EXTENDICARE®
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INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AND NOTES

Q3 2022

Extendicare Inc.
Dated: November 10, 2022

Extendicare Inc.

Interim Condensed Consolidated Financial Statements

Three and nine months ended September 30, 2022 and 2021

(Tabular amounts in thousands of Canadian dollars, unless otherwise noted)

Extendicare Inc.

Interim Condensed Consolidated Statements of Financial Position

(Unaudited)

(in thousands of Canadian dollars)	*notes*	September 30, 2022	December 31, 2021
Assets			
Current assets			
Cash and cash equivalents		**174,613**	104,627
Restricted cash		**2,562**	3,027
Accounts receivable		**69,957**	69,435
Income taxes recoverable		**2,455**	14,101
Other assets	*5*	**23,204**	26,468
Assets held for sale	*15*	**6,432**	7,262
Total current assets		**279,223**	224,920
Non-current assets			
Property and equipment	*3*	**368,147**	535,600
Goodwill and other intangible assets	*4*	**94,086**	92,484
Other assets	*5*	**30,869**	32,892
Deferred tax assets		**7,536**	14,427
Total non-current assets		**500,638**	675,403
Total assets		**779,861**	900,323
Liabilities and Equity			
Current liabilities			
Accounts payable and accrued liabilities		**221,595**	192,994
Income taxes payable		**3,445**	1,566
Long-term debt	*7*	**22,720**	73,577
Liabilities directly associated with assets held for sale	*15*	**8,529**	13,775
Total current liabilities		**256,289**	281,912
Non-current liabilities			
Long-term debt	*7*	**349,559**	463,274
Provisions	*6*	**10,529**	11,312
Other long-term liabilities	*8*	**24,556**	33,106
Deferred tax liabilities		**8,354**	8,796
Total non-current liabilities		**392,998**	516,488
Total liabilities		**649,287**	798,400
Share capital	*10*	**490,457**	500,877
Equity portion of convertible debentures	*7*	**7,085**	7,085
Contributed surplus	*9*	**8,013**	8,182
Accumulated deficit		**(366,834)**	(402,453)
Accumulated other comprehensive loss		**(8,147)**	(11,768)
Shareholders' equity		**130,574**	101,923
Total liabilities and equity		**779,861**	900,323

See accompanying notes to unaudited interim condensed consolidated financial statements.
Commitments and contingencies (Note 16), Subsequent event (Note 10, 19)

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

		Three months ended September 30,		Nine months ended September 30,	
(in thousands of Canadian dollars except for per share amounts)	*notes*	**2022**	**2021(i)**	**2022**	**2021(i)**
CONTINUING OPERATIONS					
Revenue	*18*	**308,889**	284,271	**911,184**	860,825
Operating expenses		**285,363**	255,262	**824,341**	766,597
Administrative costs		**13,492**	12,220	**38,549**	38,195
Total expenses	*11*	**298,855**	267,482	**862,890**	804,792
Earnings before depreciation, amortization, and other expense		**10,034**	16,789	**48,294**	56,033
Depreciation and amortization		**7,558**	7,829	**23,867**	22,986
Other expense	*12*	**3,587**	—	**5,202**	—
(Loss) earnings before net finance costs and income taxes		**(1,111)**	8,960	**19,225**	33,047
Net finance costs	*13*	**3,931**	4,764	**13,357**	15,506
(Loss) earnings before income taxes		**(5,042)**	4,196	**5,868**	17,541
Income tax (recovery) expense					
Current		**(25)**	1,637	**5,035**	6,474
Deferred		**(655)**	(253)	**(2,360)**	(920)
Total income tax (recovery) expense		**(680)**	1,384	**2,675**	5,554
(Loss) earnings from continuing operations		**(4,362)**	2,812	**3,193**	11,987
DISCONTINUED OPERATIONS					
Earnings from discontinued operations, net of income taxes	*15*	**96**	3,231	**68,054**	3,339
Net (loss) earnings		**(4,266)**	6,043	**71,247**	15,326
Basic Earnings per Share					
(Loss) earnings from continuing operations	*14*	**$(0.04)**	$0.03	**$0.04**	$0.13
Net (loss) earnings	*14*	**$(0.04)**	$0.07	**$0.79**	$0.17
Diluted Earnings per Share					
(Loss) earnings from continuing operations	*14*	**$(0.04)**	$0.03	**$0.04**	$0.13
Net (loss) earnings	*14*	**$(0.04)**	$0.07	**$0.75**	$0.17

(i) Comparative figures have been re-presented to reflect discontinued operations (Note 15).
See accompanying notes to unaudited interim condensed consolidated financial statements.

Extendicare Inc.
Interim Condensed Consolidated Statements of Comprehensive Income
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
(in thousands of Canadian dollars)	**2022**	**2021**	**2022**	**2021**
Net (loss) earnings	**(4,266)**	6,043	**71,247**	15,326
Other comprehensive income, net of taxes				
Items that will not be reclassified to profit or loss:				
Defined benefit plan actuarial (losses) gains	**(906)**	616	**4,929**	2,922
Tax gain (expense) on defined benefit plan actuarial (losses) gains	**239**	(163)	**(1,308)**	(777)
Defined benefit plan actuarial (losses) gains, net of taxes	**(667)**	453	**3,621**	2,145
Items that are or may be reclassified subsequently to profit or loss:				
Net change in foreign currency translation adjustment	**—**	6	**—**	178
Other comprehensive (loss) income, net of taxes	**(667)**	459	**3,621**	2,323
Total comprehensive (loss) income	**(4,933)**	6,502	**74,868**	17,649

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	—	2,238	—	—	2,538
Net earnings		—	—	—	—	15,326	—	15,326
Dividends declared		—	—	—	—	(32,248)	—	(32,248)
Other comprehensive income		—	—	—	—	—	2,323	2,323
Balance at September 30, 2021		*89,562,499*	500,877	7,085	7,154	(387,885)	(11,104)	116,127

(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**
Purchase of shares for cancellation	***10***	***(2,199,112)***	**(12,321)**	**—**	**—**	**(3,540)**	**—**	**(15,861)**
Share-based compensation	***9***	***177,425***	**1,901**	**—**	**(169)**	**—**	**—**	**1,732**
Net earnings		**—**	**—**	**—**	**—**	**71,247**	**—**	**71,247**
Dividends declared		**—**	**—**	**—**	**—**	**(32,088)**	**—**	**(32,088)**
Other comprehensive income		**—**	**—**	**—**	**—**	**—**	**3,621**	**3,621**
Balance at September 30, 2022		***87,540,812***	**490,457**	**7,085**	**8,013**	**(366,834)**	**(8,147)**	**130,574**

See accompanying notes to unaudited interim condensed consolidated financial statements.

Extendicare Inc.

Interim Condensed Consolidated Statements of Cash Flows

(Unaudited)

		Three months ended September 30,		Nine months ended September 30,	
(in thousands of Canadian dollars)	*notes*	**2022**	**2021**	**2022**	**2021**
Operating Activities					
Net (loss) earnings		**(4,266)**	6,043	**71,247**	15,326
Adjustments for:					
Share-based compensation		**483**	714	**1,732**	2,538
Depreciation and amortization	*3, 4*	**7,558**	9,691	**24,432**	28,853
Net finance costs	*7, 13, 15*	**3,931**	6,013	**13,788**	18,897
Current taxes		**9**	1,696	**4,616**	6,614
Deferred taxes		**(655)**	(460)	**(1,892)**	(1,167)
Defined benefit plan expenses		**203**	191	**608**	553
Defined benefit plan contributions		**(541)**	(542)	**(2,241)**	(2,306)
Gain on sale of retirement living segment, net of tax	*15*	**—**	—	**(67,920)**	—
Other expense (income)	*12*	**3,587**	(3,688)	**5,202**	(3,688)
		10,309	19,658	**49,572**	65,620
Net change in operating assets and liabilities					
Accounts receivable		**(8,057)**	(2,123)	**(2,894)**	4,066
Other assets	*5*	**3,885**	5,908	**2,687**	8,706
Accounts payable and accrued liabilities		**(7,228)**	13,995	**21,582**	2,762
		(1,091)	37,438	**70,947**	81,154
Interest paid, net		**(1,645)**	(3,822)	**(11,404)**	(14,794)
Income taxes received (paid), net		**1,445**	2,207	**8,968**	(21,430)
Net cash (used in) from operating activities		**(1,291)**	35,823	**68,511**	44,930
Investing Activities					
Purchase of property, equipment and other intangible assets	*3, 4*	**(34,529)**	(19,099)	**(76,465)**	(41,148)
Decrease in other assets	*5*	**916**	1,512	**3,133**	4,569
Proceeds from sale of retirement living segment, net of taxes paid	*15*	**—**	—	**245,631**	—
Net cash (used in) from investing activities		**(33,613)**	(17,587)	**172,299**	(36,579)
Financing Activities					
Issuance of long-term debt	*7*	**4,858**	—	**18,211**	—
Repayment of long-term debt	*7, 15*	**(6,901)**	(7,582)	**(141,397)**	(23,258)
Change in restricted cash		**(135)**	(57)	**465**	(316)
Purchase of securities for cancellation		**(15,861)**	—	**(15,861)**	—
Dividends paid		**(10,665)**	(10,752)	**(32,169)**	(32,248)
Financing costs		**—**	(60)	**(205)**	(132)
Net cash used in financing activities		**(28,704)**	(18,451)	**(170,956)**	(55,954)
(Decrease) Increase in cash and cash equivalents		**(63,608)**	(215)	**69,854**	(47,603)
Cash and cash equivalents at beginning of period		**238,083**	132,451	**104,627**	179,956
Foreign exchange gain/(loss) on cash held in foreign currency		**138**	(34)	**132**	(151)
Cash and cash equivalents at end of period		**174,613**	132,202	**174,613**	132,202

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 400, Markham, Ontario, Canada, L3R 4T9.

2. BASIS OF PREPARATION

a) Statement of Compliance

The unaudited interim condensed consolidated financial statements (the “consolidated financial statements”) have been prepared in accordance with International Financial Reporting Standards (IFRS) IAS 34 “Interim Financial Reporting” as issued by the International Accounting Standards Board (IASB), and were approved by the board of directors of the Company on November 10, 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 nine months ended September 30, 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* clarified 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 no earlier than January 1, 2024, the Company will adopt IASB amendments to IAS 1 *Presentation of financial statements*, which clarified the criteria of classification of liabilities as current or non-current. Management is assessing whether the adoption of this amendment is expected to have a material impact on the consolidated financial statements. The International Accounting Standards Board has tentatively deferred the adoption date to no earlier than January 1, 2024 from January 1, 2023.

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.

3. PROPERTY AND EQUIPMENT

	Land & Land Improvements	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)
Reclassification to assets held for sale (*Note 15*)	(896)	(14,101)	—	(2,544)	—	(62)	(17,603)
Write-off of fully depreciated assets	—	(520)	(589)	(4,312)	—	—	(5,421)
Transfer to in use	64	3,160	—	697	—	(3,921)	—
Impairment	—	(9,144)	—	—	—	—	(9,144)
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	**183**	**2,897**	**3,375**	**5,531**	**51,186**	**8,956**	**72,128**
Disposal of retirement living operations (*Note 15*)	**(24,609)**	**(215,010)**	**(20)**	**(9,512)**	**(2,533)**	**—**	**(251,684)**
Write-off of fully depreciated assets	**(2)**	**(315)**	**—**	**(1,268)**	**—**	**—**	**(1,585)**
Transfer to in use	**2**	**1,655**	**—**	**873**	**—**	**(2,530)**	**—**
September 30, 2022	**36,917**	**314,233**	**105,560**	**64,725**	**100,533**	**16,919**	**638,887**

	Land & Land Improvements	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 15*)	(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	**436**	**11,019**	**4,216**	**5,338**	**—**	**—**	**21,009**
Disposal of retirement living operations (*Note 15*)	**(555)**	**(29,381)**	**(4)**	**(3,172)**	**—**	**—**	**(33,112)**
Write-off of fully depreciated assets	**(2)**	**(315)**	**—**	**(1,268)**	**—**	**—**	**(1,585)**
September 30, 2022	**5,847**	**183,200**	**48,271**	**33,422**	**—**	**—**	**270,740**
Carrying amounts							
At December 31, 2021	55,375	323,129	58,146	36,577	51,880	10,493	535,600
At September 30, 2022	**31,070**	**131,033**	**57,289**	**31,303**	**100,533**	**16,919**	**368,147**

The Company capitalized $0.4 million and $0.9 million of borrowing costs related to development projects under construction for the three and nine months ended September 30, 2022, respectively (three and nine months ended September 30, 2021 – $0.7 million).

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	**—**	**7,017**	**7,017**
Disposal of retirement living operations (*Note 15*)	**—**	**(2,928)**	**(2,928)**
Write-off of fully amortized assets	**—**	**(67)**	**(67)**
September 30, 2022	**45,850**	**82,508**	**128,358**

	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	**—**	**3,423**	**3,423**
Disposal of retirement living operations (*Note 15*)	**—**	**(936)**	**(936)**
Write-off of fully amortized assets	**—**	**(67)**	**(67)**
September 30, 2022	**—**	**34,272**	**34,272**
Carrying amounts			
At December 31, 2021	45,850	46,634	92,484
At September 30, 2022	**45,850**	**48,236**	**94,086**

5. OTHER ASSETS

	September 30, 2022	December 31, 2021
Construction funding subsidy receivable	**33,138**	36,271
Supply inventory	**8,890**	11,127
Prepayments and other	**12,045**	11,962
	54,073	59,360
less: current portion	**(23,204)**	(26,468)
	30,869	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. As at September 30, 2022, the current portion of construction funding subsidy receivable is $3.0 million (December 31, 2021 – $4.1 million). These subsidies represent funding for a portion of long-term care home construction costs over a 20-year to 25-year period. The weighted average remaining term of this funding is 14 years.

Supply Inventory

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

Interest Rate Swaps

Prepayments and other includes a swap contract relating to a loan with a notional amount of $29.7 million (December 31, 2021 – $85.2 million), to lock in a rate of 5.40% for the full term of the loan, maturing in April 2027 (December 31, 2021 – rates between 3.11% and 5.04% for the full term of the loans being three to ten 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 September 30, 2022, the interest rate swap was classified as an asset of $0.1 million (December 31, 2021 – liability of $0.7 million).

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**
Reclassification to liabilities directly associated with assets held for sale (*Note 15*)	**(888)**	**—**	**(888)**
Accretion	**105**	**—**	**105**
September 30, 2022	**10,529**	**—**	**10,529**

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 $11.3 million (December 31, 2021 – $12.2 million) was discounted using a rate of 3.24% (December 31, 2021 – 1.32%) over an average estimated time to settle of 5 years.

7. LONG-TERM DEBT

	Interest Rate	Year of Maturity	September 30, 2022	December 31, 2021
Convertible unsecured subordinated debentures	5.00 %	2025	**123,445**	122,644
CMHC mortgages, fixed rate	2.65% - 7.70%	2022 - 2037	**48,460**	125,014
CMHC mortgages, variable rate	Variable	2025	**21,240**	22,017
Non-CMHC mortgages and loans	3.49% - 5.64%	2023 - 2038	**104,470**	161,793
Construction facilities and loans	Variable	2024	**15,105**	45,450
Lease liabilities	3.53% - 5.10%	2022 - 2038	**64,323**	69,438
			377,043	546,356
Deferred financing costs			**(4,764)**	(9,505)
Total debt, net of deferred financing costs			**372,279**	536,851
Less: current portion			**(22,720)**	(73,577)
Long-term debt, net of deferred financing costs			**349,559**	463,274

Principal Repayments

	Convertible Debentures	Mortgages and loans Regular	Maturity	Construction Facilities	Lease Liabilities	Total
2022 remaining	—	2,204	3,953	—	3,873	10,030
2023	—	8,543		—	15,201	23,744
2024	—	8,278	—	15,105	14,925	38,308
2025	126,500	6,561	36,536	—	14,383	183,980
2026	—	6,831		—	13,373	20,204
2027 and thereafter	—	67,075	34,189	—	14,772	116,036
Total debt principal and lease liability	126,500	99,492	74,678	15,105	76,527	392,302
Unamortized accretion of 2025 convertible debentures	(3,055)	—	—	—	—	(3,055)
Interest on lease liabilities	—	—	—	—	(12,204)	(12,204)
	123,445	99,492	74,678	15,105	64,323	377,043

Long-term Debt Continuity

	September 30, 2022	December 31, 2021
As at beginning of period	**536,851**	564,597
Issuance of long-term debt	**18,211**	2,337
New lease liabilities	**3,371**	3,111
Accretion and other	**727**	1,093
Repayments [(i)]	**(138,762)**	(32,319)
Increase in deferred financing costs	**(196)**	(1,342)
Amortization of deferred financing costs and other [(i)]	**5,528**	2,023
Reclassification to liabilities directly associated with assets held for sale *(Note 15)*	**—**	(2,649)
Assumed debt related to the Retirement Living Sale *(Note 15)*	**(53,451)**	—
As at end of period	**372,279**	536,851

[(i)] *Includes amounts related to the Retirement Living Sale (Note 15).*

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 and Loans

In May 2022, the Company amended an existing loan agreement to increase the principal amount by $5.4 million and extended the term. The amended loan matures in April 2027 and the Company entered into interest rate swap contracts to lock in the interest rate at a fixed rate of 5.40% per annum.

The Company has a number of conventional mortgages and loans on certain long-term care homes, at rates ranging from 3.49% to 5.64%.

Construction Facilities

(in millions of Canadian dollars)	**September 30, 2022**	**December 31, 2021**
Construction facilities	**156.6**	156.6
Amount drawn down, end of period	**(15.1)**	(2.3)
Amount available	**141.5**	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% or CDOR plus 2.75% with standby fees of 0.55%. The facilities also provide for an additional $6.0 million in letter of credit facilities of which none was utilized. Interest is capitalized during construction and is payable following completion of construction until maturity.

Lease Liabilities

Lease liabilities 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 16 years.

During the three and nine months ended September 30, 2022, the Company has recognized new and renewed district office lease liabilities of $0.4 million and $3.4 million, respectively (three months ended September 30, 2021 – $0.4 million and nine months ended September 30, 2021 – $1.8 million).

Credit Facilities

The Company has two demand credit facilities totalling $112.3 million. One is secured by 13 Class C long-term care homes in Ontario and the other is secured by the assets of the home health care business. Neither of these facilities has financial covenants but do contain normal and customary terms. As at September 30, 2022, $30.5 million of the facilities secure the Company's defined benefit pension plan obligations (December 31, 2021 – $33.7 million), $4.9 million was used in connection with obligations relating to long-term care homes (December 31, 2021 – $5.8 million), leaving $76.9 million unutilized (December 31, 2021 – $72.8 million).

Interest Rates

The weighted average interest rate of all long-term debt as at September 30, 2022, was approximately 5.3% (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 September 30, 2022.

8. OTHER LONG-TERM LIABILITIES

	September 30, 2022	December 31, 2021
Accrued pension and benefits obligation	**24,556**	31,419
Interest rate swap	**—**	736
Other	**—**	951
	24,556	33,106

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	
	Nine months ended September 30,	
	2022	2021
Settled in Common Shares issued from treasury	**177,425**	23,414
Settled in cash	**295,722**	17,478
	473,147	40,892

The Company's DSUs and PSUs were an expense of $1.0 million for the three months ended September 30, 2022 (three months ended September 30, 2021 – $0.7 million) and $3.8 million for the nine months ended September 30, 2022 (nine months ended September 30, 2021 - $2.7 million).

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

	September 30,	December 31, 2021
Contributed surplus – DSUs	**3,931**	3,323
Contributed surplus – PSUs	**4,082**	4,859
	8,013	8,182

As at September 30, 2022, an aggregate of 4,063,313 (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	
	Nine months ended September 30, 2022	Twelve months ended December 31, 2021	Nine months ended September 30, 2022	Twelve months ended December 31, 2021
Units outstanding, beginning of period	**507,811**	381,731	**1,176,273**	695,087
Granted	**85,863**	98,204	**582,875**	471,712
Reinvested dividend equivalents	**26,858**	27,876	**68,849**	63,983
Forfeited	**—**	—	**(11,863)**	(13,617)
Settled	**—**	—	**(473,147)**	(40,892)
Units outstanding, end of period	**620,532**	507,811	**1,342,987**	1,176,273
Weighted average fair value of units granted during the period at grant date	**$7.08**	$7.72	**$8.07**	$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:

	Nine months ended September 30, 2022		Twelve months ended December 31, 2021	
Grant date	**September 6, 2022**	**March 11, 2022**	March 9, 2021	May 25, 2021
Vesting date	**March 11, 2025**	**March 11, 2025**	March 9, 2024	March 9, 2024
PSUs granted	**49,375**	**533,500**	448,582	23,130
Fair value of AFFO component	**$3.60**	**$3.87**	$3.44	$4.03
Fair value of TSR component	**$4.06**	**$4.24**	$3.85	$4.61
Grant date fair value	**$7.66**	**$8.11**	$7.29	$8.64
Expected volatility of the Company's Common Shares	**23.72 %**	**31.52 %**	32.50 %	33.43 %
Expected volatility of the Index	**16.29 %**	**22.00 %**	21.60 %	22.49 %
Risk-free rate	**3.56 %**	**1.67 %**	0.46 %	0.41 %
Dividend yield	**nil**	**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 and nine months ended September 30, 2022 and 2021, the Company declared cash dividends of $0.12 per share and $0.36 per share, respectively.

Normal Course Issuer Bid ("NCIB")

In June 2022, the Company received approval from the TSX to make a NCIB to purchase for cancellation up to 7,829,630 Common Shares, representing 10% of its public float, through the facilities of the TSX and/or through alternative Canadian trading systems, in accordance with TSX rules. The NCIB commenced on June 30, 2022, and provides the Company with flexibility to purchase Common Shares for cancellation until June 29, 2023, or on such earlier date as the NCIB is complete. The actual number of Common Shares purchased under the NCIB and the timing of any such purchases will be at the Company's discretion. Subject to the TSX's block purchase exception, daily purchases will be limited to 53,068 Common Shares. During the three and nine months ended September 30, 2022, the Company acquired for cancellation 2,199,112 Common Shares at an average price of $7.21 per share, for a total cost of $15.9 million.

Subsequent to September 30, 2022, the Company had purchased for cancellation an additional 1,402,850 Common Shares at a cost of $9.7 million, representing a weighted average price per share of $6.88.

11. EXPENSES BY NATURE

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021[(i)]	**2022**	2021[(i)]
Employee wages and benefits	**247,983**	223,742	**721,532**	681,516
Government grants	**—**	—	**—**	(17,362)
Food, drugs, supplies and other variable costs	**21,506**	17,982	**58,022**	57,448
Property based and leases	**12,720**	10,699	**38,021**	37,313
Other	**16,646**	15,059	**45,315**	45,877
Total operating expenses and administrative costs from continuing operations	**298,855**	267,482	**862,890**	804,792

[(i)] *Comparative figures have been re-presented to reflect discontinued operations (Note 15).*

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., did not apply for CEWS during the three months ended September 30, 2021 and applied for and received $17.4 million in CEWS during the nine months ended September 30, 2021. Payments under the CEWS program 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. The Company has not applied for further CEWS during the three and nine months ended September 30, 2022.

12. OTHER EXPENSE

Strategic Transformation Costs

During the three and nine months ended September 30, 2022, the Company incurred costs related to the strategic transformation of the Company related to the announced transactions with Revera and Axium in respect of the ownership, operation and redevelopment of long-term care homes, pending receipt of regulatory approvals from the Ministry of Long-Term Care in Ontario, Manitoba Health and Winnipeg Regional Health Authority (*Note 16*). Costs incurred include transaction, legal, regulatory, IT integration and management transition costs of $3.6 million and $5.2 million, respectively (three and nine months ended September 30, 2021 – nil).

13. NET FINANCE COSTS

	Three months ended September 30,		Nine months ended September 30,	
	2022	**2021[(i)]**	**2022**	**2021[(i)]**
Interest expense	**5,317**	5,248	**15,397**	15,981
Interest revenue	**(1,386)**	(425)	**(2,677)**	(1,390)
Accretion	**310**	305	**917**	904
Foreign exchange	**—**	(299)	**(70)**	209
Fair value adjustments	**(310)**	(65)	**(210)**	(198)
Net finance costs from continuing operations	**3,931**	4,764	**13,357**	15,506

[(i)] Comparative figures have been re-presented to reflect discontinued operations (Note 15).

14. EARNINGS PER SHARE

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

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2022	**2021[(i)]**	**2022**	**2021[(i)]**
Numerator for Basic and Diluted Earnings per Share				
(Loss) earnings from continuing operations				
Net (loss) earnings for basic earnings per share	**(4,266)**	6,043	**71,247**	15,326
Less: earnings from discontinued operations, net of tax	**(96)**	(3,231)	**(68,054)**	(3,339)
(Loss) earnings from continuing operations for basic earnings per share	**(4,362)**	2,812	**3,193**	11,987
Add: after-tax interest on convertible debt	**1,576**	1,558	**4,711**	4,664
(Loss) earnings from continuing operations for diluted earnings per share	**(2,786)**	4,370	**7,904**	16,651
Net (loss) earnings				
Net (loss) earnings for basic earnings per share	**(4,266)**	6,043	**71,247**	15,326
Add: after-tax interest on convertible debt	**1,576**	1,558	**4,711**	4,664
Net (loss) earnings for diluted earnings per share	**(2,690)**	7,601	**75,958**	19,990
Denominator for Basic and Diluted Earnings per Share				
Actual weighted average number of shares	**88,589,751**	89,562,499	**89,244,435**	89,556,109
Actual weighted average number of DSUs	**588,714**	446,448	**549,834**	416,662
Weighted average number of shares for basic earnings per share	**89,178,465**	90,008,947	**89,794,269**	89,972,771
Shares issued if all convertible debt was converted	**10,326,531**	10,326,531	**10,326,531**	10,326,531
PSUs	**574,463**	450,480	**678,281**	436,013
Total for diluted earnings per share	**100,079,459**	100,785,958	**100,799,081**	100,735,315
Basic Earnings per Share (*in dollars*)				
(Loss) earnings from continuing operations	**$(0.04)**	$0.03	**$0.04**	$0.13
Earnings from discontinued operations	**$0.00**	$0.04	**$0.75**	$0.04
Net (loss) earnings	**$(0.04)**	$0.07	**$0.79**	$0.17
Diluted Earnings per Share (*in dollars*)				
(Loss) earnings from continuing operations	**$(0.04)**	$0.03	**$0.04**	$0.13
Earnings from discontinued operations	**$0.00**	$0.03	**$0.67**	$0.03
Net (loss) earnings	**$(0.04)**	$0.07	**$0.75**	$0.17

[(i)] *Comparative figures have been re-presented to reflect discontinued operations (Note 15).*

15. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

Retirement Living Sale

On May 16, 2022, the Company completed the sale of its retirement living operations to Sienna-Sabra LP ("Sienna") for an aggregate purchase price of $307.1 million, net of an initial working capital adjustment of $0.4 million comprised of cash proceeds of $253.6 million and assumption of mortgages by Sienna of $53.5 million on certain retirement communities. Cash proceeds were used to repay all remaining outstanding indebtedness related to the retirement living operations of $117.9 million, inclusive of debt settlement fees. The net proceeds realized on the transaction, net of debt repayments, taxes, certain closing adjustments and transactions costs, is estimated to be approximately $128.0 million, subject to customary post-closing working capital adjustments.

The Company recorded a gain on sale of $78.8 million, or $67.9 million after current and deferred taxes and closing costs, which is presented in earnings from discontinued operations.

The net assets of the discontinued operation which were transferred to Sienna at May 16, 2022, are as follows:

	May 16, 2022
Property and equipment and intangible assets	**221,197**
Other assets, net	**97**
Long-term debt	**(53,451)**
Net book value of total net assets	**167,843**

Saskatchewan ("SK") 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, was completed in Q4 2022 (*Note 19*). 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 September 30, 2022, are as follows:

	September 30, 2022	**December 31, 2021**
Assets held for sale		
Receivables and other current assets	**975**	1,319
Property and equipment	**5,457**	5,943
Total assets held for sale	**6,432**	**7,262**
Liabilities directly associated with assets held for sale		
Accounts payable and accrued liabilities	**7,702**	11,126
Provisions	**827**	—
Long term debt, net of deferred financing costs	**—**	2,649
Total liabilities directly associated with assets held for sale	**8,529**	**13,775**
Net liabilities directly associated with discontinued operations	**(2,097)**	**(6,513)**

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

Three months ended September 30, 2022	**Retirement Living**	**SK LTC Homes**	**U.S. Sale Transaction[i]**	**Total**
Earnings from Discontinued Operations				
Revenue	—	**13,421**	—	**13,421**
Operating expenses	—	**13,291**	—	**13,291**
Earnings before income taxes	—	**130**	—	**130**
Income tax expense	—	**34**	—	**34**
Earnings from discontinued operations	—	**96**	—	**96**

[i] Discontinued operations for the three months ended September 30, 2021, include income of $3.6 million related to the release of indemnification provisions in connection with obligations retained by the Company following the sale of its former U.S. operations in 2015, and subsequent wind-up of its wholly owned Bermuda-based captive insurance company in 2020.

Three months ended September 30, 2021	**Retirement Living**	**SK LTC Homes**	**U.S. Sale Transaction[i]**	**Total**
Earnings from Discontinued Operations				
Revenue	12,086	13,773	—	25,859
Operating expenses	9,084	14,223	—	23,307
Earnings (loss) before depreciation, amortization, other income, net finance costs, and income taxes	3,002	(450)	—	2,552
Depreciation and amortization	1,697	165	—	1,862
Other income	—	—	(3,688)	(3,688)
Net finance costs	1,220	29	—	1,249
Earnings (loss) before income taxes	85	(644)	3,688	3,129
Current	59	—	46	105
Deferred	(34)	(173)	—	(207)
Income tax expense (recovery)	25	(173)	46	(102)
Earnings (loss) from discontinued operations	60	(471)	3,642	3,231

[i] Discontinued operations for the three months ended September 30, 2021, include income of $3.6 million related to the release of indemnification provisions in connection with obligations retained by the Company following the sale of its former U.S. operations in 2015, and subsequent wind-up of its wholly owned Bermuda-based captive insurance company in 2020.

Nine months ended September 30, 2022	Retirement Living	SK LTC Homes	U.S. Sale Transaction[i]	Total
Earnings from Discontinued Operations				
Revenue	**18,937**	**39,791**	**—**	**58,728**
Operating expenses	**15,058**	**42,491**	**—**	**57,549**
Earnings (loss) before depreciation, amortization, net finance costs, and income taxes	**3,879**	**(2,700)**	**—**	**1,179**
Depreciation and amortization	**565**	**—**	**—**	**565**
Net finance costs	**431**	**—**	**—**	**431**
Earnings (loss) before income taxes	**2,883**	**(2,700)**	**—**	**183**
Current	**297**	**(716)**	**—**	**(419)**
Deferred	**468**	**—**	**—**	**468**
Income tax expense (recovery)	**765**	**(716)**	**—**	**49**
Earnings (loss) from operating activities	**2,118**	**(1,984)**	**—**	**134**
Gain on sale of discontinued operation before income tax	**78,779**	**—**	**—**	**78,779**
Current tax related to gain on sale	**3,842**	**—**	**—**	**3,842**
Deferred tax related to gain on sale	**7,017**	**—**	**—**	**7,017**
Income tax on gain on sale of discontinued operation	**10,859**	**—**	**—**	**10,859**
Earnings (loss) from discontinued operations	**70,038**	**(1,984)**	**—**	**68,054**

[i] Discontinued operations for the nine months ended September 30, 2021, include income of $3.6 million related to the release of indemnification provisions in connection with obligations retained by the Company following the sale of its former U.S. operations in 2015, and subsequent wind-up of its wholly owned Bermuda-based captive insurance company in 2020.

Nine months ended September 30, 2021	Retirement Living	SK LTC Homes	U.S. Sale Transaction[i]	Total
Earnings from Discontinued Operations				
Revenue	36,561	42,574	—	79,135
Operating expenses	26,412	43,875	—	70,287
Earnings (loss) before depreciation, amortization, other income, net finance costs, and income taxes	10,149	(1,301)	—	8,848
Depreciation and amortization	5,350	517	—	5,867
Other income	—	—	(3,688)	(3,688)
Net finance costs	3,309	82	—	3,391
Earnings (loss) before income taxes	1,490	(1,900)	3,688	3,278
Current	140	—	46	186
Deferred	257	(504)	—	(247)
Income tax expense (recovery)	397	(504)	46	(61)
Earnings (loss) from discontinued operations	1,093	(1,396)	3,642	3,339

[i] Discontinued operations for the nine months ended September 30, 2021, include income of $3.6 million related to the release of indemnification provisions in connection with obligations retained by the Company following the sale of its former U.S. operations in 2015, and subsequent wind-up of its wholly owned Bermuda-based captive insurance company in 2020.

For the nine months ended September 30, 2022, net finance costs related to the Retirement Living Sale are made up of net interest expense of $2.0 million (three and nine months ended September 30, 2021 – $1.4 million and $4.4 million, respectively), and fair value adjustments of $1.6 million (three and nine months ended September 30, 2021 $0.2 million and $1.1 million, respectively).

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

Three months ended September 30, 2022	**Retirement Living**	**SK LTC Homes**	**Total**
Cash Flows from Discontinued Operations			
Net cash used in operating activities	—	**(471)**	**(471)**
Effect on cash flows	—	**(471)**	**(471)**

Three months ended September 30, 2021	**Retirement Living**	**SK LTC Homes**	**Total**
Cash Flows from Discontinued Operations			
Net cash from (used in) operating activities	1,378	(482)	896
Net cash used in investing activities	(369)	(313)	(682)
Net cash used in financing activities	(1,316)	(510)	(1,826)
Effect on cash flows	(307)	(1,305)	(1,612)

Nine months ended September 30, 2022	**Retirement Living**	**SK LTC Homes**	**Total**
Cash Flows from Discontinued Operations			
Net cash from (used in) operating activities	**829**	**(5,741)**	**(4,912)**
Net cash from (used in) investing activities	**244,789**	**(7)**	**244,782**
Net cash used in financing activities	**(119,165)**	**(2,631)**	**(121,796)**
Effect on cash flows	**126,453**	**(8,379)**	**118,074**

Nine months ended September 30, 2021	**Retirement Living**	**SK LTC Homes**	**Total**
Cash Flows from Discontinued Operations			
Net cash from (used in) operating activities	5,085	(1,994)	3,091
Net cash used in investing activities	(760)	(585)	(1,345)
Net cash used in financing activities	(5,223)	(1,535)	(6,758)
Effect on cash flows	(898)	(4,114)	(5,012)

16. COMMITMENTS AND CONTINGENCIES

Commitments

As at September 30, 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	13,981	6,896	20,877
2023	54,492	12,661	67,153
2024	3,666	11,319	14,985
2025 and thereafter	—	2,530	2,530
	72,139	33,406	105,545

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 has 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 aggregate cash consideration for the Revera Transactions is approximately $32.5 million plus the assumption of approximately $37.5 million in debt (at Extendicare’s 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. The purchase price is expected to be funded from cash on hand.

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 Extendicare’s existing Ontario Class C homes (the “Axium Transaction”). Axium will own an 85% interest in the joint venture with Extendicare retaining a 15% managed interest. The Company will continue to undertake all development activities in respect of the joint venture homes and will operate the homes upon completion of construction.

As part of the Axium Transaction, Extendicare and Axium have entered into a Master Development Agreement (“Axium MDA”) pursuant to which Extendicare 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/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.

Pursuant to the Axium MDA and the Limited Partnership Agreement between affiliates and/or subsidiaries of Extendicare and Axium, the parties entered into a Purchase and Sale Agreement (“Axium PSA”) whereby the limited partnership has agreed to purchase three Class C home redevelopment projects from the Company comprising an aggregate of 704 funded LTC beds currently under construction in Sudbury, Kingston and Stittsville, Ontario.

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. All required regulatory submissions have been filed.

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 consolidated 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 and 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 consolidated claim seeks damages in the aggregate of $110 million. The plaintiffs served the consolidated claim in June 2022 and the Company delivered its statement of defence in July 2022.

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 September 30, 2022. This matter could have a materially adverse impact on the Company's business, results of operations and financial condition.

17. 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 September 30, 2022, the Company has available undrawn credit facilities totalling $76.9 million (December 31, 2021 – $72.8 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.

	September 30, 2022		December 31, 2021	
	US$	**C$**	***US$***	**C$**
Assets				
Current assets	*1,832*	**2,534**	*11,759*	14,861
Liabilities				
Current liabilities	*725*	**1,003**	*820*	1,036
Net asset exposure	*1,107*	**1,531**	*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 September 30, 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:

	September 30, 2022		December 31, 2021	
	Percentage of Total Debt	**Carrying Amount**	**Percentage of Total Debt**	**Carrying Amount**
Fixed-rate long-term debt(i)	**90.4 %**	**340,698**	87.7 %	478,889
Variable-rate long-term debt(i)	**9.6 %**	**36,345**	12.3 %	67,467
Total	**100.0 %**	**377,043**	100.0 %	546,356

(i) *Includes current portion and excludes netting of deferred financing costs.*

Fair Value Sensitivity Analysis for Variable-rate Instruments

All long-term debt with variable rates are classified as other financial liabilities, which are measured at amortized cost using the effective interest method of amortization; therefore, changes in interest rates would not affect OCI or net earnings with respect to variable-rate debt. As at September 30, 2022, long-term debt with variable rates represented 9.6% 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 September 30, 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 September 30, 2022	**Amortized Cost**	**Fair Value through Profit and Loss**	**Total Carrying Amount**	**Fair Value**	**Fair Value Hierarchy**
Financial assets:					
Cash and cash equivalents	**174,613**	**—**	**174,613**	**174,613**	Level 1
Restricted cash	**2,562**	**—**	**2,562**	**2,562**	Level 1
Accounts receivable	**69,957**	**—**	**69,957**	**69,957**	N/A
Amounts receivable and other assets(i)(ii)	**33,138**	**—**	**33,138**	**31,604**	Level 2
Interest rate swaps	**—**	**114**	**114**	**114**	Level 2
	280,270	**114**	**280,384**	**278,850**	
Financial liabilities:					
Accounts payable	**22,338**	**—**	**22,338**	**22,338**	N/A
Long-term debt (ii) (iii)	**253,598**	**—**	**253,598**	**256,076**	Level 2
Convertible debentures	**123,445**	**—**	**123,445**	**125,817**	Level 1
	399,381	**—**	**399,381**	**404,231**	

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.

18. SEGMENTED INFORMATION

The Company reports the following segments: i) long-term care; ii) home health care; iii) management, consulting and group purchasing 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 (excluding the Saskatchewan LTC Homes). 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 is held for sale as of September 30, 2022. The Company completed the sale of its retirement living segment on May 16, 2022. The two segments are treated as discontinued operations and are therefore, excluded from Continuing Operations (*Note 15*).

	Three months ended September 30, 2022				
(in thousands of Canadian dollars)	**Long-term Care**	**Home Health Care**	**Other Operations**	**Corporate**	**Total**
CONTINUING OPERATIONS					
Revenue	**192,293**	**107,780**	**8,816**	**—**	**308,889**
Operating expenses	**178,440**	**102,592**	**4,331**	**—**	**285,363**
Net operating income	**13,853**	**5,188**	**4,485**	**—**	**23,526**
Administrative costs				**13,492**	**13,492**
Earnings before depreciation, amortization, and other expense				**—**	**10,034**
Depreciation and amortization				**7,558**	**7,558**
Other expense				**3,587**	**3,587**
Earnings before net finance costs and income taxes				**—**	**(1,111)**
Net finance costs				**3,931**	**3,931**
Loss before income taxes				**—**	**(5,042)**
Income tax recovery					
Current				**(25)**	**(25)**
Deferred				**(655)**	**(655)**
Total income tax recovery				**(680)**	**(680)**
Loss from continuing operations					**(4,362)**
DISCONTINUED OPERATIONS					
Earnings from discontinued operations, net of income taxes					**96**
Net loss					**(4,266)**

	Three months ended September 30, 2021[i]				
(in thousands of Canadian dollars)	**Long-term Care**	**Home Health Care**	**Other Operations**	**Corporate**	**Total**
CONTINUING OPERATIONS					
Revenue	175,678	102,042	6,551	—	284,271
Operating expenses	158,832	93,378	3,052	—	255,262
Net operating income	16,846	8,664	3,499	—	29,009
Administrative costs				12,220	12,220
Earnings before depreciation, amortization, and other expense				—	16,789
Depreciation and amortization				7,829	7,829
Earnings before net finance costs and income taxes					8,960
Net finance costs				4,764	4,764
Earnings before income taxes					4,196
Income tax expense (recovery)					
Current				1,637	1,637
Deferred				(253)	(253)
Total income tax expense				1,384	1,384
Earnings from continuing operations					2,812
DISCONTINUED OPERATIONS					
Earnings from discontinued operations, net of income taxes					3,231
Net earnings					6,043

[i] *Comparative figures have been re-presented to reflect discontinued operations (Note 15).*

	Nine months ended September 30, 2022				
(in thousands of Canadian dollars)	**Long-term Care**	**Home Health Care**	**Other Operations**	**Corporate**	**Total**
CONTINUING OPERATIONS					
Revenue	**573,742**	**313,203**	**24,239**	**—**	**911,184**
Operating expenses	**515,678**	**297,096**	**11,567**	**—**	**824,341**
Net operating income	**58,064**	**16,107**	**12,672**	**—**	**86,843**
Administrative costs				**38,549**	**38,549**
Earnings before depreciation, amortization, and other expense					**48,294**
Depreciation and amortization				**23,867**	**23,867**
Other expense				**5,202**	**5,202**
Earnings before net finance costs and income taxes					**19,225**
Net finance costs				**13,357**	**13,357**
Earnings before income taxes					**5,868**
Income tax expense (recovery)					
Current				**5,035**	**5,035**
Deferred				**(2,360)**	**(2,360)**
Total income tax expense				**2,675**	**2,675**
Earnings from continuing operations					**3,193**
DISCONTINUED OPERATIONS					
Earnings from discontinued operations, net of income taxes					**68,054**
Net earnings					**71,247**

	Nine months ended September 30, 2021[i]				
(in thousands of Canadian dollars)	**Long-term Care**	**Home Health Care**	**Other Operations**	**Corporate**	**Total**
CONTINUING OPERATIONS					
Revenue	539,178	300,806	20,841	—	860,825
Operating expenses	495,413	262,139	9,045	—	766,597
Net operating income	43,765	38,667	11,796	—	94,228
Administrative costs				38,195	38,195
Earnings before depreciation, amortization, and other expense					56,033
Depreciation and amortization				22,986	22,986
Earnings before net finance costs and income taxes					33,047
Net finance costs				15,506	15,506
Earnings before income taxes					17,541
Income tax expense (recovery)					
Current				6,474	6,474
Deferred				(920)	(920)
Total income tax expense				5,554	5,554
Earnings from continuing operations					11,987
DISCONTINUED OPERATIONS					
Earnings from discontinued operations, net of income taxes					3,339
Net earnings					15,326

[i] *Comparative figures have been re-presented to reflect discontinued operations (Note 15).*

19. SUBSEQUENT EVENT

On October 9, 2022 the SHA and the Company completed the transition of the operations and delivery of long-term care services to the SHA, including the sale of the property, plant and equipment, certain assets and assumption of certain liabilities by the SHA, for an aggregate purchase price of $13.1 million, subject to certain customary working capital adjustments. The Company expects to record a gain on sale of approximately $4.9 million after current and deferred taxes and closing costs in the fourth quarter of 2022 (*Note 15*).