# INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AND NOTES

# Q1 2022

**Extendicare Inc.**
**Dated: May 12, 2022**

# Extendicare Inc.

## Interim Condensed Consolidated Financial Statements

**Three months ended March 31, 2022 and 2021**

# Extendicare Inc.

## Interim Condensed Consolidated Statements of Financial Position

(Unaudited)

| *(in thousands of Canadian dollars)* | *notes* | **March 31, 2022** | **December 31, 2021** |
|---|---|---|---|
| **Assets** | | | |
| Current assets | | | |
| Cash and cash equivalents | | **118,392** | 104,627 |
| Restricted cash | | **3,156** | 3,027 |
| Accounts receivable | | **50,976** | 69,435 |
| Income taxes recoverable | | **4,600** | 14,101 |
| Other assets | *5* | **25,518** | 26,468 |
| Assets held for sale | *14* | **230,216** | 7,262 |
| Total current assets | | **432,858** | 224,920 |
| Non-current assets | | | |
| Property and equipment | *3* | **327,032** | 535,600 |
| Goodwill and other intangible assets | *4* | **92,692** | 92,484 |
| Other assets | *5* | **31,792** | 32,892 |
| Deferred tax assets | | **16,770** | 14,427 |
| Total non-current assets | | **468,286** | 675,403 |
| **Total assets** | | **901,144** | 900,323 |
| **Liabilities and Equity** | | | |
| Current liabilities | | | |
| Accounts payable and accrued liabilities | | **200,165** | 192,994 |
| Income taxes payable | | **2,835** | 1,566 |
| Long-term debt | *7* | **24,680** | 73,577 |
| Liabilities directly associated with assets held for sale | *14* | **182,225** | 13,775 |
| Total current liabilities | | **409,905** | 281,912 |
| Non-current liabilities | | | |
| Long-term debt | *7* | **342,331** | 463,274 |
| Provisions | *6* | **11,846** | 11,312 |
| Other long-term liabilities | *8* | **26,401** | 33,106 |
| Deferred tax liabilities | | **10,877** | 8,796 |
| Total non-current liabilities | | **391,455** | 516,488 |
| **Total liabilities** | | **801,360** | 798,400 |
| Share capital | *10* | **500,877** | 500,877 |
| Equity portion of convertible debentures | *7* | **7,085** | 7,085 |
| Contributed surplus | *9* | **9,667** | 8,182 |
| Accumulated deficit | | **(409,083)** | (402,453) |
| Accumulated other comprehensive loss | | **(8,762)** | (11,768) |
| **Shareholders' equity** | | **99,784** | 101,923 |
| **Total liabilities and equity** | | **901,144** | 900,323 |

*See accompanying notes to unaudited interim condensed consolidated financial statements.*
*Commitments and contingencies (Note 15).*

# Extendicare Inc.

## Interim Condensed Consolidated Statements of Earnings

(Unaudited)

| | | Three months ended March 31, | |
|---|---|---|---|
| *(in thousands of Canadian dollars except for per share amounts)* | ***notes*** | **2022** | **2021**[(i)] |
| **CONTINUING OPERATIONS** | | | |
| **Revenue** | ***17*** | **305,710** | 294,861 |
| Operating expenses | | **272,734** | 258,542 |
| Administrative costs | | **13,413** | 12,541 |
| **Total expenses** | ***11*** | **286,147** | 271,083 |
| **Earnings before depreciation, amortization, and other expense** | | **19,563** | 23,778 |
| Depreciation and amortization | | **8,251** | 7,726 |
| **Earnings before net finance costs and income taxes** | | **11,312** | 16,052 |
| Net finance costs | ***12*** | **5,048** | 5,402 |
| **Earnings before income taxes** | | **6,264** | 10,650 |
| **Income tax expense (recovery)** | | | |
| Current | | **3,960** | 2,803 |
| Deferred | | **(1,741)** | 335 |
| Total income tax expense | | **2,219** | 3,138 |
| **Earnings from continuing operations** | | **4,045** | 7,512 |
| **DISCONTINUED OPERATIONS** | | | |
| Earnings from discontinued operations, net of income taxes | ***14*** | **75** | 811 |
| **Net earnings** | | **4,120** | 8,323 |
| **Basic and Diluted Earnings per Share** | | | |
| Earnings from continuing operations | ***13*** | **$0.04** | $0.08 |
| Net earnings | ***13*** | **$0.04** | $0.09 |

[(i)] *Comparative figures have been re-presented to reflect discontinued operations (Note 14).*

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

# Extendicare Inc.

## Interim Condensed Consolidated Statements of Comprehensive Income

(Unaudited)

| | Three months ended March 31, | |
|---|---|---|
| *(in thousands of Canadian dollars)* | **2022** | **2021** |
| **Net earnings** | **4,120** | 8,323 |
| **Other comprehensive income, net of taxes** | | |
| Items that will not be reclassified to profit or loss: | | |
| Defined benefit plan actuarial gains | **4,090** | 2,509 |
| Tax expense on defined benefit plan actuarial gains | **(1,084)** | (665) |
| Defined benefit plan actuarial gains, net of taxes | **3,006** | 1,844 |
| Items that are or may be reclassified subsequently to profit or loss: | | |
| Net change in foreign currency translation adjustment | **—** | 180 |
| Other comprehensive income, net of taxes | **3,006** | 2,024 |
| **Total comprehensive income** | **7,126** | 10,347 |

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

# Extendicare Inc.

## Interim Condensed Consolidated Statements of Changes in Equity

(Unaudited)

| *(in thousands of Canadian dollars, except for number of shares)* | **notes** | ***Number of shares*** | **Share capital** | **Equity portion of convertible debentures** | **Contributed surplus** | **Accumulated deficit** | **Accumulated other comprehensive loss** | **Shareholders' equity** |
|---|---|---|---|---|---|---|---|---|
| Balance at January 1, 2021 | | *89,539,085* | 500,577 | 7,085 | 4,916 | (370,963) | (13,427) | 128,188 |
| Share-based compensation | *9* | *23,414* | 300 | — | 358 | — | — | 658 |
| Net earnings | | — | — | — | — | 8,323 | — | 8,323 |
| Dividends declared | | — | — | — | — | (10,752) | — | (10,752) |
| Other comprehensive income | | — | — | — | — | — | 2,024 | 2,024 |
| Balance at March 31, 2021 | | *89,562,499* | 500,877 | 7,085 | 5,274 | (373,392) | (11,403) | 128,441 |

| *(in thousands of Canadian dollars, except for number of shares)* | **notes** | ***Number of shares*** | **Share capital** | **Equity portion of convertible debentures** | **Contributed surplus** | **Accumulated deficit** | **Accumulated other comprehensive loss** | **Shareholders' equity** |
|---|---|---|---|---|---|---|---|---|
| **Balance at January 1, 2022** | | ***89,562,499*** | **500,877** | **7,085** | **8,182** | **(402,453)** | **(11,768)** | **101,923** |
| **Share-based compensation** | ***9*** | **—** | **—** | **—** | **1,485** | **—** | **—** | **1,485** |
| **Net earnings** | | **—** | **—** | **—** | **—** | **4,120** | **—** | **4,120** |
| **Dividends declared** | | **—** | **—** | **—** | **—** | **(10,750)** | **—** | **(10,750)** |
| **Other comprehensive income** | | **—** | **—** | **—** | **—** | **—** | **3,006** | **3,006** |
| **Balance at March 31, 2022** | | ***89,562,499*** | **500,877** | **7,085** | **9,667** | **(409,083)** | **(8,762)** | **99,784** |

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

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

| | | Three months ended March 31, | |
|---|---|---|---|
| *(in thousands of Canadian dollars)* | ***notes*** | **2022** | **2021** |
| **Operating Activities** | | | |
| Net earnings | | **4,120** | 8,323 |
| Adjustments for: | | | |
| Share-based compensation | *9* | **1,485** | 658 |
| Depreciation and amortization | *3, 4* | **8,816** | 9,855 |
| Net finance costs | *7, 12, 14* | **5,159** | 6,115 |
| Current taxes | | **3,594** | 2,827 |
| Deferred taxes | | **(1,347)** | 603 |
| Defined benefit plan expenses | | **203** | 191 |
| Defined benefit plan contributions | | **(546)** | (1,223) |
| | | **21,484** | 27,349 |
| Net change in operating assets and liabilities | | | |
| Accounts receivable | | **16,536** | (9,590) |
| Other assets | *5* | **361** | 1,238 |
| Accounts payable and accrued liabilities | | **8,298** | (5,387) |
| | | **46,679** | 13,610 |
| Interest paid, net | | **(3,681)** | (3,870) |
| Income taxes received (paid), net | | **7,226** | (22,887) |
| **Net cash from operating activities** | | **50,224** | (13,147) |
| **Investing Activities** | | | |
| Purchase of property, equipment and other intangible assets | *3, 4* | **(19,534)** | (8,843) |
| Decrease in other assets | *5* | **1,116** | 1,522 |
| **Net cash from (used in) investing activities** | | **(18,418)** | (7,321) |
| **Financing Activities** | | | |
| Issuance of long-term debt | *7* | **3,706** | — |
| Repayment of long-term debt | *7, 14* | **(10,748)** | (7,325) |
| Increase in restricted cash | | **(129)** | (57) |
| Dividends paid | | **(10,750)** | (10,752) |
| Financing costs | | **(29)** | (70) |
| **Net cash used in financing activities** | | **(17,950)** | (18,204) |
| Increase (decrease) in cash and cash equivalents | | **13,856** | (38,672) |
| Cash and cash equivalents at beginning of period | | **104,627** | 179,956 |
| Foreign exchange loss on cash held in foreign currency | | **(91)** | (13) |
| **Cash and cash equivalents at end of period** | | **118,392** | 141,271 |

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

## 1. GENERAL INFORMATION AND NATURE OF THE BUSINESS

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

## 2. BASIS OF PREPARATION

### a) Statement of Compliance

The interim condensed consolidated financial statements (the "consolidated financial statements") have been prepared in accordance with International Financial Reporting Standards (IFRS) IAS 34 "Interim Financial Reporting" as issued by the International Accounting Standards Board (IASB), and were approved by the board of directors of the Company on May 12, 2022.

The consolidated financial statements do not include all of the information required for full annual consolidated financial statements, and should be read in conjunction with the Company's 2021 annual audited consolidated financial statements. These consolidated financial statements follow the same accounting policies and methods of application as the consolidated financial statements for the year-ended December 31, 2021, except for those identified below. Certain comparative information has been reclassified to conform to the current year presentation.

### b) Accounting Standards Adopted during the Period

During the three months ended March 31, 2022, the Company adopted certain IFRS standards and amendments:

*Derecognition of financial liabilities*

Beginning on January 1, 2022, the Company adopted 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* did not have a material impact on the consolidated financial statements.

### c) Future Changes in Accounting Standards

*Classification of liabilities as current or non-current*

Beginning on January 1, 2023, the Company will adopt IASB amendments to IAS 1 *Presentation of financial statements*, which will clarify the criteria of classification of liabilities as current or non-current. Management is assessing whether the adoption of these amendments is expected to have a material impact on the consolidated financial statements.

*Disclosure initiative - accounting policies*

Beginning on January 1, 2023, the Company will adopt IASB amendment *Disclosure Initiative - Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements)*. This amendment includes a requirement for companies to disclose material accounting policies rather than significant accounting policies among other clarifications on which accounting policies are to be considered material. The adoption of this amendment is not expected to have a material impact on the consolidated financial statements.

*Deferred tax related to assets and liabilities arising from a single transaction*

Beginning on January 1, 2023, the Company will adopt IASB amendment *Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)*. This amendment narrows the scope of the initial recognition exemption to no longer apply to transactions that give rise to equal and offsetting temporary differences, such as those on initial recognition of a lease or a decommissioning provision. The adoption of this amendment is not expected to have a material impact on the consolidated financial statements.

*Definition of accounting estimates*

Beginning on January 1, 2023, the Company will adopt IASB amendment *Definition of Accounting Estimates (Amendments to IAS 8)*. This amendment replaces the previous definition of an accounting estimate to provide clarity on the difference between a change in an accounting policy and a change in an accounting estimate. The adoption of this amendment is not expected to have a material impact on the consolidated financial statements.

## 3. PROPERTY AND EQUIPMENT

| | Land & Land Improve-ments | Buildings and Leasehold Improvements | Right-of-use assets | Furniture & Equipment | Construction in Progress ("CIP") | Projects in Progress ("PIP") | Total |
|---|---|---|---|---|---|---|---|
| **Cost or Deemed Cost** | | | | | | | |
| **January 1, 2021** | 61,844 | 540,382 | 99,963 | 69,198 | 20,542 | 3,922 | 795,851 |
| Additions | 331 | 6,022 | 3,111 | 6,313 | 31,338 | 10,554 | 57,669 |
| Write-offs | — | (793) | (280) | (251) | — | — | (1,324) |
| Write-off of fully depreciated assets | — | (520) | (589) | (4,312) | — | — | (5,421) |
| Reclassification to assets held for sale (*Note 14*) | (896) | (14,101) | — | (2,544) | — | (62) | (17,603) |
| Impairment | — | (9,144) | — | — | — | — | (9,144) |
| Transfer from PIP | 64 | 3,160 | — | 697 | — | (3,921) | — |
| **December 31, 2021** | 61,343 | 525,006 | 102,205 | 69,101 | 51,880 | 10,493 | 820,028 |
| **January 1, 2022** | **61,343** | **525,006** | **102,205** | **69,101** | **51,880** | **10,493** | **820,028** |
| Additions | **10** | **750** | **1,486** | **2,656** | **10,325** | **2,141** | **17,368** |
| Write-off of fully depreciated assets | **(2)** | **(32)** | **—** | **(143)** | **—** | **—** | **(177)** |
| Reclassification to assets held for sale (*Note 14*) | **(24,609)** | **(215,010)** | **(20)** | **(9,512)** | **(2,533)** | **—** | **(251,684)** |
| Transfer from PIP | **—** | **724** | **—** | **338** | **—** | **(1,062)** | **—** |
| **March 31, 2022** | **36,742** | **311,438** | **103,671** | **62,440** | **59,672** | **11,572** | **585,535** |

| | Land & Land Improve-ments | Buildings and Leasehold Improvements | Right-of-use assets | Furniture & Equipment | CIP | PIP | Total |
|---|---|---|---|---|---|---|---|
| **Accumulated Depreciation** | | | | | | | |
| **January 1, 2021** | 5,576 | 191,242 | 41,994 | 31,135 | — | — | 269,947 |
| Additions | 687 | 21,435 | 2,743 | 7,469 | — | — | 32,334 |
| Write-offs | — | (469) | (89) | (214) | — | — | (772) |
| Reclassification to assets held for sale (*Note 14*) | (295) | (9,811) | — | (1,554) | — | — | (11,660) |
| Write-off of fully depreciated assets | — | (520) | (589) | (4,312) | — | — | (5,421) |
| **December 31, 2021** | 5,968 | 201,877 | 44,059 | 32,524 | — | — | 284,428 |
| **January 1, 2022** | **5,968** | **201,877** | **44,059** | **32,524** | **—** | **—** | **284,428** |
| Additions | **163** | **4,593** | **644** | **1,964** | **—** | **—** | **7,364** |
| Write-offs | **—** | **—** | **—** | **—** | **—** | **—** | **—** |
| Reclassification to assets held for sale (*Note 14*) | **(555)** | **(29,381)** | **(4)** | **(3,172)** | **—** | **—** | **(33,112)** |
| Write-off of fully depreciated assets | **(2)** | **(32)** | **—** | **(143)** | **—** | **—** | **(177)** |
| **March 31, 2022** | **5,574** | **177,057** | **44,699** | **31,173** | **—** | **—** | **258,503** |
| **Carrying amounts** | | | | | | | |
| At December 31, 2021 | 55,375 | 323,129 | 58,146 | 36,577 | 51,880 | 10,493 | 535,600 |
| **At March 31, 2022** | **31,168** | **134,381** | **58,972** | **31,267** | **59,672** | **11,572** | **327,032** |

The Company capitalized $0.2 million of borrowing costs related to development projects under construction for the three months ended March 31, 2022 at an average capitalization rate of 0.99% (March 31, 2021 – $nil).

## 4. GOODWILL AND OTHER INTANGIBLE ASSETS

| | Goodwill | Other Intangible Assets | Total |
|---|---|---|---|
| **Cost or Deemed Cost** | | | |
| **January 1, 2021** | 51,675 | 66,948 | 118,623 |
| Additions | — | 16,365 | 16,365 |
| Write-off of fully amortized assets | — | (4,827) | (4,827) |
| Impairment | (5,825) | — | (5,825) |
| **December 31, 2021** | 45,850 | 78,486 | 124,336 |
| **January 1, 2022** | **45,850** | **78,486** | **124,336** |
| Additions | **—** | **3,652** | **3,652** |
| Reclassification to assets held for sale (*Note 14*) | **—** | **(2,928)** | **(2,928)** |
| **March 31, 2022** | **45,850** | **79,210** | **125,060** |

| | Goodwill | Other Intangible Assets | Total |
|---|---|---|---|
| **Accumulated Amortization** | | | |
| **January 1, 2021** | — | 30,445 | 30,445 |
| Additions | — | 6,234 | 6,234 |
| Write-off of fully amortized assets | — | (4,827) | (4,827) |
| **December 31, 2021** | — | 31,852 | 31,852 |
| **January 1, 2022** | **—** | **31,852** | **31,852** |
| Additions | **—** | **1,452** | **1,452** |
| Reclassification to assets held for sale (*Note 14*) | **—** | **(936)** | **(936)** |
| **March 31, 2022** | **—** | **32,368** | **32,368** |
| **Carrying amounts** | | | |
| At December 31, 2021 | 45,850 | 46,634 | 92,484 |
| **At March 31, 2022** | **45,850** | **46,842** | **92,692** |

## 5. OTHER ASSETS

| | March 31, 2022 | December 31, 2021 |
|---|---|---|
| Construction funding subsidy receivable | **35,155** | 36,271 |
| Supply inventory | **10,839** | 11,127 |
| Prepaid, deposits and other | **11,316** | 11,962 |
| | **57,310** | 59,360 |
| less: current portion | **(25,518)** | (26,468) |
| | **31,792** | 32,892 |

### Construction Funding Subsidy Receivable

Construction funding subsidy receivable represents discounted amounts receivable due from the Government of Ontario with respect to construction funding subsidies for long-term care homes, totalling $35.2 million (December 31, 2021 – $36.3 million) of which $4.0 million (December 31, 2021 – $4.1 million) is current. These subsidies represent funding for a portion of long-term care home construction costs over a 20-year or 25-year period. The weighted average remaining term of this funding is 15 years.

### Supply Inventory

Supply inventory is primarily comprised of personal protective equipment and other related supplies.

## 6. PROVISIONS

| | Decommissioning Provisions | Indemnification Provisions | Total |
|---|---|---|---|
| **January 1, 2021** | 9,717 | 5,217 | 14,934 |
| Provisions recorded/(released) | 1,413 | (3,688) | (2,275) |
| Provisions used | (13) | (1,510) | (1,523) |
| Accretion | 195 | — | 195 |
| Effect of movements in exchange rates | — | (19) | (19) |
| **December 31, 2021** | 11,312 | — | 11,312 |
| **January 1, 2022** | **11,312** | **—** | **11,312** |
| Accretion | **534** | **—** | **534** |
| **March 31, 2022** | **11,846** | **—** | **11,846** |

### Decommissioning Provisions

The decommissioning provisions relate to possible asbestos remediation of the Company's pre-1980 constructed homes. An estimated undiscounted cash flow amount of approximately $12.2 million (December 31, 2021 – $12.2 million) was discounted using a rate of 1.32% (December 31, 2021 – 1.32%) over an estimated time to settle of 5 years.

### Indemnification Provisions

As a result of the U.S. Sale Transaction, the Company agreed to indemnify certain obligations of the U.S. operations related to tax, a corporate integrity agreement, and other items. As at December 31, 2021, there is no provision remaining related to the indemnity obligations related to the U.S. operations.

## 7. LONG-TERM DEBT

| | Interest Rate | Year of Maturity | March 31, 2022 | December 31, 2021 |
|---|---|---|---|---|
| Convertible unsecured subordinated debentures | 5.00 % | 2025 | **122,908** | 122,644 |
| CMHC mortgages, fixed rate | 2.65% - 7.70% | 2022 - 2037 | **53,043** | 125,014 |
| CMHC mortgages, variable rate | Variable | 2025 | **21,740** | 22,017 |
| Non-CMHC mortgages | 3.27%-5.64% | 2022 - 2038 | **100,453** | 161,793 |
| Construction facilities and loans | Variable | 2024 | **6,041** | 45,450 |
| Lease liabilities | 4.23% - 7.19% | 2022 - 2034 | **68,125** | 69,438 |
| | | | **372,310** | 546,356 |
| Deferred financing costs | | | **(5,299)** | (9,505) |
| Total debt, net of deferred financing costs | | | **367,011** | 536,851 |
| Less: current portion | | | **(24,680)** | (73,577) |
| Long-term debt, net of deferred financing costs | | | **342,331** | 463,274 |

## Principal Repayments

| | Convertible Debentures | Mortgages Regular | Mortgages Maturity | Construction Facilities | Lease Liabilities | Total |
|---|---|---|---|---|---|---|
| 2022 remaining | — | 7,561 | 5,854 | — | 11,516 | 24,931 |
| 2023 | — | 8,085 | 23,061 | — | 14,854 | 46,000 |
| 2024 | — | 7,343 | — | 6,041 | 14,587 | 27,971 |
| 2025 | 126,500 | 6,289 | 35,882 | — | 14,075 | 182,746 |
| 2026 | — | 5,790 | — | — | 13,076 | 18,866 |
| 2027 and thereafter | — | 66,893 | 8,479 | — | 14,155 | 89,527 |
| Total debt principal and lease liability | 126,500 | 101,961 | 73,276 | 6,041 | 82,263 | 390,041 |
| Unamortized accretion of 2025 convertible debentures | (3,592) | — | — | — | — | (3,592) |
| Interest on lease liabilities | — | — | — | — | (14,139) | (14,139) |
| | 122,908 | 101,961 | 73,276 | 6,041 | 68,124 | 372,310 |

## Long-term Debt Continuity

| | March 31, 2022 | December 31, 2021 |
|---|---|---|
| **As at beginning of period** | **536,851** | 564,597 |
| Issuance of long-term debt | **3,706** | 2,337 |
| New lease liabilities | **1,486** | 3,111 |
| Accretion and other | **189** | 1,093 |
| Repayments [i] | **(8,117)** | (32,319) |
| Addition - deferred financing costs | **(29)** | (1,342) |
| Amortization of deferred financing costs and other | **457** | 2,023 |
| Reclassification to liabilities directly associated with assets held for sale (*Note 14*) | **(167,532)** | (2,649) |
| **As at end of period** | **367,011** | 536,851 |

[i] *Includes repayments of debt related to the Retirement Living Sale for the three months ended March 31, 2022.*

## Convertible Unsecured Subordinated Debentures

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

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

Upon the occurrence of a change of control, whereby more than 66.67% of the Common Shares are acquired by any person, or group of persons acting jointly, each holder of the 2025 Debentures may require the Company to purchase their debentures at 101% of the principal plus accrued and unpaid interest. If 90% or more of the debenture holders do so, the Company has the right, but not the obligation, to redeem all the remaining outstanding 2025 Debentures.

## CMHC Mortgages

The Company has various mortgages insured through the Canada Mortgage and Housing Corporation ("CMHC") program. The CMHC mortgages are secured by several Canadian financial institutions at rates ranging from 2.65% to 7.70% with maturity dates through to 2037.

## Non-CMHC Mortgages

The Company has a number of conventional mortgages on certain long-term care homes, at rates ranging from 3.27% to 5.64%. Some of these mortgages have a requirement to maintain a minimum debt service coverage ratio.

## Construction Facilities

| *(in millions of Canadian dollars)* | **March 31, 2022** | **December 31, 2021** |
|---|---|---|
| Construction facilities | **156.6** | 156.6 |
| Amount drawn down, end of period | **(6.0)** | (2.3) |
| Amount available | **150.6** | 154.3 |

In 2021, the Company secured construction facilities in connection with three LTC redevelopment projects. Each facility matures on the earlier of 42 months from closing or the date that they are refinanced following completion or lease-up. Interest rates are prime plus 1.25% with standby fees of 0.55%. The facilities also provide for an additional $6.0 million in letter of credit facilities of which $nil was issued. Interest is capitalized during construction and is payable following completion of construction until maturity.

## Construction Loans

Construction loans of $48.0 million are available for two retirement communities providing for additional letter of credit facilities of $0.8 million and $1.0 million. As at March 31, 2022, an aggregate of $43.1 million (December 31, 2021 - $43.1 million) was drawn down on these construction loans, which have been reclassified to liabilities directly associated with assets held for sale.

## Lease Liabilities

Lease liabilities as at March 31, 2022 include leases on long-term care homes and head and district offices. The Company operates nine Ontario long-term care homes, which were built between 2001 and 2003, under 25-year lease arrangements. The liabilities associated with the head and district office leases is amortized over the remaining lease terms ranging up to 13 years.

During the three months ended March 31, 2022, the Company has recognized new and renewed district office lease liabilities of $1.5 million (December 31, 2021 – $3.1 million).

## Credit Facilities

The Company has two demand credit facilities totalling $112.3 million. One is secured by 13 Class C long-term care homes in Ontario and the other is secured by the assets of the home health care business. Neither of these facilities has financial covenants but do contain normal and customary terms. As at March 31, 2022, $33.7 million of the facilities secure the Company's defined benefit pension plan obligations (December 31, 2021 – $33.7 million), $5.8 million was used in connection with obligations relating to long-term care homes and retirement communities (December 31, 2021 – $5.8 million), leaving $72.8 million unutilized (December 31, 2021 – $72.8 million).

## Interest Rates

The weighted average interest rate of all long-term debt as at March 31, 2022, was approximately 5.0% (December 31, 2021 – 4.3%).

## Financial Covenants

The Company is subject to debt service coverage covenants on certain of its loans. The Company was in compliance with all of these covenants as at March 31, 2022.

## 8. OTHER LONG-TERM LIABILITIES

| | March 31, 2022 | December 31, 2021 |
|---|---|---|
| Accrued pension and benefits obligation | **26,375** | 31,419 |
| Interest rate swaps | **26** | 736 |
| Other | **—** | 951 |
| | **26,401** | 33,106 |

### Interest Rate Swaps

The interest rate swaps include swap contracts relating to a mortgage with a notional amount of $24.4 million (December 31, 2021 – relating to mortgages with notional amounts totalling $85.2 million), to lock in a rate of 3.27% for the full term of the loan, being five years.

All interest rate swap contracts are measured at FVTPL, and hedge accounting has not been applied. Changes in fair value are recorded in the consolidated statements of earnings.

As at March 31, 2022, the interest rate swaps were classified as a liability of $26.0 thousand (December 31, 2021 – liability of $0.7 million).

## 9. SHARE-BASED COMPENSATION

### Equity-settled Long-term Incentive Plan

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

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

| | Performance Share Units | |
|---|---|---|
| | Three months ended March 31, | |
| | 2022 | 2021 |
| Settled in Common Shares issued from treasury | — | 23,414 |
| Settled in cash[(i)] | — | 17,478 |
| | — | 40,892 |

[(i)] *Settled in cash to cover withholding taxes payable of $0.1 million for the three months ended March 31, 2021.*

The Company's DSUs and PSUs were an expense of $1.5 million for the three months ended March 31, 2022 (three months ended March 31, 2021 – $0.8 million).

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

| | March 31, 2022 | December 31, 2021 |
|---|---|---|
| Contributed surplus – DSUs | **3,536** | 3,323 |
| Contributed surplus – PSUs | **6,131** | 4,859 |
| | **9,667** | 8,182 |

As at March 31, 2022, an aggregate of 4,240,738 (December 31, 2021 - 4,240,738) Common Shares are reserved and available for issuance pursuant to the LTIP.

DSU and PSU activity is as follows:

| | Deferred Share Units | | Performance Share Units | |
|---|---|---|---|---|
| | **Three months ended March 31, 2022** | **Twelve months ended December 31, 2021** | **Three months ended March 31, 2022** | **Twelve months ended December 31, 2021** |
| Units outstanding, beginning of period | **507,811** | 381,731 | **1,176,273** | 695,087 |
| Granted | **27,070** | 98,204 | **533,500** | 471,712 |
| Reinvested dividend equivalents | **8,133** | 27,876 | **18,634** | 63,983 |
| Forfeited | **—** | — | **(12,587)** | (13,617) |
| Settled | **—** | — | **—** | (40,892) |
| Units outstanding, end of period | **543,014** | 507,811 | **1,715,820** | 1,176,273 |
| Weighted average fair value of units granted during the period at grant date | **$7.85** | $7.72 | **$8.11** | $7.36 |

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

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

| | **Three months ended March 31, 2022** | | **Twelve months ended December 31, 2021** |
|---|---|---|---|
| Grant date | **March 11, 2022** | March 9, 2021 | May 25, 2021 |
| Vesting date | **March 11, 2025** | March 9, 2024 | March 9, 2024 |
| PSUs granted | **533,500** | 448,582 | 23,130 |
| Fair value of AFFO component | **$3.87** | $3.44 | $4.03 |
| Fair value of TSR component | **$4.24** | $3.85 | $4.61 |
| Grant date fair value | **$8.11** | $7.29 | $8.64 |
| | | | |
| Expected volatility of the Company's Common Shares | **31.52 %** | 32.50 % | 33.43 % |
| Expected volatility of the Index | **22.00 %** | 21.60 % | 22.49 % |
| Risk-free rate | **1.67 %** | 0.46 % | 0.41 % |
| Dividend yield | **nil** | nil | nil |

## 10. SHARE CAPITAL

### Common Shares

Each Common Share is transferable and represents an equal and undivided beneficial interest in the assets of the Company. Each Common Share entitles the holder to one vote at all meetings of shareholders of the Company. Shareholders are entitled to receive dividends from the Company if, as and when declared by the Board. During the three months ended March 31, 2022 and 2021, the Company declared cash dividends of $0.12 per share.

### Normal Course Issuer Bid ("NCIB")

The Company did not purchase any Common Shares during the three months ended March 31, 2021 under the NCIB that commenced on January 15, 2020 and ended on January 14, 2021.

## 11. EXPENSES BY NATURE

| | Three months ended March 31, | |
|---|---|---|
| | **2022** | **2021**[(i)] |
| Employee wages and benefits | **237,208** | 230,734 |
| Government grants | **—** | (9,695) |
| Food, drugs, supplies and other variable costs | **20,155** | 21,165 |
| Property based and leases | **13,023** | 14,074 |
| Other | **15,761** | 14,805 |
| **Total operating expenses and administrative costs** | **286,147** | 271,083 |

*(i) Comparative figures have been re-presented to reflect discontinued operations (Note 14).*

### Government Grants

On April 11, 2020, the Government of Canada enacted the Canada Emergency Wage Subsidy (“CEWS”) program, which was designed to help Canadian employers that have experienced revenue declines as a result of COVID-19. The Company’s home health care subsidiary, ParaMed Inc., applied for and received $9.7 million in CEWS during the three months ended March 31, 2021 and are recorded on a net basis as a reduction to operating expenses of the home health care segment, thereby impacting the home health care segment net operating income for the year ended December 31, 2021.

## 12. NET FINANCE COSTS

| | Three months ended March 31, | |
|---|---|---|
| | **2022** | **2021**[(i)] |
| Interest expense | **5,058** | 5,345 |
| Interest revenue | **(750)** | (515) |
| Accretion | **847** | 298 |
| Foreign exchange | **(36)** | 344 |
| Fair value adjustments | **(71)** | (70) |
| **Net finance costs** | **5,048** | 5,402 |

*(i) Comparative figures have been re-presented to reflect discontinued operations (Note 14).*

## 13. EARNINGS PER SHARE

Basic earnings per share (“EPS”) is calculated by dividing the net earnings for the period by the weighted average number of shares outstanding during the period, including vested DSUs awarded that have not settled. Diluted EPS is calculated by adjusting the net earnings and the weighted average number of shares outstanding for the effects of all dilutive instruments.

The Company’s potentially dilutive instruments include the convertible debentures and equity-settled compensation arrangements. The number of shares included with respect to the PSUs is computed using the treasury stock method. The calculation of diluted earnings per share does not assume conversion, exercise, or other issue of potential ordinary shares that would have an antidilutive effect on earnings per share.

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

| | Three months ended March 31, | |
|---|---|---|
| | **2022** | **2021**(i) |
| **Numerator for Basic and Diluted Earnings per Share** | | |
| ***Earnings from continuing operations*** | | |
| Net earnings for basic earnings per share | **4,120** | 8,323 |
| Less: earnings from discontinued operations, net of tax | **(75)** | (811) |
| Earnings from continuing operations for basic earnings per share | **4,045** | 7,512 |
| Add: after-tax interest on convertible debt | **1,565** | 1,551 |
| Earnings from continuing operations for diluted earnings per share | **5,610** | 9,063 |
| ***Net earnings*** | | |
| Net earnings for basic earnings per share | **4,120** | 8,323 |
| Add: after-tax interest on convertible debt | **1,565** | 1,551 |
| Net earnings for diluted earnings per share | **5,685** | 9,874 |
| **Denominator for Basic and Diluted Earnings per Share** | | |
| Actual weighted average number of shares | **89,562,499** | 89,543,117 |
| DSUs | **512,221** | 385,652 |
| Weighted average number of shares for basic earnings per share | **90,074,720** | 89,928,769 |
| Shares issued if all convertible debt was converted | **10,326,531** | 10,326,531 |
| PSUs | **789,090** | 264,901 |
| Total for diluted earnings per share | **101,190,341** | 100,520,201 |
| **Basic and Diluted Earnings per Share (*in dollars*)** | | |
| Earnings from continuing operations | **$ 0.04** | $ 0.08 |
| Earnings from discontinued operations | **$ —** | $ 0.01 |
| Net earnings | **$ 0.04** | $ 0.09 |

(i) *Comparative figures have been re-presented to reflect discontinued operations (Note 14).*

## 14. DISCONTINUED OPERATIONS

### Retirement Living Sale

On February 3, 2022, the Company announced an agreement to sell its retirement living operations to Sienna-Sabra LP for an aggregate purchase price of $307.5 million, subject to customary closing adjustments (the "Retirement Living Sale"). Closing of the Retirement Living Sale is subject to customary closing conditions, including receipt of regulatory approvals from the Ontario Retirement Homes Regulatory Authority and the SHA and pursuant to the Competition Act (Canada), and is not conditional on financing or due diligence. The Retirement Living Sale is expected to close in the second quarter of 2022. As of March 31, 2022, the Retirement Living Sale has been classified as assets held for sale and discontinued operations.

### Saskatchewan LTC Homes

On October 14, 2021, the Saskatchewan Health Authority ("SHA") announced that the SHA and the Company agreed to work collaboratively to transition the delivery of LTC services operated at the Company's five LTC homes in Saskatchewan (the "Saskatchewan LTC Homes") to the SHA. The timing of the transfer of the operations, and potentially the related assets, is anticipated to be completed in 2022. The Saskatchewan LTC Homes were classified as assets held for sale and discontinued operations as of December 31, 2021.

The assets and liabilities of the discontinued operations at March 31, 2022, are as follows:

| | Retirement Living Sale | Saskatchewan LTC Homes | Total |
|---|---|---|---|
| **Assets held for sale** | | | |
| Receivables and other current assets | **1,740** | **1,324** | **3,064** |
| Property and equipment and intangible assets | **220,564** | **5,866** | **226,430** |
| Interest rate swaps | **722** | **—** | **722** |
| **Total assets held for sale** | **223,026** | **7,190** | **230,216** |
| **Liabilities directly associated with assets held for sale** | | | |
| Accounts payable and accrued liabilities | **4,079** | **10,431** | **14,510** |
| Long term debt, net of deferred financing costs | **167,548** | **—** | **167,548** |
| Interest rate swaps | **167** | **—** | **167** |
| **Total liabilities directly associated with assets held for sale** | **171,794** | **10,431** | **182,225** |

The assets and liabilities of the discontinued operations at December 31, 2021, are as follows:

| | Saskatchewan LTC Homes |
|---|---|
| **Assets held for sale** | |
| Receivables and other current assets | 1,319 |
| Property and equipment and intangible assets | 5,943 |
| **Total assets held for sale** | 7,262 |
| **Liabilities directly associated with assets held for sale** | |
| Accounts payable and accrued liabilities | 11,126 |
| Long term debt, net of deferred financing costs | 2,649 |
| **Total liabilities directly associated with assets held for sale** | 13,775 |

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

| For the three months ended March 31, 2022 | Retirement Living Sale | Saskatchewan LTC Homes | Total |
|---|---|---|---|
| **Earnings from Discontinued Operations** | | | |
| Revenue | **12,665** | **13,360** | **26,025** |
| Operating expenses | **9,856** | **15,390** | **25,246** |
| **Earnings (loss) before depreciation, amortization, other income, net finance costs, and income taxes** | **2,809** | **(2,030)** | **779** |
| Depreciation and amortization | **565** | **—** | **565** |
| Net finance costs | **111** | **—** | **111** |
| **Earnings (loss) before income taxes** | **2,133** | **(2,030)** | **103** |
| Current | **172** | **(538)** | **(366)** |
| Deferred | **394** | **—** | **394** |
| Income tax expense (recovery) | **566** | **(538)** | **28** |
| **Earnings (loss) from discontinued operations** | **1,567** | **(1,492)** | **75** |

| For the three months ended March 31, 2021 | Retirement Living Sale | Saskatchewan LTC Homes | Total |
|---|---|---|---|
| **Earnings from Discontinued Operations** | | | |
| Revenue | 12,174 | 15,346 | 27,520 |
| Operating expenses | 8,727 | 14,848 | 23,575 |
| **Earnings before depreciation, amortization, other income, net finance costs, and income taxes** | 3,447 | 498 | 3,945 |
| Depreciation and amortization | 1,962 | 167 | 2,129 |
| Net finance costs | 685 | 28 | 713 |
| **Earnings before income taxes** | 800 | 303 | 1,103 |
| Current | 24 | — | 24 |
| Deferred | 188 | 80 | 268 |
| Income tax expense (recovery) | 212 | 80 | 292 |
| **Earnings from discontinued operations** | 588 | 223 | 811 |

Net finance costs related to the Retirement Living Sale are made up of net interest expense of $1.3 million and fair value adjustments of $1.2 million for the three months ended March 31, 2022 (three months ended March 31, 2021 – $1.5 million and $0.8 million, respectively).

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

| For the three months ended March 31, 2022 | Retirement Living Sale | Saskatchewan LTC Homes | Total |
|---|---|---|---|
| **Cash Flows from Discontinued Operations** | | | |
| Net cash from (used in) operating activities | **1,395** | **(2,727)** | **(1,332)** |
| Net cash from (used in) investing activities | **(177)** | **3** | **(174)** |
| Net cash used in financing activities | **(1,072)** | **(2,631)** | **(3,703)** |
| Effect on cash flows | **146** | **(5,355)** | **(5,209)** |

| For the three months ended March 31, 2021 | Retirement Living Sale | Saskatchewan LTC Homes | Total |
|---|---|---|---|
| **Cash Flows from Discontinued Operations** | | | |
| Net cash from (used in) operating activities | 834 | (891) | (57) |
| Net cash used in investing activities | (191) | (128) | (319) |
| Net cash used in financing activities | (981) | (512) | (1,493) |
| Effect on cash flows | (338) | (1,531) | (1,869) |

## 15. COMMITMENTS AND CONTINGENCIES

### Commitments

As at March 31, 2022, the Company has outstanding commitments in connection with construction contracts for its LTC redevelopment projects currently under construction. The Company also has outstanding commitments in connection with various IT service and license agreements to support the transition of key IT platforms to cloud-based solutions in support of the Company's growth initiatives. The expected payments towards those obligations are due as follows:

| | Construction Commitments | Technology Commitments | Total |
|---|---|---|---|
| 2022 | 50,290 | 7,911 | 58,201 |
| 2023 | 44,562 | 8,463 | 53,025 |
| 2024 | 3,876 | 6,865 | 10,741 |
| 2025 and thereafter | — | 484 | 484 |
| | 98,728 | 23,723 | 122,451 |

### Revera and Axium Transactions

On March 1, 2022, the Company entered into agreements with Revera Inc. ("Revera") and Axium Infrastructure Inc. and its affiliates ("Axium") in respect of the ownership, operation and redevelopment of LTC homes in Ontario and Manitoba.

### Revera Transactions

The Company entered into agreements with Revera to acquire a 15% managed interest in 24 LTC homes currently jointly owned by Revera and Axium, composed of 18 Class A LTC homes located in Ontario and six homes in Manitoba, consisting of approximately 3,000 funded LTC beds (the "Revera Acquisition"). The remaining 85% interest will continue to be owned by Axium and Extendicare will operate the homes in consideration for a customary management fee.

On closing of the Revera Acquisition, the Company will enter into management contracts with Revera to manage all of Revera's other LTC homes, which comprise 31 Class C homes located in Ontario and one personal care home located in Manitoba, and will offer employment to Revera's head office LTC personnel.

Pursuant to the development arrangement agreements, Revera will grant the Company (either alone or with Axium) a right to participate in any redevelopment of Revera's 31 Class C homes in Ontario should Revera determine to pursue redevelopment of any of those homes into new LTC homes. If the Company determines, in its discretion, to participate in any such redevelopment project, Revera will act as development and construction manager and will be paid customary development and construction management fees.

Closing of the Revera Transactions is subject to customary closing conditions, including receipt of regulatory approvals from the MLTC, and Manitoba Health and Winnipeg Regional Health Authority, and is not conditional on financing or due diligence.

The estimated aggregate cash consideration for the Revera Transactions is approximately $36.0 million plus the assumption of approximately $34.0 million in debt (at Extendicare's 15% share), subject to customary adjustments. Certain of the associated debt will be refinanced or repaid on or before closing, resulting in changes in the allocation between cash consideration and debt assumption.

## Axium Transaction

In addition to the Revera Transactions, the Company entered into an agreement with Axium in respect of the formation of a joint venture with Axium to jointly redevelop certain of the Company's existing Ontario Class C homes (the "Axium Transaction"). Axium will own an 85% interest in the joint venture with the Company will retain a 15% managed interest.

As part of the Axium Transaction, the Company and Axium have entered into a master development agreement pursuant to which the Company has granted Axium a right to participate in the redevelopment of five of Extendicare's Ontario Class C homes located in Sudbury (two homes), Kingston, Stittsville and Peterborough, Ontario. This development arrangement could also apply to additional redevelopment projects should the Company wish to offer them to Axium. The Company will act as development and construction manager and will be paid customary development and construction management fees in respect of any projects in which Axium participates. Upon receipt of necessary redevelopment approvals, the home would be acquired by the Extendicare and Axium joint venture and the Company would operate the homes on the same terms as it will operate the homes to be acquired in the Revera Acquisition.

There are currently three Class C homes comprising an aggregate of 704 funded LTC beds under construction by the Company that Axium has agreed to participate in, subject to customary conditions.

Closing of the Axium Transaction is subject to customary closing conditions, including receipt of regulatory approvals from the MLTC, and is not conditional on financing or due diligence.

The timing, and ultimate receipt of, the required government approvals is uncertain for both the Revera and Axium Transactions. The anticipated outcome and benefits of these proposed transactions and the underlying development projects is subject to change and there are risks and uncertainties relating to the actual completion of proposed transactions. Each of the Company, Revera and Axium are responsible for their own costs and expenses associated with the transactions, including the costs in support of pursuing the required government approvals of the transactions.

## Legal Proceedings and Regulatory Actions

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

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

In January 2022, the case management judge overseeing the Company's COVID-related class action granted a plaintiff's motion to, among other things, consolidate all four active class actions against the Company into one action pursuant to the *Class Proceedings Act* (Ontario). The claim is in respect of all Ontario LTC homes owned, operated, licensed and/or managed by the Company and its affiliates and names as defendants the Company, certain of its affiliates and the owners of any such managed LTC homes. The amended claim alleges negligence, gross negligence, breach of fiduciary duty, breach of contract, unjust enrichment, wrongful death in respect of all persons who contracted COVID-19 at the residence or subsequently contracted COVID-19 from such persons and breach of section 7 of the *Canadian Charter of Rights and Freedoms*. The claim seeks damages in the aggregate of $110 million.

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

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

In October 2021, the Supreme Court of Canada dismissed an application for leave to appeal by the Attorney General of Ontario which sought to challenge the decision issued by the previous presiding court that ruled in favour of certain unions in respect of a legal challenge to a 2016 Pay Equity Tribunal decision. The unions argued that new pay equity adjustments were required in order to maintain pay equity with municipal LTC homes where PSWs and other direct care workers in other industries are included in determining pay equity. The matter has now been referred back to the Pay Equity Tribunal to settle the matter between the participating LTC homes, unions and the Government and establish a framework for pay equity suitable for the sector. The Company, along with other participants in the long-term care sector, including the Government of Ontario, are working to resolve the matter. Given the uncertainty of the matter and the various stakeholders involved, and as a result the wide range of possible settlement outcomes and related funding changes the Company is unable to determine a reliable estimate of the potential outcome. Therefore, the Company did not record a provision with respect to this matter as at March 31, 2022. This matter could have a materially adverse impact on the Company's business, results of operations and financial condition.

## 16. MANAGEMENT OF RISKS AND FINANCIAL INSTRUMENTS

### (a) Management of Risks

#### LIQUIDITY RISK

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

In addition to cash generated from its operations and cash on hand as at March 31, 2022, the Company has available undrawn credit facilities totalling $72.8 million (December 31, 2021 – $71.3 million).

#### CURRENCY RISK

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

| | March 31, 2022 | | December 31, 2021 | |
|---|---|---|---|---|
| | ***US$*** | **C$** | ***US$*** | **C$** |
| Assets | | | | |
| Current assets | *2,889* | **3,612** | *11,759* | 14,861 |
| Liabilities | | | | |
| Current liabilities | *755* | **945** | *820* | 1,036 |
| Net asset exposure | *2,134* | **2,667** | *10,939* | 13,825 |

#### INTEREST RATE RISK

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

To mitigate interest rate risk, the Company's long-term care debt portfolio includes fixed-rate debt and variable-rate debt with interest rate swaps in place. At March 31, 2022, the CMHC variable-rate mortgage and construction loans are variable-rate debt, which do not have interest rate swaps in place. The Company's demand credit facilities, and future borrowings, may be at variable rates which would expose the Company to the risk of interest rate volatility (*Note 7*).

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

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

| | March 31, 2022 | | December 31, 2021 | |
|---|---|---|---|---|
| | **Percentage of Total Debt** | **Carrying Amount** | **Percentage of Total Debt** | **Carrying Amount** |
| Fixed-rate long-term debt[i] | **92.5 %** | **344,529** | 87.7 % | 478,889 |
| Variable-rate long-term debt[i] | **7.5 %** | **27,781** | 12.3 % | 67,467 |
| Total | **100.0 %** | **372,310** | 100.0 % | 546,356 |

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

***Fair Value Sensitivity Analysis for Variable-rate Instruments***

All long-term debt with variable rates are classified as other financial liabilities, which are measured at amortized cost using the effective interest method of amortization; therefore, changes in interest rates would not affect OCI or net earnings with respect to variable-rate debt. As at March 31, 2022, long-term debt with variable rates represented 7.5% of total debt (December 31, 2021 – 12.3%). The value of the interest rate swaps is subject to fluctuations in interest rates, changes in fair value of these swaps are recognized in net earnings.

***Cash Flow Sensitivity Analysis for Variable-rate Instruments***

An increase of 100 basis points in interest rates would have decreased net earnings by $0.1 million and a decrease of 100 basis points in interest rates would have increased net earnings by $0.1 million, for the three months ended March 31, 2022. This analysis assumes that all other variables remain constant, and excludes variable interest rate debt that is locked in through interest rate swaps.

## (b) Fair values of Financial Instrument

| **As at March 31, 2022** | **Amortized Cost** | **Fair Value through Profit and Loss** | **Total Carrying Amount** | **Fair Value** | **Fair Value Hierarchy** |
|---|---|---|---|---|---|
| Financial assets: | | | | | |
| Cash and cash equivalents | **118,392** | **—** | **118,392** | **118,392** | Level 1 |
| Restricted cash | **3,156** | **—** | **3,156** | **3,156** | Level 1 |
| Accounts receivable | **50,976** | **—** | **50,976** | **50,976** | N/A |
| Amounts receivable and other assets[i][ii] | **35,155** | **—** | **35,155** | **35,788** | Level 2 |
| | **207,679** | **—** | **207,679** | **208,312** | |
| Financial liabilities: | | | | | |
| Accounts payable | **24,844** | **—** | **24,844** | **24,844** | N/A |
| Interest rate swaps | **—** | **26** | **26** | **26** | Level 2 |
| Long-term debt [ii] [iii] | **249,402** | **—** | **249,402** | **252,233** | Level 2 |
| Convertible debentures | **122,908** | **—** | **122,908** | **127,765** | Level 1 |
| | **397,154** | **26** | **397,180** | **404,868** | |

| As at December 31, 2021 | Amortized Cost | Fair Value through Profit and Loss | Total Carrying Amount | Fair Value | Fair Value Hierarchy |
|---|---|---|---|---|---|
| Financial assets: | | | | | |
| Cash and cash equivalents | 104,627 | — | 104,627 | 104,627 | Level 1 |
| Restricted cash | 3,027 | — | 3,027 | 3,027 | Level 1 |
| Accounts receivable | 69,435 | — | 69,435 | 69,435 | N/A |
| Amounts receivable and other assets[(i)(ii)] | 36,271 | — | 36,271 | 36,129 | Level 2 |
| | 213,360 | — | 213,360 | 213,218 | |
| Financial liabilities: | | | | | |
| Accounts payable | 28,956 | — | 28,956 | 28,956 | N/A |
| Interest rate swaps | — | 736 | 736 | 736 | Level 2 |
| Long-term debt[(ii)(iii)] | 423,712 | — | 423,712 | 446,360 | Level 2 |
| Convertible debentures | 122,644 | — | 122,644 | 125,804 | Level 1 |
| | 575,312 | 736 | 576,048 | 601,856 | |

(i) Includes primarily amounts receivable from government.

(ii) Includes current portion.

(iii) Excludes convertible debentures and netting of deferred financing costs.

**BASIS FOR DETERMINING FAIR VALUES**

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

Fair values for investments designated as FVTPL are based on quoted market prices. Accounts receivable are recorded at amortized cost. The carrying values of accounts receivable approximate fair values due to their short-term maturities, with the exception of the amounts receivable due from the government of Ontario, which are valued at discounted future cash flows using current applicable rates for similar instruments of comparable maturity and credit quality (*Note 5*). The fair values of convertible debentures are based on the closing price of the publicly traded convertible debentures on each reporting date, and the fair values of mortgages and other debt are estimated based on discounted future cash flows using discount rates that reflect current market conditions for instruments with similar terms and risks.

**FAIR VALUE HIERARCHY**

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

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

## 17. SEGMENTED INFORMATION

The Company reports the following segments: i) long-term care; ii) home health care; iii) management, consulting and group purchasing services as “other operations”; and iv) the corporate functions and any intersegment eliminations as “corporate”.

The long-term care segment represents the 53 long-term care homes that the Company owns and operates in Canada. Through our wholly owned subsidiary ParaMed, ParaMed’s home health care operations provide complex nursing care, occupational, physical and speech therapy, and assistance with daily activities to accommodate those living at home.

The Company’s other operations are composed of its management, consulting and group purchasing divisions. Through our Extendicare Assist division, the Company provides management and consulting services to third parties; and through our SGP Purchasing Partner Network division, the Company offers cost-effective purchasing contracts to other senior care providers for food, capital equipment, furnishings, cleaning and nursing supplies, and office products. The Company’s Saskatchewan LTC Homes are being transitioned to SHA, and the Company’s retirement living segment is held for sale; the two are treated as discontinued operations and are therefore, excluded from Continuing Operations (*Note 14*).

| | | | | | **2022** |
|---|---|---|---|---|---|
| *(in thousands of Canadian dollars)* | **Long-term Care** | **Home Health Care** | **Other Operations** | **Corporate** | **Total** |
| **CONTINUING OPERATIONS** | | | | | |
| **Revenue** | **199,808** | **98,649** | **7,253** | **—** | **305,710** |
| Operating expenses | **173,244** | **95,938** | **3,552** | **—** | **272,734** |
| **Net operating income** | **26,564** | **2,711** | **3,701** | **—** | **32,976** |
| Administrative costs | | | | **13,413** | **13,413** |
| **Earnings before depreciation, amortization, and other expense** | | | | | **19,563** |
| Depreciation and amortization | | | | **8,251** | **8,251** |
| **Earnings before net finance costs and income taxes** | | | | | **11,312** |
| Net finance costs | | | | **5,048** | **5,048** |
| **Earnings before income taxes** | | | | | **6,264** |
| **Income tax expense (recovery)** | | | | | |
| Current | | | | **3,960** | **3,960** |
| Deferred | | | | **(1,741)** | **(1,741)** |
| Total income tax expense | | | | **2,219** | **2,219** |
| **Earnings from continuing operations** | | | | | **4,045** |
| **DISCONTINUED OPERATIONS** | | | | | |
| Earnings from discontinued operations, net of income taxes | | | | | **75** |
| **Net earnings** | | | | | **4,120** |

| | | | | | **2021**[(i)] |
|---|---|---|---|---|---|
| *(in thousands of Canadian dollars)* | **Long-term Care** | **Home Health Care** | **Other Operations** | **Corporate** | **Total** |
| **CONTINUING OPERATIONS** | | | | | |
| **Revenue** | 189,789 | 97,667 | 7,405 | — | 294,861 |
| Operating expenses | 173,999 | 81,705 | 2,838 | — | 258,542 |
| **Net operating income** | 15,790 | 15,962 | 4,567 | — | 36,319 |
| Administrative costs | | | | 12,541 | 12,541 |
| **Earnings before depreciation, amortization, and other expense** | | | | | 23,778 |
| Depreciation and amortization | | | | 7,726 | 7,726 |
| **Earnings before net finance costs and income taxes** | | | | | 16,052 |
| Net finance costs | | | | 5,402 | 5,402 |
| **Earnings before income taxes** | | | | | 10,650 |
| **Income tax expense** | | | | | |
| Current | | | | 2,803 | 2,803 |
| Deferred | | | | 335 | 335 |
| Total income tax expense | | | | 3,138 | 3,138 |
| **Earnings from continuing operations** | | | | | 7,512 |
| **DISCONTINUED OPERATIONS** | | | | | |
| Earnings from discontinued operations, net of income taxes | | | | | 811 |
| **Net earnings** | | | | | 8,323 |

(i) *Comparative figures have been re-presented to reflect discontinued operations (Note 14).*