total	Fair Value
Convertible Debentures (at face value)								
Fixed rate	—	—	—	—	126.5	—	**126.5**	128.4
Average interest rate	— %	— %	— %	— %	5.00 %	— %	**5.00 %**	
Long-term Debt								
Fixed rate (including fixed through swap)	18.3	62.0	57.5	8.5	25.1	137.9	**309.4**	332.1
Average interest rate	3.80 %	3.50 %	4.00 %	4.10 %	4.00 %	4.20 %	**3.82 %**	
Variable rate	44.0	0.9	0.9	0.9	19.3	—	**66.0**	67.0
Average interest rate	2.70 %	2.64 %	2.64 %	2.64 %	2.64 %	— %	**2.68 %**	
Lease Liabilities								
Fixed rate	11.1	10.3	10.5	10.9	11.4	23.6	**77.8**	86.9
Average interest rate	6.55 %	6.60 %	6.60 %	6.58 %	6.52 %	6.36 %	**6.55 %**	

Management has limited the amount of debt that may be subject to changes in interest rates, with only $22.9 million of mortgage debt and $43.1 million of construction loans at variable rates. The Company's other variable-rate mortgages and term loan aggregating $88.1 million as at December 31, 2020, have effectively been converted to fixed-rate financings with interest rate swaps over the full term. As at December 31, 2020, the interest rate swaps were valued as a liability of $2.6 million.

The following summarizes key metrics of consolidated long-term debt as at December 31, 2020, and December 31, 2019.

(thousands of dollars unless otherwise noted)	December 31, 2020	December 31, 2019
Weighted average interest rate of long-term debt outstanding	**4.3 %**	4.7 %
Weighted average term to maturity of long-term debt outstanding	**6.4 yrs**	6.7 yrs
Trailing twelve months consolidated net interest coverage ratio(1)	**5.2 X**	3.5 X
Trailing twelve months consolidated interest coverage ratio(2)	**4.7 X**	3.1 X
Debt to Gross Book Value (GBV)		
Total assets (carrying value)	**963,127**	888,800
Accumulated depreciation on property and equipment	**269,947**	251,403
Accumulated amortization on other intangible assets	**30,445**	23,951
GBV	**1,263,519**	1,164,154
Debt (3)	**579,654**	570,536
Debt to GBV	**45.9 %**	49.0 %

(1) Net interest coverage ratio is defined as Adjusted EBITDA divided by net interest (interest expense before reduction of capitalized interest, net of interest revenue)

(2) Interest coverage ratio is defined as Adjusted EBITDA divided by interest expense before reduction of capitalized interest.

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

Future Liquidity and Capital Resources

The Company's consolidated cash and cash equivalents on hand was $180.0 million as at December 31, 2020, as compared with $94.5 million as at December 31, 2019, representing an increase of $85.5 million. In addition, the Company has access to a further $71.3 million in undrawn demand credit facilities. Cash and cash equivalents exclude restricted cash of $2.5 million.

As discussed under "Significant Events – Financing Activity", during the year ended December 31, 2020, the Company renewed and extended non-CMHC mortgages on three LTC homes and finalized new non-CMHC mortgages on two retirement communities. The Company also renewed one CMHC mortgage on a LTC home and finalized a new CMHC mortgage on a retirement community to replace a construction loan. As a result of these financing activities, the Company does not have any scheduled debt maturities until Q1 2022.

Construction began on our first LTC redevelopment project in Sudbury, Ontario in November 2020. We have an additional five projects in advanced stages of approvals with the MLTC that we anticipate having under construction by the end of 2022. We intend to leverage our strong liquidity as at December 31, 2020, to pursue competitive construction financing options for these projects as required based on the timing of the construction costs of approved projects and the anticipated timing of additional future approvals from the MLTC.

Management believes that cash from operating activities and future debt financings will be sufficiently available to support the Company's ongoing business operations, maintenance capex and debt repayment obligations. Growth through redevelopment of the LTC homes over the next few years, strategic acquisitions and developments will necessitate the raising of funds through debt, equity financings and/or among other means. Decisions will be made on a specific transaction basis and will depend on market and economic conditions at the time. However, given COVID-19's potential impact on the Company's financial performance and operations, as well as on the economy such that capital and credit markets and industry sentiment are adversely affected, it may be more difficult for the Company to access the necessary capital or credit markets or if able to do so, at a higher cost or less advantageous terms than existing borrowings. In addition, reduced revenue and higher operating costs due to COVID-19 may result in reductions or early prepayments of existing financings if covenants are unable to be met (refer to "Risks and Uncertainties").

OTHER CONTRACTUAL OBLIGATIONS AND CONTINGENCIES

Commitments

As at December 31, 2020, the Company has outstanding commitments of $45.4 million in connection with the construction contract related to its new 256-bed LTC home in Sudbury, Ontario, of which $25.9 million is estimated to be payable in 2021 and the balance in 2022, based on the anticipated construction schedule. The Company also has outstanding commitments of $19.8 million in connection with a five-year agreement in connection with a finance and human resources cloud-based IT platform as part of our ongoing strategy of transitioning our key IT platforms to the cloud to support our growth initiatives. Payments under the agreement are due annually in advance and the agreement expires in 2025.

Defined Benefit Pension Plan Obligations

The Company has benefit arrangements for certain of its executives, which include a registered defined benefit pension plan, as well as supplementary plans that provide pension benefits in excess of statutory limits and post-retirement health and dental benefits. These plans have been closed to new entrants for several years. The accrued benefit liability on the statement of financial position as at December 31, 2020, was $37.9 million (2019 – $36.5 million). The registered defined benefit plan was in an actuarial deficit of $2.7 million, with plan assets of $4.6 million and accrued benefit obligations of $7.3 million as at December 31, 2020 (2019 – an actuarial deficit of $2.8 million with plan assets of $5.3 million and accrued benefit obligations of $8.1 million). The accrued benefit obligations of the supplementary plans were $35.9 million as at December 31, 2020 (2019 – $33.7 million). The benefit obligations under the supplementary plans are secured by a letter of credit totalling $35.6 million as at December 31, 2020 (2019 – $38.1 million) and plan assets of $0.7 million (2019 – $nil). The letter of credit renews annually in May based on an actuarial valuation of the pension obligations. The annual benefit payments under the supplementary pension plan are funded from cash from operations and are expected to be in the range of $2.1 million to $2.3 million over the next five years. The annual contributions to the registered pension plan are less than $0.1 million. Since the majority of the accrued benefit obligations represent obligations under the non-registered supplementary plan, which is not required to be funded, changes in future market conditions are not expected to have a material adverse effect on the Company's cash flow requirements with respect to its pension obligations, or on its pension expense. Further details are provided in *Note 21* of the audited consolidated financial statements.

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 Company intends to vigorously defend itself against these claims. However, given the status of the proceedings the Company is unable to assess the potential outcome of legal proceedings and they could have a materially adverse impact on the Company's business, results of operations and financial condition (refer to "Risks and Uncertainties").

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

In December 2020, the Company was served with a statement of claim naming the Company and the owner of a LTC home to which the Company provides contracted services, as well as certain entities related to the owner. The claim seeks an order certifying the claim as a class action and alleges negligence, gross negligence, breach of fiduciary duty, breach of contract and wrongful death 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.

In October 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 claim seeks aggregate damages of $600.0 million from the multiple defendants.

In October 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. In January 2021, the claim was amended to include further allegations of gross negligence and claim against 35 Company LTC homes and 36 LTC homes to which the Company provides contract services. The claim seeks an order certifying the action as a class action and damages in the aggregate amount of $210.0 million.

In June 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.

In September 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 claim was certified as a class action proceeding in September 2020.

DISCONTINUED OPERATIONS

After the sale of its U.S. business in 2015 (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.

As at June 30, 2020, there were no open general and professional liability claims remaining and the updated actuarial valuation of incurred but not reported claims as at June 30, 2020 was immaterial. As a result, the Board of Directors of the Captive approved a wind up plan to deregister the Captive with the Bermuda Monetary Authority (BMA) and subsequently dissolve the Captive, thereby 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.

In September 2020, the BMA approved the deregistration of the Captive. 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.

Effective June 30, 2020, the accrual for self-insured general and professional liabilities was reduced to $nil from $12.2 million (US$9.4 million) at the beginning of the year as a result of claims settlements, the transfer of certain remaining obligations of the Captive to the Company in accordance with a termination agreement and a release of the balance of the accrued self-insured liabilities. Any expense incurred or release of reserves for U.S. self-insured liabilities are presented as discontinued operations.

The Company held investments within the Captive for settlement of the U.S. self-insured liabilities that were subject to insurance regulatory requirements (December 31, 2019 – $27.6 million (US$21.2 million)), and as such were excluded from the Company's general corporate use. Following the receipt of approval by the BMA to deregister the Captive, the remaining balance of restricted cash was released to the Company. During 2020, the Captive transferred $23.3 million (US$17.0 million) of cash previously held for investment to the Company for general corporate use.

Earnings from Discontinued Operations

Earnings from discontinued operations were $1.9 million for Q4 2020 and $11.6 million for the year ended December 31, 2020, and included a release of reserves of $nil and $9.5 million, respectively, and a valuation change to indemnification provisions of $2.0 million in respect of the former U.S. operations . In comparison, earnings were $5.6 million for Q4 2019 and $13.8 million for the year ended December 31, 2019, and included a release of reserves of $5.2 million and $11.6 million, respectively. The balance of the earnings were impacted by administrative costs, and foreign exchange and fair value adjustments. Further details are provided in *Note 18* of the audited consolidated financial statements.

ACCOUNTING POLICIES AND ESTIMATES

Critical Accounting Policies and Estimates

A full discussion of the Company's critical accounting policies and estimates is provided in *Note 3* of the audited consolidated financial statements for the year ended December 31, 2020, and under the heading "Future Changes in Accounting Policies" that follows this section.

Management considers an understanding of the Company's accounting policies to be essential to an understanding of its financial statements because their application requires significant judgement and reliance on estimations of matters that are inherently uncertain, which affect the application of the accounting policies and reported amounts. Estimates and underlying assumptions are reviewed on an ongoing basis giving consideration to past experience and other factors that management believes are reasonable under the circumstances. Accordingly, actual results could differ from those estimated. The estimates and assumptions, which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities, are discussed below.

VALUATION OF CASH GENERATING UNITS AND IMPAIRMENT

Non-financial assets consist of property and equipment, intangible assets with finite lives, intangible assets with indefinite lives and goodwill. Property and equipment represents approximately 55% of the Company's total assets as at December 31, 2020, and goodwill and other intangibles represent approximately 9%. A CGU is defined to be the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets. The Company has identified the home health care segment and each individual LTC home and retirement community as a CGU.

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

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

During 2020, the Company performed an impairment assessment of its operations and recognized a pre-tax impairment charge of property and equipment in the amount of $2.8 million in respect of certain of the Company's retirement communities in Saskatchewan.

TAX UNCERTAINTIES

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

DEFERRED TAX ASSETS AND LIABILITIES

The Company uses the asset and liability method of accounting for deferred income taxes, which takes into account the differences between financial statement treatment and tax treatment of certain transactions, assets and liabilities. Deferred tax assets and liabilities are recognized to reflect the expected future tax consequences attributed to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax values as well as available tax loss carryforwards. Deferred tax assets and liabilities are measured using the substantively enacted tax rates anticipated to apply in the periods that the temporary differences are expected to be recovered or settled. 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. As at December 31, 2020, the Company had recognized deferred tax assets totalling $15.8 million (2019 – $12.7 million). Management believes that it is more likely than not that the Company will realize the benefits of these deductible differences. In addition, as at December 31, 2020, there were capital losses available for Canadian income tax purposes of $51.3 million (2019 – $41.7 million) that have not been tax benefited and are available indefinitely to apply against future capital gains.

New Accounting Policies Adopted

Beginning on January 1, 2020, the Company adopted certain IFRS standards and amendments in preparing the financial results for the year ended December 31, 2020, the nature and effect of which are provided in *Note 3* of the audited consolidated financial statements, and described below:

DEFINITION OF A BUSINESS

Beginning on January 1, 2020, The Company adopted the IASB issued amendments 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 a 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.

Future Changes in Accounting Policies

The following accounting standards, amendments and interpretations will take effect for the Company after December 31, 2020, the nature and effect of which are provided in *Note 3* of the audited consolidated financial statements, and described below:

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 CONCESSION 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.

Disclosure Controls and Procedures

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

An evaluation of the effectiveness of the DC&P was conducted as at December 31, 2020, by management under the supervision of the Company's CEO and CFO. Based on this evaluation, the CEO and CFO have concluded that the Company's disclosure controls and procedures, as defined by National Instrument 52-109, Certification of Disclosures in Issuers' Annual and Interim Filings, were effective as at December 31, 2020.

Internal Control over Financial Reporting

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

Management, under the supervision of the Company's CEO and CFO, has evaluated the effectiveness of our ICFR using the 2013 Integrated Control framework as published by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management has concluded that our ICFR were effective and that there were no material weaknesses in the Company's ICFR as at December 31, 2020.

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

NON-GAAP MEASURES

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

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

References to "EBITDA" in this document are to earnings (loss) from continuing operations before net finance costs, income taxes, depreciation and amortization. References to "Adjusted EBITDA" in this document are to EBITDA adjusted to exclude the line item "other expense", and as a result, is equivalent to the line item "earnings before depreciation, amortization, and other expense" reported on the consolidated statements of earnings. References to "Adjusted EBITDA Margin" are to Adjusted EBITDA as a percentage of revenue. Management believes that certain lenders, investors and analysts use EBITDA, Adjusted EBITDA and Adjusted EBITDA margin to measure a company's ability to service debt and meet other payment obligations, and as a common valuation measurement.

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

"Funds from Operations", or "FFO", is defined as Adjusted EBITDA less depreciation for furniture, fixtures, equipment and computers, or "depreciation for FFEC", depreciation for office leases, accretion costs, net interest expense and current income taxes. Depreciation for FFEC is considered representative of the amount of maintenance (non-growth) capital expenditures, or "maintenance capex", to be used in determining "Funds from Operations", as the depreciation term is generally in line with the life of these assets. FFO is a recognized earnings measure that is widely used by public real estate entities, particularly by those entities that own and/operate income-producing properties. Management believes that certain investors and analysts use FFO, and as such has included FFO to assist with their understanding of the Company's operating results.

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

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

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

References to "NOI Yield" in this document are to a financial measure used by the Company to assess its return on investment in development activities. NOI Yield is defined by the Company as the estimated stabilized NOI of a development property in the first year it achieves expected stabilized occupancy, plus the annual construction funding subsidy (CFS) for certain LTC homes, if applicable, divided by the estimated Adjusted Development Costs, as defined below. Management believes that this is a relevant measure of the Company's total economic return of a development project.

"Adjusted Development Costs" is defined as development costs on a GAAP basis (which includes the cost of land, hard and soft development costs, furniture, fixtures and equipment) plus/minus cumulative net operating losses/earnings generated by the development property prior to achieving expected stabilized occupancy, plus an estimated imputed cost of capital during the development period through to the expected stabilized occupancy, net of any capital development government grant receivable on substantial completion of construction for certain LTC homes, if applicable.

Reconciliations of "earnings (loss) from continuing operations before income taxes" to "Adjusted EBITDA" and "net operating income" are provided under "Select Quarterly Financial Information", "2020 Fourth Quarter Financial Review " and "2020 Financial Review".

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

Reconciliations of "net cash from operating activities" and "Adjusted EBITDA" to "AFFO" are provided under "Adjusted Funds from Operations – Reconciliations of Net Cash from Operating Activities and Adjusted EBITDA to AFFO".

RISKS AND UNCERTAINTIES

The risks and uncertainties described below could adversely affect the business, results of operations and financial condition of the Company, cause the trading price of the Company's securities to decline and cause the actual outcome of matters to differ materially from the expectations of the Company regarding future results, performance or achievements reflected in information in this MD&A and other information provided by the Company from time to time. The risks and uncertainties described below, which is not an exhaustive description of the risks and uncertainties faced by the Company, should be carefully considered by investors.

General Business Risks

The Company is subject to general business risks inherent in the senior care industry, including: changes in government regulation and oversight; changing consumer preferences; fluctuations in occupancy levels and business volumes; the availability and ability of the Company to attract and retain qualified personnel; the ability of the Company to renew its government licenses and customer contracts; changes in government funding and reimbursement programs, including the ability to achieve adequate government funding increases; changes in labour relations and costs; increases in other operating costs; competition from other senior care providers; changes in neighbourhood or location conditions and general economic conditions; health related risks, including disease outbreaks (for example, the potential continued impacts of COVID-19) and control risks; changes in accounting principles and policies; the imposition of increased taxes or new taxes; capital expenditure requirements; and changes in the availability and cost of both short- and long-term financing, which may render refinancing of long-term debt difficult or unattractive. Any one of, or a combination of, these factors may adversely affect the business, results of operations and financial condition of the Company.

In addition, there are inherent legal, reputational and other risks involved in providing accommodation and health care services to seniors. The vulnerability and limited mobility of some seniors enhances such risks. Such risks include fires or other catastrophic events at a Company location which may result in injury or death, negligent or inappropriate acts by employees or others who come into contact with the residents and clients, and unforeseen events at locations at which the Company operates that result in damage to the Company's brand or reputation or to the industry as a whole.

Risks Related to a Pandemic, Epidemic or Outbreak of a Contagious Illness, such as COVID-19

The occurrence of a pandemic, epidemic, or other outbreak of an infectious illness or other public health crisis in areas in which we operate could have a material adverse effect on the business, results of operations and financial condition of the Company. Federal, provincial or local health agencies may, or we may choose to, ban or limit admissions to our LTC homes and retirement communities and/or suspend or limit the home health care services we provide as a precautionary measure in a crisis to avoid the spread of a contagious illness or other public health crisis, resulting in reduced occupancy and service volumes, on both a short and longer term basis. Even in the absence of any such ban, limit or suspension, our clients may postpone or refuse services or delay residency in an attempt to avoid possible exposure. Also, enhanced procedures, protocols and care put in place to assist in reducing the likelihood of exposure or address actual illness in our LTC homes and retirement communities or in respect of home health care clients (for example, enhanced screening and protective equipment) would result in increased costs. In addition, a pandemic, epidemic or other outbreak might adversely impact our operations by causing staffing and supply shortages. Although continued or enhanced government funding or assistance may mitigate some of these impacts, there is no certainty the extent to which that will be the case. In addition, outbreaks cause our facilities and our management to spend considerable time planning for and addressing such events, which diverts their attention from other business concerns. Also, to the extent a pandemic, epidemic or other outbreak results in adverse outcomes for the Company's residents, clients and employees, the likelihood of claims being brought against the Company in respect of such adverse outcomes as well as adverse regulatory changes being instituted increases, and the ability and cost of insuring against such claims may become more challenging. Further, such outbreaks may impact the overall economy so that credit markets are adversely affected, which may make it more difficult for the Company to access the credit markets or, if able to do so, at a higher cost or less advantageous terms, potentially impacting, among other things, re-financings and our development plans and timelines.

On March 11, 2020, the World Health Organization declared the outbreak of a strain of novel coronavirus disease, COVID-19, a global pandemic. The pandemic has resulted in a number of the foregoing events to transpire (see "Significant Events – Impact of COVID-19 Pandemic" for further details), and while we believe that the financial impacts of COVID-19 that we are experiencing will largely reverse as we emerge from the pandemic, there can be no assurance that they will so reverse and that COVID-19 or any other pandemic, epidemic or outbreak will not have a material adverse effect on the business, results of operations and financial condition of the Company.

Risks Related to Growth and Redevelopment Activities

The Company expects that it will continue to have opportunities to acquire businesses and properties, develop properties, redevelop or expand existing LTC homes, and grow its home health care, private-pay retirement, contract services, consulting and group purchasing businesses, but there can be no assurance that this will be the case.

The number of licensed LTC beds are restricted by the provinces and any new licenses are awarded through a request for proposal process. The provinces also regulate the manner in which LTC homes are developed and redeveloped. If regulatory approvals are required in order to expand operations (via development or otherwise) or redevelop operations of the Company, the inability of the Company to obtain the necessary approvals, changes in standards applicable to such approvals and possible delays and expenses associated with obtaining such approvals could adversely affect the ability of the Company to expand or redevelop and, accordingly, to maintain or increase its revenue and earnings.

Approximately 40% of the Company's owned LTC beds are in older Ontario homes that are subject to redevelopment. In Ontario, licenses for LTC homes are issued for a fixed term of not more than 30 years, after which the license may or may not be renewed. LTC operators are to be notified of license renewals at least three years prior to the maturity date. License terms for Class B and C LTC homes in Ontario are set to expire in June 2025, unless the license terms are extended until the homes are redeveloped to the government's new design standards whereafter a new license will be issued upon successful application. Given the significant backlog in demand for long-term care, the lack of alternative care environments and license extension precedents to-date, management is of the view that it is likely that licenses will be extended until redevelopment can be completed; however, there can be no assurance that this will be the case. The Company has submitted applications to the MLTC in respect of 22 projects to build over 4,200 beds to redevelop its existing 3,285 C beds and to add new LTC beds under the government's development program for new and replacement beds (see "Significant Events – Long-term Care Redevelopment"). The extent to which such redevelopment plans are not implemented or proceed on significantly different timing, terms or government funding than currently anticipated, could have a material adverse effect on the business, results of operations and financial condition of the Company.

The success of the business acquisition and development activities of the Company, including the expansion of its private-pay retirement operations, will be determined by numerous factors, including the ability of the Company to identify suitable acquisition targets, competition for acquisition and development opportunities, purchase price, ability to obtain external sources of funding or adequate financing on reasonable terms, the financial performance of the businesses or homes after acquisition or development, and the ability of the Company to effectively integrate and operate the acquired businesses or homes. Acquired businesses or homes, and development projects, may not meet financial or operational expectations due to the possibility that the Company has insufficient management expertise to engage in such activities profitably or without incurring inappropriate amounts of risk, unexpected costs or delays associated with their acquisition or development, as well as the general investment risks inherent in any real estate investment or business acquisition. Moreover, new acquisitions may require significant management attention, place additional demands on the Company's resources, systems, procedures and controls, and capital expenditures that would otherwise be allocated by the Company in a different manner to existing businesses. Any failure by the Company to identify suitable candidates for acquisition, successfully complete development projects, secure financing, or operate the new businesses effectively may have a material adverse effect on the business, results of operations and financial condition of the Company.

The success of the Company's ability to grow its contract services, consulting, group purchasing and home health care businesses will be determined by numerous factors, including the ability of the Company to retain, renew and secure new contracts, identify suitable markets, develop competitive services and marketing and pricing strategies, attract and retain residents and clients, and hire, retain and motivate key personnel. Changes in government funding policies and regulatory changes, the risks related to which are described below under "Risks Related to Government Funding and Regulatory Changes", in addition to the financial performance of these businesses, also impact the Company's growth potential. Any failure by the Company to grow or operate its businesses effectively may have a material adverse effect on the business, results of operations and financial condition of the Company.

Risks Related to Occupancy and Business Volumes

Senior care providers compete primarily on a local and regional basis with many other health care, long-term care and retirement living providers, including large publicly held companies, privately held companies, not-for-profit organizations, hospital-based LTC units, rehabilitation hospitals, home health care agencies, and rehabilitative therapy providers. The Company's ability to compete successfully varies from location to location and depends on a number of factors, including the number of competitors in the local market, the types of services available, the Company's local reputation for quality care, the commitment and expertise of its staff, the Company's local service offerings, the cost of care in each locality, and the physical appearance, location, age and condition of its residences. Increased competition could limit the Company's ability to attract and retain residents and clients and thus maintain or increase occupancy levels and business volumes. An inability to continue to attract residents and clients could have a material adverse effect on the business, results of operations and financial condition of the Company.

Risks Related to Government Funding and Regulatory Changes

The Company's earnings are highly reliant on government funding and reimbursement programs, and the effective management of staffing and other costs of operations, which are strictly monitored by government regulatory authorities. Given that the Company operates in a labour-intensive industry, where labour costs account for a significant portion of the Company's operating costs (approximately 86% in 2020, excluding estimated costs related to COVID-19 and CEWS), government funding constraints, or funding enhancements that are not commensurate with increased costs, could have a significant adverse effect on the Company's results from operations and cash flows. The Company is unable to predict whether governments will adopt changes in their funding and regulatory programs, and if adopted and implemented, the impact, if any, such changes will have on the Company's business, results of operations and financial condition.

Health care providers are subject to surveys, inspections, audits and investigations by government authorities to ensure compliance with applicable laws and licensure requirements of the various government funding programs. Long-term care operators and publicly funded home health care providers must comply with applicable regulations that, depending on the jurisdiction in which they operate, may relate to such matters as staffing levels, client care related operating standards, occupational health and safety, client confidentiality, billing and reimbursement, along with environmental and other standards. Retirement communities are also subject to extensive government regulation and oversight, licensure requirements and the potential for regulatory change. The government review process is intended to determine compliance with survey and certification requirements, and other applicable laws. Remedies for survey deficiencies can be levied based upon the scope and severity of the cited deficiencies and range from notices of deficiencies to revocation of licenses or termination of contracts. The revocation of a license by authorities or the cancellation of a service contract due to inadequate performance by the operator has been historically infrequent and is usually preceded by a series of warnings, notices and other sanctions.

Non-compliance with applicable laws and licensure requirements could result in adverse consequences, including severe penalties, which may include criminal sanctions and fines, civil monetary penalties and fines, administrative and other sanctions, including reimbursement of government funding or exclusion from participation in government-funded programs, or one or more third-party payor networks, and reputational damage to the Company. These penalties could have a material adverse effect on the business, results of operations and financial condition of the Company.

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 associated costs can be made; however, there can be no assurance that such accruals are accurate or sufficient.

With respect to home health care services, approximately 98% of ParaMed's revenue is from contracts tendered by locally administered provincial agencies, at specified billing rates and, among other things, quality operating and performance standards. Home health care service providers must ensure their key performance indicators are meeting or exceeding provincial targets in order to continue to receive their allocated funding volumes and/or retain their contracts. Contracts with qualified service providers are generally awarded through a competitive bidding model. Any failure by ParaMed to retain its government contracts, including in connection with any regulatory or other funding changes, may have a material adverse effect on the business, results of operations and financial condition of the Company.

The majority of ParaMed's volumes are generated in Ontario and Alberta, representing 93% and 4%, respectively, based on volumes delivered in 2020. In Alberta, government contracts have specified termination dates and or/renewal periods, following which they are put out to tender. Since 2012, ParaMed's government-funded business in Ontario has been obtained through evergreen contracts with the LHINs. A service provider's ability to retain its existing business is evaluated based on, among other things, an established set of quality indicators. Under this regime, all of ParaMed's government contracts in Ontario have remained in effect. In 2019, the Ontario government created the Ontario Health agency to act as central point of accountability and oversight for the provinces' public health care system. As a result, ParaMed's contracts with the LHINs may be impacted by the integration of the LHINs into the new agency and may need to be assigned or reissued. The treatment of these contracts is not yet known. While any change in home care contracting and associated government operating models would represent a significant change, the underlying market demand and government guiding principles, such as continuity of care between patients and caregivers, is such that it is likely that there would be minimal disruption to ParaMed's business service provision; however, the Company is unable to predict the nature and extent such changes will have on the Company's business, results of operations and financial condition.

Risks Related to Dependence on Key Personnel

The success of the Company depends, to a significant extent, on the efforts and abilities of its executive officers and other members of management, as well as its ability to attract and retain qualified personnel to manage existing operations and future growth. Although the Company has entered into employment agreements with certain of its key employees, it cannot be certain that any of these individuals will not voluntarily terminate his or her employment with the Company. The loss of an executive officer or other key employee could negatively affect the Company's ability to develop and pursue its business strategy, which could have a material adverse effect on the business, results of operations and financial condition of the Company.

CONFLICTS OF INTEREST

The Company's Board of Directors may, from time to time, in their individual capacities deal with parties with whom the Company may be dealing, or may be seeking investments similar to those desired by the Company. The relevant constating documents of the Company contain conflict of interest provisions requiring the Company's directors to disclose material interests in material contracts and transactions and to refrain from voting thereon.

Risks Related to Labour Intensive Business

AVAILABILITY AND COST OF PERSONNEL

The senior care industry is labour intensive, with approximately 86% of the Company's operating costs represented by labour costs, excluding estimated costs related to COVID-19 and CEWS. The Company competes with other health care providers in attracting and retaining qualified and skilled personnel to manage and operate its businesses. The health care industry has historically been afflicted with shortages of qualified personnel, such as nurses, certified nurse's assistants, nurse's aides, therapists and PSWs, particularly in non-urban settings, which have been amplified by the challenges brought on by the COVID-19 pandemic. This shortage along with general inflationary pressures may require the Company to enhance its pay and benefits package to compete effectively for qualified personnel. The Company may not be able to recover such added costs through increased government funding and reimbursement programs, or through increased rates charged to residents and clients. In addition, the Company has contracted out select dietary and housekeeping services provided in some of its homes. Should the Company become dissatisfied with the quality or cost of such contracted services, it may need to terminate the related contracts and recruit replacement staff at an incremental cost and potential business disruption. The inability to retain and/or attract qualified personnel and meet minimum staffing levels may result in: a reduction in occupancy levels and volume of services provided; the use of staffing agencies at added costs; an increased risk in the inability to provide continuity of care between the Company's staff and its residents and clients; and an increased risk of the Company being subject to fines and penalties. An increase in personnel costs or a failure to attract, train and retain qualified and skilled personnel could adversely affect the business, results of operations and financial condition of the Company.

WORKPLACE HEALTH AND SAFETY

The Company recognizes that ensuring a healthy and safe workplace minimizes injuries and other risks its employees may face in carrying out their duties, improves productivity and helps to minimize any liability or penalties which could be incurred in connection with workplace injuries. The Company has health and workplace safety programs in place and has established policies and procedures aimed at ensuring compliance with applicable legislative requirements. Failure to comply with appropriate and established workplace health and safety policies and procedures or applicable legislative requirements could result in increased workplace injury-related liability and penalties and reputational damage to the Company and thus have a material adverse effect on the business, results of operations and financial condition of the Company.

LABOUR RELATIONS

The Company employs over 23,000 individuals, of whom approximately 74% are represented by labour unions. Labour relations with the unions are governed by numerous collective bargaining agreements with different unions. Upon expiration of the collective bargaining agreements, the Company may not be able to negotiate collective agreements on satisfactory terms. There can be no assurance that the Company will not at any time, whether in connection with the renegotiation of a collective bargaining agreement or otherwise, experience strikes, other labour disruptions or any other type of conflict with unions or employees which could have a material adverse effect on the Company's business, operating results and financial condition. The homes that the Company operates are generally subject to legislation that prohibits both strikes and lock-outs, and requires compulsory arbitration to settle labour disputes. In jurisdictions where strikes and lockouts are permitted, certain essential services regulations apply which provide for the continuation of resident care and most services.

There can be no assurance that employees who are not currently unionized will not, in the future, become unionized, the result of which could increase the Company's labour costs, which could have a material adverse effect on the business, results of operations and financial condition of the Company.

Risks Related to Liability and Insurance

Operating in the senior care industry exposes the Company to an inherent risk of claims of wrongful death, personal injury, professional malpractice and other potential claims being brought by the Company's residents, clients, and employees. From time to time, the Company is subject to lawsuits alleging, among other claims, that the Company did not properly treat or care for a client or resident, that the Company failed to follow internal or external procedures that resulted in harm to a client or resident, or that the Company's employees mistreated the Company's residents or clients resulting in harm. In addition, attempts to advance class action lawsuits have become prevalent in the Canadian marketplace, including senior care, and in particular as a result of the COVID-19 pandemic. There can be no assurance that the Company will not face risks of this nature. Refer to the discussion under "Other Contractual Obligations and Contingencies – Legal Proceedings, Claims and Regulatory Actions".

The Company maintains business and property insurance policies in amounts and with such coverage and deductibles as deemed appropriate, based on the nature and risks of the business, historical experience and industry standards. There can be no assurance, however, that claims in excess of the insurance coverage, or in excess of the Company's reserves, or claims not covered by the insurance coverage will not arise or that the liability coverage will continue to be available on acceptable terms, particularly given the impact of the COVID-19 pandemic. Furthermore, there are certain types of risks, generally of a catastrophic nature, such as war, non-certified acts of terrorism, environmental contamination, and more recently infectious diseases, such as COVID-19, which are either uninsurable or are not insurable on an economically viable basis. A successful claim against the Company not covered by, or in excess of, such insurance, or in excess of the Company's reserves for self-insured retention levels, could have a material adverse effect on the business, results of operations and financial condition of the Company. Claims against the Company, regardless of their merit or eventual outcome, may also have a material adverse effect on the ability of the Company to attract residents and clients, or maintain favourable standings with regulatory authorities.

Risks Related to Privacy of Client Information and Cyber Security

As a custodian of a large amount of personal information, including health information, relating to its residents, clients and employees, the Company is exposed to the potential loss, misuse or theft of any such information. If the Company were found to be in violation of federal and provincial laws protecting the confidentiality of patient health information, it could be subject to sanctions and civil or criminal penalties, which could increase its liabilities, harm its reputation and have a material adverse effect on the business, results of operations and financial condition of the Company. In addition, cyber attacks against large organizations are increasing in sophistication and are often focused on financial fraud, compromising sensitive data for inappropriate use or disrupting business operations. The Company mitigates this risk by deploying appropriate information technology systems, including controls around logical access, physical access and data management, and training its employees relating to safeguarding of sensitive information.

The Company has deployed operational technology solutions enabling process automation, electronic health record data collection and automated business intelligence. Technology deployments also present security and privacy risks that must be managed proactively and effectively to prevent breaches that can have a material adverse impact on the Company's reputation and results of operations. To counter internet-based and internal security threats, the Company invests in cyber defense technologies to identify risks to its network, software and hardware systems. Extendicare partners with leading technology security firms to mitigate identified risks and develop contingency plans. As security threats to the Company's financial, client and employee data increase and evolve, the Company adjusts and adopts new counter-measures in an effort to ensure it maintains high privacy and security standards. The Company's risk and exposure to these matters cannot be fully mitigated because of, among other things, the evolving nature of these threats. As cyber threats continue to evolve, the Company may be required to expend additional resources to continue to modify or enhance protective measures or to investigate and remediate any security vulnerabilities.

Although to date the Company has not experienced any material losses relating to cyber attacks or other information security breaches, there can be no assurance that the Company will not incur such losses in the future and any such losses may have a material adverse effect on the business, results of operations and financial condition of the Company.

Risks Related to Tax Rules and Regulations

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

Risks Related to Financing

DEBT FINANCING

Due to the level of real property ownership by the Company, a significant portion of the consolidated cash flow of the Company is devoted to servicing debt, including mortgages, convertible debentures, credit facilities and lease liabilities, and there can be no assurance that the Company will continue to generate sufficient cash flow from operations to meet required interest and principal payments. If the Company were unable to meet its required interest or principal payments, it could be required to seek renegotiation of such payments or obtain additional equity, debt or other financing. In particular, given COVID-19's potential impact on the Company's financial performance and operations, as well as on the economy such that capital and credit markets and industry sentiment are adversely affected, it may be more difficult for the Company to access the necessary capital or credit markets or if able to do so, at a higher cost or less advantageous terms than existing borrowings. In addition, reduced revenue and higher operating costs due to COVID-19 may result in reductions or early prepayments of existing financings if covenants are unable to be met.

The Company has two demand credit facilities totalling $112.3 million, one of which is secured by 13 Class C LTC homes in Ontario ($47.3 million) and the other is secured by the assets of the home health care business ($65.0 million), of which $71.3 million was available and unutilized as at December 31, 2020. Neither of these facilities has financial covenants but do contain normal and customary terms, including annual re-appraisals of the homes that could limit the maximum level of the line of credit and other restrictions on Extendicare's subsidiaries making certain payments, investments, loans and guarantees. A demand for repayment of amounts drawn on the lines of credit could inhibit the flow of cash dividends by the Company on a temporary basis until alternative financing is obtained.

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

DEBT COVENANTS

The Company and its subsidiaries are in compliance with all of their respective financial covenants as at December 31, 2020. However, there can be no assurance that future covenant requirements will be met. The Company's bank lines and other debt may be affected by its ability to remain in compliance. If the Company does not remain in compliance with its financial covenants, its ability to amend the covenants or refinance its debt may be affected.

INTEREST RATES

The Company has limited the amount of debt that may be subject to changes in interest rates, with only $22.9 million of mortgage debt and $43.1 million of construction loans at variable rates as at December 31, 2020. The Company primarily finances its properties through fixed-rate mortgages and considers securing interest rate swap agreements for any variable-rate debt to mitigate exposure to interest rate changes. The Company's other variable-rate mortgages and term loan aggregating $88.1 million as at December 31, 2020, have effectively been converted to fixed-rate financings with interest rate swaps over the full term. The Company maintains risk management control systems to monitor interest rate risk attributable to its outstanding or forecasted debt obligations as well as any offsetting hedge positions. The Company does not enter into financial instruments for trading or speculative purposes.

Risks Related to Real Property Ownership

REAL PROPERTY OWNERSHIP

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

The Company owns, or operates under 25-year lease arrangements whereby ownership transfers at the end of the lease term, 100% of its LTC homes and retirement communities, excluding those to which it provides contract services. LTC homes and retirement communities are limited in terms of alternative uses; therefore, their values are directly driven by the cash flow from operations. All but 11 of the Company's 69 homes owned by it at December 31, 2020, are government-funded senior care homes. The value of the real property depends, in part, on government funding, license terms, and reimbursement programs. In addition, overbuilding in any of the market areas in which the Company operates could cause its homes to experience decreased occupancy or depressed margins, which could have a material adverse effect on the business, results of operations and financial condition of the Company. Moreover, certain significant expenditures relating to real property ownership, such as real estate taxes, maintenance costs and mortgage payments, represent liabilities that must be met regardless of whether the property is producing any income.

Real property investments are relatively illiquid, thereby limiting the ability of the Company to vary its portfolio in a timely manner in response to changed economic or investment conditions. By specializing in LTC homes and retirement communities, the Company is exposed to adverse effects on these segments of the real estate market. There is a risk that the Company would not be able to sell its real property investments or that it may realize sale proceeds below their current carrying value.

CAPITAL INTENSIVE INDUSTRY

The Company must commit a substantial portion of its funds to maintain and enhance its property and equipment to meet regulatory standards, operate efficiently and remain competitive in its markets. During 2020, the company incurred $13.9 million in maintenance capex, and expects to spend in the range of $14.0 million to $16.0 million in 2021 to sustain and upgrade its existing property and equipment. In addition to recurring maintenance capex, the Company invests in enhancements of existing properties aimed at earnings growth and improved profitability, including redevelopment of LTC homes under provincial programs. See "– Risks Related to Growth and Redevelopment Activities". These, as well as other future capital requirements, could adversely impact the amount of cash available to the Company and have a material adverse effect on the business, results of operations and financial condition of the Company.

Risks Related to Environmental, Health and Safety Laws

The Company is subject to various environmental, health and safety laws and regulations, both as an owner of real property and as a provider of health care services, governing the storage, handling, use, and disposal of equipment, materials and waste products. The Company may become liable for the costs of removal or remediation of certain hazardous, toxic, or regulated substances present at, released on or disposed of from its properties or other service locations, regardless of whether or not the Company knew of, or was responsible for, their presence, release or disposal. The failure to remove, remediate, or otherwise address such substances, if any, may adversely affect operations or the ability to sell such properties or to borrow using such properties as collateral, and could potentially result in claims by public or private parties, including by way of civil action, and have a material adverse effect on the business, results of operations and financial condition of the Company.

With respect to the Company's pre-1980 properties, management has determined that future costs could be incurred for possible asbestos remediation at these sites. 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. Based upon current assumptions, the estimated fair value of the decommissioning provision related to the asbestos remediation was approximately $10.2 million undiscounted, or $9.7 million discounted, as at December 31, 2020, refer to *Note 8* of the audited consolidated financial statements.

Environmental, health and safety laws may change and the Company may become subject to more stringent laws in the future. Compliance with more stringent environmental, health and safety laws, which may be more rigorously enforced, could have a material adverse effect on the business, results of operations and financial condition of the Company.

Risks Related to the Common Shares and Debentures

UNPREDICTABILITY AND VOLATILITY OF THE COMMON SHARE PRICE

A publicly traded company does not necessarily trade at values determined by reference to the underlying value of its business. The prices at which the Common Shares will trade cannot be predicted. The market price of the Common Shares could be subject to significant fluctuations in response to variations in quarterly operating results, dividends and other factors beyond the control of the Company. The annual yield on the Common Shares, represented as the ratio of annual dividend to the market price per Common Share, as compared to the annual yield on other financial instruments, may also influence the price of the Common Shares in the public trading markets. In addition, the securities markets have experienced significant price and volume fluctuations from time to time in recent years that often have been unrelated or disproportionate to the operating performance of particular issuers. These broad fluctuations may adversely affect the market price of the Common Shares.

CASH DIVIDENDS ARE NOT GUARANTEED AND MAY FLUCTUATE WITH THE PERFORMANCE OF THE COMPANY

The declaration and payment of dividends by the Company is at the discretion of the Board as to the amount and timing of dividends to be declared and paid, after consideration of a number of factors, including results of operations, requirements for capital expenditures and working capital, future financial prospects of the Company, debt covenants and obligations and any other factors deemed relevant by the Board. All of these factors are susceptible to a number of risks and other factors beyond the control of the Company. The amount of funds available for distribution will fluctuate with the performance of the Company. If the Board determines that it would be in the Company's best interests, it may reduce the amount and frequency of dividends to be distributed to Shareholders and such reductions may significantly effect the market value of the Common Shares.

A high dividend yield results in a higher cost of capital incurred by the Company in raising capital through the issue of Common Shares to fund future growth and equally can inhibit the ability of the Company to grow through acquisition or new developments. Therefore, the Board also has to balance the dividend yield relative to its growth plans and need to raise capital.

Funds available for dividends are driven by cash generated from operations and may be dependent upon the Company's plan for growth-based capital expenditures. The timing and amount of capital expenditures will directly affect the amount of cash available for dividends to Shareholders. Dividend payments to Shareholders may be reduced, or even eliminated, at times when the Company cannot access the capital markets for raising cash and/or when Directors deem it necessary to make significant capital or other expenditures. The Company may be required to reduce dividends or access the capital markets in order to accommodate these items. There can be no assurance that sufficient capital will be available on acceptable terms to the Company for necessary or desirable capital expenditures.

COMPANY STRUCTURE

The Company does not carry on business directly, but does so indirectly through its subsidiaries. The Company has no major assets of its own, other than the LTC homes that it leases to its subsidiary, Extendicare (Canada) Inc. (ECI), and the direct and indirect interests it has in its subsidiaries (including ECI, ParaMed and the subsidiaries that own and operate the Company's retirement communities), all of which are separate legal entities. The Company is therefore financially dependent on lease payments that it receives from ECI and dividends and other distributions it receives from all of its subsidiaries.

FUTURE ISSUES OF COMMON SHARES AND PREFERRED SHARES AND DILUTION

The Company's articles permit the issuance of an unlimited number of Common Shares and preferred shares of the Company (the "Preferred Shares"), issuable in series, equal to 50% of the number of Common Shares that are issued and outstanding, for the consideration and on the terms and conditions that the Board may determine without Shareholder approval. Shareholders have no pre-emptive rights in connection with such future issues. Future issues of Common Shares and/or Preferred Shares could be dilutive to the interests of Shareholders and could adversely affect the prevailing market price of the Common Shares.

LEVERAGE AND RESTRICTIVE COVENANTS IN CURRENT AND FUTURE INDEBTEDNESS

The ability of the Company to pay dividends is subject to applicable laws and contractual restrictions contained in the instruments governing any indebtedness of the Company (including its subsidiaries). The degree to which the Company is leveraged could have important consequences to Shareholders, including: (i) that the Company's ability to obtain additional financing in the future for working capital, capital expenditures or acquisitions may be limited; (ii) that a significant portion of the Company's cash flow from operations may be dedicated to the payment of the principal of, and interest on, its indebtedness; (iii) that certain of the Company's borrowings could be financed at variable rates of interest, which exposes the Company to the risk of increased interest rates; and (iv) that the Company may be more vulnerable to economic downturns and be limited in its ability to withstand competitive pressures. These factors may reduce funds available for the Company to pay dividends.

CHANGES IN THE COMPANY'S CREDITWORTHINESS MAY AFFECT THE VALUE OF THE COMMON SHARES

The perceived creditworthiness of the Company may affect the market price or value and the liquidity of the Common Shares.

MATTERS AFFECTING TRADING PRICES FOR THE DEBENTURES

The 2025 Debentures are listed on the TSX. No assurance can be given that an active or liquid trading market for the 2025 Debentures will develop or be sustained. If an active or a liquid market for the 2025 Debentures fails to develop or be sustained, the prices at which the 2025 Debentures trade may be adversely affected. Whether or not the 2025 Debentures will trade at lower prices depends on many factors, including liquidity of the 2025 Debentures, prevailing interest rates and the markets for similar securities, the market price of the Common Shares, general economic conditions, and the Company's financial condition, historic financial performance and future prospects.

The Company may determine to redeem outstanding 2025 Debentures for Common Shares or to repay outstanding principal amounts thereunder at maturity of the 2025 Debentures by issuing additional Common Shares. Accordingly, Shareholders may suffer dilution.

DEBENTURES – CREDIT RISK AND PRIOR RANKING INDEBTEDNESS; ABSENCE OF COVENANT PROTECTION

The likelihood that purchasers of the 2025 Debentures will receive payments owing to them under the terms of the 2025 Debentures will depend on the Company's financial condition and creditworthiness. In addition, the 2025 Debentures are unsecured obligations of the Company and are subordinate in right of payment to all of the Company's existing and future senior indebtedness. Therefore, if the Company becomes bankrupt, liquidates its assets, reorganizes or enters into certain other transactions, the Company's assets will be available to pay its obligations with respect to the 2025 Debentures only after it has paid all of its senior indebtedness in full. There may be insufficient assets remaining following such payments to pay amounts due on any or all of the 2025 Debentures then outstanding. The 2025 Debentures are also effectively subordinate to claims of creditors of the Company's subsidiaries except to the extent the Company is a creditor of such subsidiaries ranking at least pari passu with such other creditors. The trust indenture, pursuant to which the Company issued the 2025 Debentures (the "Indenture"), does not prohibit or limit the ability of the Company or its subsidiaries to incur additional debt or liabilities (including senior indebtedness) or to make distributions except in respect of distributions where an event of default caused by the failure to pay interest when due has occurred and such default has not been cured or waived. The Indenture does not contain any provision specifically intended to protect holders of 2025 Debentures in the event of a future leveraged transaction involving the Company or any of its subsidiaries.

CONVERSION OF THE DEBENTURES FOLLOWING CERTAIN TRANSACTIONS

In the case of certain transactions, the 2025 Debentures will become convertible into the securities, cash or property receivable by a Shareholder under the transaction. The change could substantially lessen or eliminate the value of the conversion privilege associated with the 2025 Debentures in the future. For example, if the Company were acquired in a cash merger, the 2025 Debenture would become convertible solely into cash and would no longer be convertible into securities whose value would vary depending on the Company's future prospects and other factors.

REDEMPTION OF THE DEBENTURES PRIOR TO MATURITY

The 2025 Debentures may be redeemed, at the option of the Company, at any time and from time to time, at a price equal to the principal amount thereof plus accrued and unpaid interest.

INABILITY OF THE COMPANY TO PURCHASE THE DEBENTURES IN CASH ON A CHANGE OF CONTROL

If a change of control of the Company occurs, debentureholders will have the right to require the Company to redeem the 2025 Debentures in an amount equal to 101% of the principal amount of the 2025 Debentures plus accrued and unpaid interest until the date of redemption. If holders of 2025 Debentures holding 90% or more of all the 2025 Debentures exercise their right to require the Company to redeem such 2025 Debentures, the Company may acquire the remaining 2025 Debentures on the same terms. In such event, the conversion privilege associated with the 2025 Debentures would be eliminated. Although the Company may be required to purchase all outstanding 2025 Debentures upon the occurrence of a change of control, it is possible that following a change of control, the Company will not have sufficient funds at that time to make any required purchase of outstanding 2025 Debentures or that restrictions contained in other indebtedness will restrict those purchases.