



SHAREHOLDERS' QUARTERLY REPORT

Q3 2022

Extendicare Inc.
Dated: November 10, 2022



MANAGEMENT'S DISCUSSION AND ANALYSIS

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Three and nine months ended September 30, 2022

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BASIS OF PRESENTATION

This Management's Discussion and Analysis ("MD&A") provides information on Extendicare Inc. and its subsidiaries, and unless the context otherwise requires, references to "Extendicare", the "Company", "we", "us" and "our" or similar terms refer to Extendicare Inc., either alone or together with its subsidiaries. The Company's common shares (the "Common Shares") are listed on the Toronto Stock Exchange ("TSX") under the symbol "EXE". The registered office of Extendicare is located at 3000 Steeles Avenue East, Suite 400, Markham, Ontario, Canada, L3R 4T9.

Extendicare is a recognized leader in the delivery of quality health care services to Canadians across the continuum of seniors' care. In operation since 1968, it is one of the largest private-sector owner/operators of long-term care ("LTC") homes in Canada and the largest private-sector provider of publicly funded home health care services in Canada through its wholly owned subsidiary ParaMed Inc. ("ParaMed"). In addition, the Company provides business-to-business management and consulting services through its Extendicare Assist division and services its homes and communities and those of its clients through its group purchasing division SGP Purchasing Partner Network ("SGP").

In May 2022, the Company completed the previously announced sale of its retirement living operations composed of 11 retirement communities (1,050 suites), located in Ontario and Saskatchewan, to Sienna-Sabra LP, a partnership formed between Sienna Senior Living Inc. and SABRA Healthcare REIT, for an aggregate purchase price of \$307.5 million (the "Retirement Living Sale"). The definitive agreement was entered into in February 2022, accordingly, the Company classified its retirement living segment as discontinued in Q1 2022 and re-presented its comparative consolidated statement of earnings, including the comparative financial information presented in this MD&A (refer to the discussion under "Discontinued Operations – Retirement Living Sale" and *Note 15* of the unaudited interim condensed consolidated financial statements).

In October 2021, the Company announced it was in the process of transitioning the delivery of long-term care services operated at the Company's five LTC homes in Saskatchewan (the "Saskatchewan LTC Homes") to the Saskatchewan Health Authority ("SHA"). In October 2022, the Company completed the transition of the operations and ownership of the Saskatchewan LTC Homes to the SHA for an aggregate purchase price of \$13.1 million (the "Saskatchewan LTC Home Sale") (refer to "Significant Developments – Completed Transition and Sale of Saskatchewan LTC Homes". The Company classified its Saskatchewan LTC Homes as discontinued in Q4 2021 and re-presented its comparative consolidated statement of earnings, including the comparative financial information presented in this MD&A (refer to the discussion under "Discontinued Operations – Saskatchewan LTC Home Sale" and *Notes 15* and *19* of the unaudited interim condensed consolidated financial statements).

In This MD&A

This MD&A has been prepared to provide information to current and prospective investors of the Company to assist them to understand the Company's financial results for the three and nine months ended September 30, 2022. This MD&A should be read in conjunction with the Company's unaudited interim condensed consolidated financial statements for the three

and nine months ended September 30, 2022, and the notes thereto, together with the annual MD&A and the audited consolidated financial statements for the year ended December 31, 2021, and the notes thereto, prepared in accordance with International Financial Reporting Standards (“IFRS”). The accompanying unaudited interim condensed consolidated financial statements for the three and nine months ended September 30, 2022 have been prepared in accordance with the International Accounting Standard (“IAS”) 34 “Interim Financial Reporting”, as issued by the International Accounting Standards Board (“IASB”).

In this document, “Q1” refers to the three-month period ended March 31; “Q2” refers to the three-month period ended June 30; “Q3” refers to the three-month period ended September 30; and “Q4” refers to the three-month period ended December 31. Except as otherwise specified, references to years indicate the fiscal year ended December 31, 2022, or December 31 of the year referenced.

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

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

This MD&A is dated as of November 10, 2022, the date this report was approved by the Company’s board of directors (the “Board of Directors” or “Board”), and is based upon information available to management as of that date. This MD&A should not be considered all-inclusive, as it does not include all changes that may occur in general economic, political and environmental conditions. Additionally, other events may or may not occur, which could affect the Company in the future.

ADDITIONAL INFORMATION

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

FORWARD-LOOKING STATEMENTS

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

Although forward-looking statements are based upon estimates and assumptions that the Company believes are reasonable based upon information currently available, these statements are not representations or guarantees of future results, performance or achievements of the Company and are inherently subject to significant business, economic and competitive uncertainties and contingencies. In addition to the assumptions and other factors referred to specifically in connection with these forward-looking statements, the risks, uncertainties and other factors that could cause the actual results, performance or achievements of the Company to differ materially from those expressed or implied by the forward-looking statements, include, without limitation, the following: the occurrence of a pandemic, epidemic or outbreak of a

contagious illness, such as COVID-19; changes in the overall health of the economy and changes in government; the availability and ability of the Company to attract and retain qualified personnel; changes in the health care industry in general and the long-term care industry in particular because of political, legal and economic influences; changes in applicable accounting policies; changes in regulations governing the health care and long-term care industries and the compliance by the Company with such regulations; changes in government funding levels for health care services; the ability of the Company to renew its government licenses and customer contracts; changes in labour relations, employee costs and pay equity; changes in tax laws; resident care and class action litigation, including the Company's exposure to punitive damage claims, increased insurance costs and other claims; the ability of the Company to maintain and increase resident occupancy levels and business volumes; changes in competition; changes in demographics and local environment economies; changes in interest rates; changes in the financial markets, which may affect the ability of the Company to refinance debt; and the availability and terms of capital to the Company to fund capital expenditures and acquisitions; changes in the anticipated outcome and benefits of proposed or actualized dispositions, acquisitions and development projects, including risks relating to the actual completion of proposed transactions; and those other risks, uncertainties and other factors identified in the Company's other public filings with the Canadian securities regulators available on SEDAR's website at www.sedar.com under the Company's issuer profile.

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

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

SIGNIFICANT DEVELOPMENTS

Societal Reduction of COVID Prevention Measures in the Community is Driving New Outbreaks and COVID-related Staff Absenteeism Throughout Q3 2022

High levels of COVID infections persist across the country and many of the restrictions that were once in place to limit transmission have been dropped, including vaccine mandates and masking in all but the highest risk settings. As we have seen in recent waves, outbreak activity within our LTC homes and staff absenteeism due to COVID exposure is highly correlated with the amount of virus transmission in the community. As a result, throughout Q3 2022, approximately one third of our owned homes were in outbreak each week, though the virus continues to have a significantly milder impact on our resident populations than earlier in the pandemic. As of November 9, 2022, 13 of our owned LTC homes were experiencing a COVID-19 outbreak.

Vaccinations continue to reduce the incidence of serious illness and hospitalization among our residents and have generally led to milder symptoms in family caregivers and those we employ. The introduction of the bivalent vaccines in September offered a new opportunity to encourage all those eligible to receive a booster. We continue to focus on key prevention and containment measures to minimize the spread of the virus, with the knowledge that even milder variants pose a serious risk to the most vulnerable members of our community, particularly among LTC residents.

While we continue to evolve our response to incorporate the latest public health guidance, vaccinations remain a top priority with a renewed emphasis on boosters. In addition, we continue to employ the use of testing, active screening and appropriate PPE as the situation warrants.

LTC Occupancy Improved in Q3 2022; Ongoing Levels of COVID Outbreaks Putting Pressure on Full Year Occupancy Recovery

Despite the prevalence of community infections and LTC home outbreaks in Q3 2022, our LTC homes experienced a sequential improvement in average occupancy of 90 bps to 91.1% in Q3 2022, up from 90.2% in Q2 2022. Average occupancy increased by 240 bps from Q3 2021.

Throughout the pandemic, the sector has received full funding for the third and fourth ward beds no longer in service. In April 2022, the Ontario Ministry of Long-Term Care (“MLTC”) confirmed that the sector will not be returning to ward-style rooms and in August 2022, the MLTC announced that it intends to phase out, beginning January 2023, all funding for ward-style beds no longer in service by April 1, 2025. The Company’s Ontario LTC homes have 185 closed ward-style beds, of which 76 beds will be re-opened when they are redeveloped as private and semi-private rooms in our Kingston and Sudbury redevelopment projects currently under construction. We estimate the NOI impact of the initial phase of the reduction in funding for ward-style beds in 2023 to be approximately \$1.1 million.

Occupancy targets were reinstated on February 1, 2022, requiring LTC homes in Ontario to achieve average occupancy of 97%, adjusted to exclude the third and fourth beds in ward rooms and isolation beds, in order to maintain full funding. The increase in community infection rates and LTC outbreaks in Q3 2022 and into Q4 is anticipated to impact our occupancy recovery and our ability to achieve the required 97% occupancy in all of our Ontario LTC homes. Accordingly, we have provided approximately \$0.8 million to lower our LTC NOI for the nine months ended September 30, 2022 (refer to the discussion under “Key Performance Indicators – Long-term Care”).

Nationwide Health Workforce Shortages Continue to Weigh on Home Health Care Volumes; Seasonal Impacts Contributed to 0.5% Sequential Decline in ADV from Q2 2022

Widespread health human resources challenges continue, as hospitals, long-term care and home care organizations experience staffing shortages that are causing widespread service reductions. Health care staffing challenges continue across the Company and are impacting our home health care segment, making it difficult to grow average daily volume (“ADV”) despite the continued strong demand for services. The staffing shortages are also driving increased costs associated with the existing workforce, primarily by driving up wages and benefits due to overtime and additional travel costs. At the same time, the high level of employee turnover is driving higher recruiting, retention and training costs putting further pressure on our home health care NOI margins.

Although staff absenteeism in the home health care segment peaked in Q1 2022 and improved throughout Q2 2022, newer Omicron sub-variants gave rise to higher levels of infection and community transmission driving increased levels of COVID-19 related staff absenteeism in Q3 2022. Our Q3 2022 ADV of 25,051 was down 0.5% from Q2 2022 and down 1.2% from Q3 2021, driven by ongoing staffing challenges and further exacerbated by the typical seasonal volume reductions experienced in the third quarter.

We continue to focus on building staffing capacity through large scale recruiting and retention efforts, safe return to work protocols for staff impacted by COVID-19 and hiring through our personal support worker (“PSW”) college partnerships and in-house home support working training programs. In addition, various provincial and federal government programs are also targeted at increasing staffing capacity in various areas of the broader health care sector in recognition of the labour shortages, however, these programs will take time to have an impact. While we anticipate ADV recovery will resume as the pandemic and its effects recede and labour market conditions improve, the timing and duration of the expected recovery is difficult to predict.

COVID-19 Related Expenses and Funding

We continue to invest the resources required to help protect our residents, clients and staff and are grateful to receive the ongoing financial support for our LTC operations from provincial governments to offset some of our COVID-19 related expenses.

Our aggregate COVID-19 expenses from continuing operations increased by \$0.4 million to \$22.5 million in Q3 2022 as compared to Q2 2022.

The timing of COVID-19 funding announcements and receipt of any reimbursements continue to create volatility in our financial results. For the nine months ended September 30, 2022, our LTC operations recognized \$16.0 million in prevention and containment funding related to previously unfunded COVID-19 costs incurred in 2021, of which \$1.1 million was recognized in Q3 2022.

As summarized in the table below, during the nine months ended September 30, 2022, we incurred an estimated \$62.1 million of pandemic-related operating expenses, another \$24.4 million associated with government funded temporary pandemic pay programs and \$0.3 million in COVID-19 related administrative costs. These costs were offset by funding of \$94.2 million from various provincial governments, resulting in improvements in our consolidated NOI⁽¹⁾ and Adjusted EBITDA⁽¹⁾ of approximately \$7.7 million and \$7.4 million, respectively. Excluding the impact of \$16.0 million in funding received related to costs incurred in 2021, we incurred unfunded COVID costs of \$8.3 million and \$8.6 million, impacting consolidated NOI and Adjusted EBITDA respectively, for the nine months ended September 30, 2022. Additionally, our discontinued operations were impacted by an estimated \$4.7 million of unfunded COVID-19 costs for the nine months ended September 30, 2022.

Since the beginning of the pandemic in Q1 2020, we have incurred estimated cumulative pandemic-related operating expenses of \$235.5 million, another \$115.2 million associated with government funded temporary pandemic pay programs and \$6.7 million in COVID-19 related administrative costs. These costs were partially offset by funding of \$219.3 million from various provincial governments, resulting in cumulative reductions in our consolidated NOI and Adjusted EBITDA of approximately \$16.2 million and \$22.9 million, respectively. In addition, our discontinued operations realized an estimated \$12.8 million of cumulative unfunded COVID-19 costs.

In April 2022, the Ontario MLTC announced additional COVID-19 prevention and containment funding of \$278.0 million for April 1, 2022 through to March 31, 2023, which was fully allocated in Q2 and Q3 2022. Given the ongoing level of outbreaks being experienced in our LTC homes, we expect to continue to incur costs associated with the pandemic in Q4 2022 and beyond. While no additional funding to support extra costs has been announced by the Government of Ontario as yet, it has indicated its intention to continue to monitor the evolution of the pandemic and to adjust funding levels should circumstances change. Presently, the Alberta and Manitoba governments have indicated their intention to continue to provide funding support for prevention and containment measures for the foreseeable future.

Although we are encouraged by the ongoing support received to date and the potential for additional funding announcements, we expect timing of costs and funding relating to the pandemic will continue to cause volatility in our operating and financial results. The financial impacts of COVID-19 will largely subside as we emerge from the pandemic; however, there is no guarantee as to how soon that may be or that another pandemic, epidemic or outbreak will not have a material adverse effect on the business, results of operations and financial condition of the Company.

The following table provides a summary of the estimated revenue recognized and the operating and administrative costs incurred related to COVID-19 for the past eight quarters, year-to-date and annually since the start of the pandemic in Q1 2020. The temporary pandemic pay premiums funded by the Ontario and Alberta governments are included in operating expenses and the related offsetting funding for these programs is recognized as revenue.

Estimated COVID-19 Revenue, Operating Expenses and Administrative Costs

<i>(millions of dollars)</i>	2022					2021					2020	
	Q3	Q2	Q1	YTD Q3	Q4	Q3	Q2	Q1	YTD Q3	Year	Q4	Year
Revenue												
Long-term care ⁽ⁱ⁾	18.7	17.0	43.1	78.8	27.4	23.3	24.7	45.8	93.8	121.2	24.1	62.5
Home health care	3.3	4.5	7.6	15.4	8.7	7.7	7.8	8.8	24.3	33.0	6.4	23.6
Revenue impact	22.0	21.5	50.7	94.2	36.1	31.0	32.5	54.6	118.1	154.2	30.5	86.1
Operating Expenses												
Long-term care	18.4	16.1	32.3	66.8	21.3	21.9	30.1	44.9	96.9	118.2	31.9	85.3
Home health care	4.0	5.9	9.8	19.7	9.8	8.2	8.8	9.0	26.0	35.8	7.2	24.9
Operating expenses impact	22.4	22.0	42.1	86.5	31.1	30.1	38.9	53.9	122.9	154.0	39.1	110.2
NOI												
Long-term care	0.3	0.9	10.8	12.0	6.1	1.4	(5.4)	0.9	(3.1)	3.0	(7.8)	(22.8)
Home health care	(0.7)	(1.4)	(2.2)	(4.3)	(1.1)	(0.5)	(1.0)	(0.2)	(1.7)	(2.8)	(0.8)	(1.3)
NOI impact	(0.4)	(0.5)	8.6	7.7	5.0	0.9	(6.4)	0.7	(4.8)	0.2	(8.6)	(24.1)
Administrative costs	0.1	0.1	0.1	0.3	0.1	0.8	1.1	0.9	2.8	2.9	0.7	3.5
Adjusted EBITDA impact	(0.5)	(0.6)	8.5	7.4	4.9	0.1	(7.5)	(0.2)	(7.6)	(2.7)	(9.3)	(27.6)
Discontinued operations impact	(0.5)	(1.0)	(3.2)	(4.7)	(0.7)	(0.8)	(2.0)	(2.1)	(4.9)	(5.6)	(1.0)	(2.5)
Total impact	(1.0)	(1.6)	5.3	2.7	4.2	(0.7)	(9.5)	(2.3)	(12.5)	(8.3)	(10.3)	(30.1)

(i) Q3 2022 includes an aggregate \$1.1 million in funding from the western provinces towards costs incurred in 2021; Q2 2022 includes \$1.6 million in funding from the western provinces towards costs incurred in 2021; Q1 2022 includes Ontario funding of \$13.3 million towards costs incurred in 2021. Q1 2021 includes funding of \$18.8 million (\$18.2 million for Ontario) towards costs incurred in 2020; Q3 2021 and Q4 2021 include Ontario funding of \$5.1 million and \$11.9 million, respectively, towards costs incurred in Q1 2021.

Construction Cost Inflation and Rising Interest Rates Impeding Redevelopment Progress

Since the introduction of the Long-Term Care Home Capital Development Funding program in 2020 (the “New Funding Program”), the MLTC has awarded more than 58,000 new and redeveloped beds, taking steps to address the aging infrastructure within long-term care and improving the quality of care for our LTC residents. We have been awarded 4,248 new or replacement beds across 20 redevelopment projects, which would replace all of our 3,285 existing Class C beds, including the three projects currently under construction.

Rising construction costs and interest rates, labour disruptions and supply chain issues being experienced throughout the construction industry are making it challenging to begin construction on additional homes. We are working collaboratively with our industry partners and the government to enhance the New Funding Program to make economically feasible as many of these redevelopment projects as possible. We continue to work through the MLTC and municipal approval processes and anticipate having as many as six more projects ready to break ground before the end of 2023.

The Company’s three homes under construction in Sudbury, Kingston and Stittsville, Ontario continue to progress toward completion between Q3 2023 and Q1 2024. The three projects will replace a total of 624 Class C LTC beds with 704 new beds and represent a net investment of \$181.2 million. The homes are being constructed exclusively with private and semi-private rooms, the latter of which accommodate two residents in separate bedrooms with a shared bathroom. For more information refer to the discussion under “Key Performance Indicators – LTC Projects Under Construction”.

Advancing Regulatory Approvals and Integration Planning for Strategic Transactions with Revera and Axiom to Expand Long-term Care

On March 1, 2022, the Company entered into agreements with Revera and Axiom in respect of the ownership, operation and redevelopment of LTC homes in Ontario and Manitoba.

HIGHLIGHTS OF THE TRANSACTIONS

- Adds 56 LTC homes to the Extencicare Assist portfolio of managed homes, bringing the total homes owned and/or managed to 164
- Extencicare to acquire Revera's 15% managed interest in a portfolio of 24 LTC homes owned in partnership with Axiom, and an opportunity to purchase future Revera redevelopment projects
- The 56 LTC homes will also join SGP, representing approximately 7,700 additional beds for the purchasing partnership
- Revera's LTC operations team to join Extencicare to advance the delivery of high-quality care and services across all of our homes
- Extencicare to form a joint venture with Axiom for the redevelopment of "Class C" homes owned by Extencicare

These transactions, combined with the Retirement Living Sale, transition Extencicare's strategy to focus on long-term care and home health care using a less capital-intensive business model. The Company will focus its growth on operating and building new LTC homes, while substantially reducing the amount of its own capital required to redevelop its "Class C" portfolio, providing the Company to deploy capital more efficiently and provide greater flexibility for growth initiatives, including acquisitions.

THE 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 Axiom, 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 Axiom and Extencicare 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. These 32 homes consist of approximately 3,800 funded LTC beds and 880 private pay assisted living beds. The management agreements are on customary terms for agreements of this type. In addition, the Company will enter into development arrangement agreements with Revera in respect of the potential redevelopment of the Revera managed Class C homes in Ontario into new homes (collectively with the Revera Acquisition, the "Revera Transactions").

Pursuant to the development arrangement agreements, Revera will grant Extencicare (either alone or with Axiom) 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 Extencicare 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. Upon completion of any approved redevelopment project, the home would be acquired by Extencicare (either alone or with Axiom) and Extencicare would operate the homes on the same terms as it will operate the homes to be acquired in the Revera Acquisition. There are currently four Class C homes comprising an aggregate of approximately 700 funded LTC beds that are in advanced stages of redevelopment, one of which is currently under construction, that Extencicare expects it will participate in along with Axiom, subject to customary conditions. However, no assurance can be given as to whether those projects, or any other redevelopment projects, will ultimately proceed or be acquired by Extencicare.

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. All required regulatory submissions have been filed.

The aggregate cash consideration for the Revera Transactions is approximately \$32.5 million plus the assumption of approximately \$37.5 million in debt (at Extencicare'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.

Based on the anticipated revenue of the 56 managed LTC homes and the Company's incremental costs in respect of such management, the Revera Transactions would have generated for 2022 approximately \$17.0 million in incremental annual revenue in our Other Operations segment and, excluding integration costs, NOI and AFFO of approximately \$7.6 million and \$4.3 million (\$0.042 AFFO per basic share), respectively.

In addition, an estimated \$1.0 million in AFFO (\$0.01 AFFO per basic share) would have been received in 2022 through distributions in respect of our 15% interest in the 24 LTC homes to be jointly owned with Axiom.

THE AXIUM TRANSACTION

In addition to the Revera Transactions, the Company entered into an agreement with Axiom in respect of the formation of a joint venture with Axiom to jointly redevelop certain of Extencicare's existing Ontario Class C homes (the "Axiom Transaction" and, with the Revera Transactions, the "Revera and Axiom Transactions"). Axiom will own an 85% interest in the joint venture with Extencicare 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 Axiom Transaction, Extencicare and Axiom have entered into a Master Development Agreement ("Axiom MDA") pursuant to which Extencicare has granted Axiom a right to participate in the redevelopment of five of Extencicare'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 Axiom. 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 Axiom participates. Upon receipt of necessary redevelopment approvals, the home would be acquired by the Extencicare/Axiom 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 Axiom MDA and the Limited Partnership Agreement between affiliates and/or subsidiaries of Extencicare and Axiom, the parties entered into a Purchase and Sale Agreement ("Axiom 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. Based upon the estimated Stabilized NOI, annual construction funding subsidy and estimated Adjusted Development Costs of the three Class C home redevelopment projects, as adjusted for delays in the scheduled opening dates for certain projects and increased Adjusted Development Costs, the estimated implied realized capitalization rate on the sale is approximately 7.00%-7.25% (previously estimated 6.75% to 7.00%) (see "Key Performance Indicators – LTC Projects Under Construction").

The Axiom 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.

Normal Course Issuer Bid ("NCIB")

As at November 9, 2022, the Company had purchased for cancellation 3,601,962 Common Shares at a cost of \$25.5 million, representing a weighted average price per share of \$7.08 under its NCIB established in June 2022 (see "Liquidity and Capital Resources – Normal Course Issuer Bid"). The Company's board of directors authorized the NCIB subsequent to the sale of the retirement living segment completed in May 2022, as a way to provide the Company with additional flexibility to manage capital, because it believes that, from time to time, the market price of the Common Shares may be such that their purchase may be an attractive and appropriate use of corporate funds. Decisions regarding the timing of future purchases of Common Shares will be based on market conditions, share price and the outlook for capital needs, which includes the impact of the announced strategic transactions with Revera and Axiom.

Completed Transition and Sale of Saskatchewan LTC Homes

On October 9, 2022, the SHA and the Company completed the previously announced transition of operations of long-term care services at the Company's five LTC homes to the SHA, including the sale of the homes, certain other assets and assumption of certain liabilities by the SHA, for an aggregate purchase price of \$13.1 million. The Company is expecting to record a gain on sale, net of tax and closing costs of approximately \$4.9 million in Q4 2022. These operations contributed a loss of \$2.0 million to AFFO⁽¹⁾ (\$0.02 AFFO loss per basic share) for the nine months ended September 30, 2022 and a loss of \$1.4 million (\$0.02 AFFO loss per basic share) for the year ended December 31, 2021 (refer to the discussion under "Discontinued Operations" and *Notes 15 and 19* of the unaudited interim condensed consolidated financial statements).

Regulatory Developments

On May 31, 2022, the Government of Alberta's *Continuing Care Act* (formerly Bill 11) received Royal Assent. The *Continuing Care Act* replaces multiple acts with one piece of streamlined legislation and establishes authority and oversight for licensing, accommodations and the delivery of publicly funded health care in the continuing care system, including home and community care, supportive living accommodations, palliative and end-of-life care and long-term care and designated supportive living. The act introduces a licensing framework for continuing care home operators and also enhances administrative penalties and fines for contravention of the act and regulations. The regulations are under development and are anticipated to include items related to accountability for staffing levels, such as hours of care and skill mix. The *Continuing Care Act* is expected to come into force by mid-2023 after the approval of regulations and standards.

On May 1, 2022, the Government of Ontario's *Home Care and Community Services Act, 1994* and its regulations were repealed and Bill 175, *Connecting People to Home and Community Care Act, 2020* and a first set of new home and community care regulations was proclaimed into force. This new legislation and regulations seek to provide a modernized framework for the delivery of home and community care services within an integrated health care system.

On April 28, 2022, as part of the Ontario government's *A Plan to Stay Open*, the Ontario government announced in its budget an additional \$1.0 billion in funding over the next three years to expand home care in an effort to help seniors and recovering patients stay in their homes. The funding will seek to benefit the nearly 700,000 families who rely on home care annually, prevent unnecessary hospital and long-term care admissions and shorten hospital stays. This funding will support expanded home care services, including the recruiting and training of more home care workers, and builds on the \$548.5 million over three years to expand home care services that was announced in Ontario's 2021 Fall Economic Statement. As part of this initiative, the government implemented billing rate increases retroactive to April 1, 2022, for personal support and professional services contracts (refer to the discussion under "Business Overview – Home Health Care – Home Health Care Funding Changes").

On April 14, 2022, the Government of Ontario's *Pandemic and Emergency Preparedness Act, 2022* (formerly Bill 106), received Royal Assent. As part of the province's *A Plan to Stay Open*, introduced in March 2022, Bill 106, among other things, made permanent the \$3/hour wage enhancement that PSWs providing publicly funded services in hospitals, LTC, home and community care have been receiving since October 1, 2020. The new legislation will also make it easier for foreign-credentialed health workers to begin practicing in Ontario and commits to recruiting and retaining more healthcare staff through a \$142 million grant.

The *Fixing Long-Term Care Act, 2021* (formerly Bill 37), received Royal Assent on December 9, 2021 and came into effect on April 11, 2022, along with the first tranche of accompanying regulations. The act replaces the *Long-Term Care Homes Act, 2007* and emphasizes improving staffing and care; protecting residents through better accountability, enforcement and transparency; and building modern, safe comfortable homes for seniors. Among other things, the act includes a target to increase average hours of direct care per resident per day to four hours by March 31, 2025 (with phased-in funding that started in November 2021), doubles fines as a financial deterrent for non-compliance and allows the Minister to establish policy that would be used in lieu of individual licensing determinations, thus streamlining the approval process.

BUSINESS OVERVIEW

As at September 30, 2022, the Company owned and operated 58 LTC homes and provided management services to 50 LTC homes and retirement communities for third parties through Extencicare Assist. In total, Extencicare operated or provided management services to a network of 108 LTC homes and retirement communities across four provinces in Canada, with capacity for 14,401 residents. The majority of these homes are in Ontario and Alberta, which accounted for approximately 77% and 12% of residents served, respectively. This overview includes the Saskatchewan LTC Homes which we operated prior to the completion of the agreement to transition ownership and operations to the SHA effective October 9, 2022, and excludes the retirement living segment that was sold in May 2022, both of which have been classified as discontinued operations, refer to "Discontinued Operations".

In addition to providing group purchasing services to the Company's own operations, SGP supports third-party clients representing approximately 107,000 beds across Canada, as at September 30, 2022.

The Company's home health care operations, ParaMed, delivered approximately 9.2 million hours of home health care services for the trailing twelve months ended September 30, 2022. The majority of ParaMed's volumes are generated in Ontario and Alberta, representing 93% and 4%, respectively.

The Company reports on 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 following table summarizes the contribution of the business segments to the Company’s consolidated revenue and NOI from continuing operations for the nine months ended September 30, 2022 and 2021 and year ended December 31, 2021. The impact of COVID-19 on all segments and of the Canada Emergency Wage Subsidy (“CEWS”) on the home health care segment affects the comparability of the contributions of the business segments to the Company’s consolidated revenue and NOI. Refer to “Significant Developments – COVID-19 Related Expenses and Funding”, “Select Quarterly Financial Information”, “2022 Third Quarter Financial Review” and “2022 Nine Month Financial Review” for additional details to understand the impacts on the business segments.

Operating Segments as % of	Nine months ended September 30,		Year ended December 31,		2021	
	2022	2021	2021	2021	2021	2021
	Revenue	NOI	Revenue	NOI	Revenue	NOI
Long-term care	63.0 %	66.9 %	62.6 %	46.5 %	62.4 %	50.6 %
Home health care	34.4 %	18.5 %	35.0 %	41.0 %	35.2 %	37.3 %
Other	2.6 %	14.6 %	2.4 %	12.5 %	2.4 %	12.1 %
Total	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %

The following describes the operating segments of the Company.

Long-term Care

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

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

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

The following summarizes the government funding rate changes announced for LTC during 2021 and 2022 in Ontario, Alberta and Manitoba, exclusive of one-time funding in respect of COVID-19 (refer to the discussion under “Significant Developments – COVID-19 Related Expenses and Funding”).

ONTARIO LTC FUNDING CHANGES

Effective April 28, 2022, the Government of Ontario made permanent the \$3/hour wage enhancement that PSWs working in LTC homes had been receiving since October 1, 2020. The Company estimates that this increase will result in additional annual funding of approximately \$15.0 million to support the associated increased labour costs.

Effective April 1, 2022, the MLTC implemented a blended level of care funding increase of 1.75%, representing a combination of a 15% increase in nutritional support, a 1.5% increase in the remaining flow-through envelopes and a nominal increase in the accommodation envelope. These changes represent incremental annual revenue of approximately \$6.0 million to the flow-through envelopes (2021 – 1.5% effective April 1, 2021, representing incremental annual revenue of \$5.1 million, of which \$1.6 million was applicable to the accommodation envelope).

In November 2021, the MLTC implemented the first phase of its LTC Staffing Plan to increase the level of direct care for LTC residents over four years. Based on the incremental funding per LTC bed per month included in the announcement, the Company estimates that this will provide incremental revenue in 2022 of approximately \$40.0 to \$45.0 million through the nursing and program flow-through envelopes, where any funding not spent on resident care is returned to the government.

In respect of the preferred accommodation premiums paid for by residents to LTC providers for private and semi-private accommodation, the MLTC implemented increases on July 1, 2020 and July 1, 2021 of 1.9% and 0.7%, respectively. To provide relief to families experiencing challenges due to COVID-19, these increases to residents were deferred until October 1, 2022, and LTC providers were compensated directly by the MLTC in the interim. On September 1, 2022, the MLTC announced a 2.5% rate increase, effective October 1, 2022 on the preferred accommodation premiums based on 2020 rates. For older LTC beds that are not classified as “New” or “A” beds, the maximum daily preferred accommodation premiums are \$8.74 and \$19.65 for semi-private and private rooms, respectively. For newer LTC beds that are classified as “New” or “A” beds, the maximum daily preferred accommodation premiums are \$13.10 and \$27.31 for semi-private and private rooms, respectively.

ALBERTA LTC FUNDING CHANGES

In July 2022, AHS announced adjustments to the portion of government funding for providers of LTC and designated supportive living homes retroactive to April 1, 2022, which are estimated to represent additional annual revenue for the Company of approximately \$0.2 million (2021 – effective April 1, 2021, \$0.1 million).

In March 2022, AHS announced a 5.5% annual inflationary increase for the portion of the accommodation rates paid directly by residents of LTC and designated supportive living homes to providers. The increase took effect July 1, 2022, and is being phased in for the residents, with 3.2% starting November 1, 2022 and the balance on July 1, 2023. AHS will compensate operators directly for the difference during the deferral period. This increase represents additional annual revenue for the Company of approximately \$2.3 million (2021 – 0.6% effective July 1, 2021, \$0.2 million).

MANITOBA LTC FUNDING CHANGES

In March 2022, Manitoba Health implemented a global funding increase for LTC operators in support of union wage settlements in the form of a baseline operating funding increase and retroactive one-time funding amount retroactive to April 1, 2017. As a result, the Company recognized additional revenue of \$3.3 million in Q1 2022, of which \$2.9 million related to prior periods. The base line funding increase represents additional annual revenue for the Company of approximately \$1.4 million. The Company had previously accrued for the anticipated increased costs associated with the union wage settlements.

Home Health Care

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

Provincial governments fund a wide range of home health care services and contract these services to providers such as ParaMed. ParaMed receives approximately 99% of its revenue from contracts tendered by locally administered provincial agencies, with the remainder coming from private clients.

HOME HEALTH CARE FUNDING CHANGES

Effective April 28, 2022, the Government of Ontario made permanent the \$3/hour wage enhancement that PSWs providing publicly funded services in home and community care had been receiving since October 1, 2020. The impact of this change is estimated to increase annual revenue by approximately \$25.7 million, based on ADV and mix of home health care services provided for the trailing twelve months ended September 30, 2022. Given the flow-through nature of the wage enhancement this adjustment will have no impact on NOI.

Effective April 1, 2022, the Government of Ontario increased home health care billing rates by 3% for personal support contracts and 5% for nursing and allied health contracts. Based on ADV and mix of home health care services provided for the trailing twelve months ended September 30, 2022, these rate increases are estimated to increase annual revenue by approximately \$13.0 million and help offset wage and benefit increases and increased recruitment costs in the home health division.

In October 2021, the Government of Ontario implemented increased home health care billing rates for government contracted services by approximately 1.9%, effective April 1, 2021. In addition, AHS increased home health care billing rates by 1%, effective April 1, 2021. These Ontario and Alberta billing rate increases resulted in additional revenue received by ParaMed of \$5.1 million in Q4 2021, of which the retroactive component was \$3.5 million.

Other Operations

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

MANAGEMENT AND CONSULTING SERVICES

Through its Extendicare Assist division, the Company provides a wide range of management and consulting services to third parties. Extendicare Assist provides services to not-for-profit and for-profit organizations, hospitals and municipalities seeking to improve their management practices, quality of care practices and operating efficiencies. Extendicare Assist provides a broad range of services aimed at meeting the needs of its clients, including: financial administration, record keeping, regulatory compliance and purchasing. In addition, Extendicare Assist provides consulting services to third parties for the development and redevelopment of LTC homes. Extendicare Assist's management services portfolio consisted of 50 LTC homes and retirement communities with capacity for 6,263 residents as at September 30, 2022.

GROUP PURCHASING SERVICES

Through its SGP division, the Company offers cost-effective purchasing contracts to other senior care providers for food, capital equipment, furnishings, cleaning and nursing supplies and office products. SGP negotiates long-term, high volume contracts with suppliers that provide members with preferred pricing, thereby providing a cost-effective means to secure quality national brand-name products, along with a range of innovative services. As at September 30, 2022, SGP provided services to third parties representing approximately 107,000 beds across Canada.

KEY PERFORMANCE INDICATORS

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

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

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

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

Long-term Care

The following table provides the average occupancy levels of the LTC operations, excluding the Saskatchewan LTC Homes that have been classified as held for sale, for the past eight quarters.

Long-term Care Homes Average Occupancy (%)	2022			2021			2020	
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Total LTC	91.1 %	90.2 %	88.6 %	89.8 %	88.7 %	85.7 %	83.4 %	87.5 %
Change over prior year period (bps)	240	450	520	230	(110)	(760)	(1,360)	(810)
Sequential quarterly change (bps)	90	160	(120)	110	300	230	(410)	(230)
Ontario LTC								
Total ON LTC	89.9 %	88.8 %	87.2 %	87.8 %	86.6 %	82.8 %	80.3 %	85.3 %
Preferred Accommodation ⁽ⁱ⁾								
"New" homes – private	86.3 %	86.4 %	85.9 %	87.9 %	85.6 %	83.6 %	82.6 %	88.4 %
"C" homes – private	87.2 %	85.8 %	83.5 %	83.9 %	79.9 %	81.0 %	76.6 %	80.7 %
"C" homes – semi-private	52.6 %	54.3 %	53.1 %	54.1 %	51.3 %	49.3 %	50.0 %	54.6 %

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

The Company's LTC occupancy levels have been negatively impacted by COVID-19 since March 2020. In the last half of 2021, average occupancy levels improved following the success of the vaccination program and easing of restrictions during that period. However, a combination of seasonal factors and the surge of COVID-19 related outbreaks driven by the initial Omicron variant slowed the pace of occupancy recovery and contributed to a sequential decline in Q1 2022. Subsequent to Q1 2022, occupancy has improved; however, the emergence of new Omicron variants during Q2 and Q3 2022 continue to weigh on the pace of the recovery. Our average occupancy was 91.1% in Q3 2022, up 240 bps from Q3 2021 and up 90 bps from Q2 2022.

In Ontario, overall government funding is occupancy-based, but once the average occupancy level of 97% or higher for the calendar year is achieved, operators receive government funding based on 100% occupancy. In the event of closure to admissions related to an outbreak, which is not unusual during the winter months, full funding is preserved in Ontario, otherwise referred to as occupancy protection funding. Prior to the onset of COVID-19 in 2020, the Company's Ontario LTC homes generally averaged above the 97% occupancy threshold, with all but one having done so in 2019. In response to financial pressures caused by the impacts of COVID-19 on occupancy levels, the Government of Ontario provided basic occupancy protection funding for all LTC homes for 2020 and through to the end of January 2022, including for third and fourth beds in ward rooms taken out of service and isolation beds. The average occupancy of our Ontario LTC homes, adjusted to exclude 185 ward-style beds not in use, and isolation beds, was 97.3% and 96.5% for the three and eight months ended September 30, 2022, respectively, up from 96.0% for the five months ended June 30, 2022. The continuing incidence of LTC outbreaks in Q3 2022 and subsequent to the quarter is anticipated to impact our occupancy recovery progress and our ability to achieve the required 97% occupancy in all of our Ontario LTC homes. Accordingly, we have provided approximately \$0.8 million to lower our LTC NOI for the nine months ended September 30, 2022. Occupancy protection does not compensate for the loss of preferred accommodation premiums from private and semi-private room vacancies. The reduction in preferred accommodation premiums for the year ended December 31, 2021, was approximately \$1.1 million from 2020 levels and we continue to work towards returning our preferred occupancy revenue to pre-pandemic levels.

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

LTC Projects Under Construction

The following table summarizes the LTC projects that are under construction:

LTC Project	# of Beds	Construction Commenced	Expected Opening	Estimated Adjusted Development Costs ⁽¹⁾ (\$ millions)	Adjusted Development Costs ⁽¹⁾		Annual CFS ⁽ⁱ⁾ (\$ millions)	Estimated Stabilized NOI ⁽¹⁾ (\$ millions)	Expected NOI Yield ⁽¹⁾
					Incurring as at	September 30, 2022			
Sudbury	256	Q4-20	Q3-23	65.0		36.3	1.9	3.1	7.7 %
Kingston	192	Q2-21	Q4-23	46.7		18.0	1.4	2.3	8.0 %
Stittsville	256	Q4-21	Q1-24	69.5		27.0	2.2	3.0	7.6 %
704				181.2		81.3	5.5	8.4	7.7 %

(i) "CFS" means the Government of Ontario's capital construction funding subsidy for qualifying newly constructed or renovated LTC homes, payable over 25 years following completion of the project.

The construction industry across Ontario is experiencing significant inflationary cost increases, disruptions in the labour forces across various trades and supply chain issues. We have experienced labour disruptions, including strike actions of selected trades, and supply chain issues across our current construction projects, which are impacting projected completion and opening dates. These delays may result in cost increases that could be in excess of the contingency levels included in our estimated Adjusted Development Costs. We continue to work with our general contractors and construction partners to identify opportunities to mitigate the impacts of these factors on schedules and costs.

Home Health Care

AVERAGE DAILY VOLUME

The table set out below provides the service volumes and ADV of the home health care operations for the past eight quarters.

The peak impact of COVID-19 on ParaMed's ADV occurred in April 2020, after which we saw a steady recovery in our ADV levels through to the end of 2021. Despite the various COVID-19 lockdowns and traditional seasonal impacts, recovery of our workforce capacity throughout 2021 allowed our ADV levels to return to pre-pandemic levels by Q2 2021 and remained at those levels through the balance of 2021. Referral activity remains above pre-COVID-19 levels as strong demand for home health care services continues. However, our progress has been constrained by the dramatic impact of Omicron and its sub-variants on our workforce capacity, exacerbated by an increasingly tight labour market. We had as many as 900 staff on medical leave due to COVID-19 at its peak in late January 2022, which continued to varying degrees through Q2 and Q3 2022 as newer Omicron sub-variants gave rise to higher levels of infection and community transmission (refer to the discussion under "Significant Developments – Nationwide Health Workforce Shortages Continue to Weigh on Home Health Care Volumes; Seasonal Impacts Contributed to 0.5% Sequential Decline in ADV from Q2 2022"). As a result, our Q3 2022 ADV of 25,051 was down 0.5% from Q2 2022, and down 1.2% from Q3 2021.

Home Health Care Service Volumes	2022			2021			2020	
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Hours of service (000's)	2,304.7	2,290.9	2,209.7	2,373.2	2,331.7	2,299.0	2,191.7	2,202.7
ADV	25,051	25,174	24,552	25,796	25,345	25,264	24,352	23,943
Change over prior year period	(1.2)%	(0.4)%	0.8 %	7.7 %	11.4 %	24.0 %	(1.3)%	(5.4)%
Sequential quarterly change	(0.5)%	2.5 %	(4.8)%	1.8 %	0.3 %	3.7 %	1.7 %	5.2 %

Other Operations

The following table provides information in respect of the third-party clients receiving services from Extendicare Assist and SGP at the end of each period for the past eight quarters. The reduction in Extendicare Assist's management services portfolio during 2021 reflects changes resulting from homes that were either closed or sold. At September 30, 2022, Extendicare Assist was providing management services to third-parties representing 50 LTC homes and retirement communities with capacity for 6,263 senior residents. SGP continues to grow its market share, increasing its third-party beds served by 21.0% at the end of Q3 2022 from Q3 2021, and by 4.7% from Q2 2022.

Other Operations	2022				2021			2020
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Extendicare Assist Management Services								
Homes at period end	50	50	50	50	51	51	51	52
Resident capacity	6,263	6,263	6,263	6,263	6,359	6,359	6,359	6,379
Change over prior year period	(1.5)%	(1.5)%	(1.5)%	(1.8)%	(2.8)%	(2.8)%	(3.7)%	(3.4)%
Sequential quarterly change	— %	— %	— %	(1.5)%	— %	— %	(0.3)%	(2.5)%
SGP Clients								
Third-party beds	106,989	102,219	98,845	93,208	88,431	83,511	81,110	78,937
Change over prior year period	21.0 %	22.4 %	21.9 %	18.1 %	11.4 %	11.1 %	11.3 %	21.9 %
Sequential quarterly change	4.7 %	3.4 %	6.0 %	5.4 %	5.9 %	3.0 %	2.8 %	(0.5)%

SELECT QUARTERLY FINANCIAL INFORMATION

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

(thousands of dollars unless otherwise noted)	2022 ⁽²⁾				2021 ⁽³⁾			2020 ⁽³⁾
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenue	308,889	296,585	305,710	306,162	284,271	281,693	294,861	280,231
Net operating income ⁽¹⁾	23,526	30,341	32,976	38,741	29,009	28,900	36,319	52,441
NOI margin ⁽²⁾	7.6%	10.2%	10.8%	12.7%	10.2%	10.3%	12.3%	18.7%
Adjusted EBITDA ⁽¹⁾	10,034	18,057	20,203	24,505	16,789	15,466	23,778	37,683
Adjusted EBITDA margin ⁽¹⁾	3.2%	6.1%	6.6%	8.0%	5.9%	5.5%	8.1%	13.4%
(Loss) earnings from continuing operations	(4,362)	3,510	4,045	(4,483)	2,812	1,663	7,512	15,689
per basic share (\$)	(0.04)	0.04	0.04	(0.06)	0.03	0.02	0.08	0.17
per diluted share (\$)	(0.04)	0.04	0.04	(0.06)	0.03	0.02	0.08	0.17
(Loss) earnings from operating activities of discontinued operations	96	(37)	75	661	3,231	(703)	811	1,787
Gain on sale of discontinued operations, net of income taxes	—	67,920	—	—	—	—	—	—
Net (loss) earnings	(4,266)	71,393	4,120	(3,822)	6,043	960	8,323	17,476
per basic share (\$)	(0.04)	0.79	0.04	(0.04)	0.07	0.01	0.09	0.19
per diluted share (\$)	(0.04)	0.72	0.04	(0.04)	0.07	0.01	0.09	0.19
AFFO ⁽¹⁾	2,112	9,624	12,518	16,530	9,573	8,073	19,545	21,804
per basic share (\$)	0.02	0.11	0.14	0.18	0.11	0.09	0.22	0.24
per diluted share (\$)	0.02	0.11	0.13	0.17	0.11	0.09	0.21	0.23
Maintenance capex	4,240	2,700	1,412	5,472	3,833	3,746	1,033	7,573
Cash dividends declared	10,584	10,754	10,750	10,746	10,752	10,744	10,752	10,743
per share (\$)	0.120	0.120	0.120	0.120	0.120	0.120	0.120	0.120
Weighted Average Number of Shares (000's)								
Basic	89,178	90,139	90,075	90,040	90,009	89,980	89,929	89,898
Diluted	100,079	101,102	101,190	100,953	100,786	100,615	100,520	100,362

There are a number of factors affecting the trend of the Company's quarterly results from continuing operations. With respect to the core operations, while year-over-year quarterly comparisons will generally remain comparable, sequential quarters can vary materially for seasonal and other trends.

COVID-19 has impacted the Company's quarterly results from both continuing operations and discontinued operations since Q1 2020 (refer to "Significant Developments – COVID-19 Related Expenses and Funding"). As a result of the revenue declines experienced by ParaMed due to COVID-19, the Company's home health care subsidiary, ParaMed applied for and received CEWS funding in 2020 and 2021. In 2021, ParaMed recognized \$17.4 million in CEWS (\$9.7 million in Q1 2021 and \$7.7 million in Q2 2021). During 2020, ParaMed recognized \$91.2 million in CEWS (\$50.8 million in Q3 2020 and \$40.4 million in Q4 2020). Payments under the CEWS program are accounted for as government grants under IAS 20 and are recorded on a net basis as a reduction to operating expenses of the home health care segment, thereby impacting the home health care segment's NOI.

The significant factors that impact the results from period to period, in addition to the impacts that result from COVID-19 and CEWS, are as follows:

- Ontario long-term care funding tied to flow-through funding envelopes requires revenue be deferred until it is matched with the related costs for resident care in the periods in which the costs are incurred, resulting in a fluctuation in revenue and operating expenses by quarter, with both generally being at their lowest in the Q1 and at their highest in Q4;
- Ontario long-term care providers generally receive annual flow-through funding increases and case mix index adjustments effective April 1st and increases in preferred accommodation premiums effective July 1st, and Alberta long-term care providers generally receive annual inflationary rate increases and acuity-based funding adjustments on April 1st and accommodation funding increases effective July 1st;
- maintenance capex spending, which impacts AFFO, fluctuates on a quarterly basis with the timing of projects and seasonality and is generally at its lowest in Q1 and its highest in Q4;
- utility costs are generally at their highest in Q1 and their lowest in Q2 and Q3; and
- certain line items that are reported separately due to their transitional nature that would otherwise distort the comparability of the historical trends, being "other expense" and "foreign exchange and fair value adjustments".

Reconciliations of Adjusted EBITDA and Net Operating Income

The following table provides a reconciliation of "earnings (loss) from continuing operations before income taxes" to Adjusted EBITDA and "net operating income", which excludes discontinued operations. Refer to the discussion under "Non-GAAP Measures".

<i>(thousands of dollars)</i>	2022 ⁽²⁾				2021 ⁽³⁾					2020 ⁽³⁾
	Q3	Q2	Q1	YTD Q3	Q4	Q3	Q2	Q1	YTD Q3	Q4
(Loss) earnings from continuing operations before income taxes	(5,042)	4,646	6,264	5,868	(3,559)	4,196	2,695	10,650	17,541	21,847
Add:										
Depreciation and amortization	7,558	8,058	8,251	23,867	7,845	7,829	7,431	7,726	22,986	7,726
Net finance costs	3,931	4,378	5,048	13,357	5,250	4,764	5,340	5,402	15,506	5,624
Other expense	3,587	975	640	5,202	14,969	—	—	—	—	2,486
Adjusted EBITDA	10,034	18,057	20,203	48,294	24,505	16,789	15,466	23,778	56,033	37,683
Administrative costs	13,492	12,284	12,773	38,549	14,236	12,220	13,434	12,541	38,195	14,758
Net operating income	23,526	30,341	32,976	86,843	38,741	29,009	28,900	36,319	94,228	52,441

STATEMENT OF EARNINGS

The following provides the consolidated statement of earnings for the periods ended September 30, 2022 and 2021.

<i>(thousands of dollars unless otherwise noted)</i>	Three months ended September 30,			Nine months ended September 30,		
	2022	2021 ⁽³⁾	Change	2022	2021 ⁽³⁾	Change
Revenue	308,889	284,271	24,618	911,184	860,825	50,359
Operating expenses	285,363	255,262	30,101	824,341	766,597	57,744
Net operating income⁽¹⁾	23,526	29,009	(5,483)	86,843	94,228	(7,385)
Administrative costs	13,492	12,220	1,272	38,549	38,195	354
Adjusted EBITDA⁽¹⁾	10,034	16,789	(6,755)	48,294	56,033	(7,739)
Depreciation and amortization	7,558	7,829	(271)	23,867	22,986	881
Other expense	3,587	—	3,587	5,202	—	5,202
(Loss) earnings before net finance costs and income taxes	(1,111)	8,960	(10,071)	19,225	33,047	(13,822)
Interest expense (net of capitalized interest)	5,317	5,248	69	15,397	15,981	(584)
Interest revenue	(1,386)	(425)	(961)	(2,677)	(1,390)	(1,287)
Accretion	310	305	5	917	904	13
Foreign exchange and fair value adjustments	(310)	(364)	54	(280)	11	(291)
Net finance costs	3,931	4,764	(833)	13,357	15,506	(2,149)
(Loss) earnings from continuing operations before income taxes	(5,042)	4,196	(9,238)	5,868	17,541	(11,673)
Income tax (recovery) expense						
Current	(25)	1,637	(1,662)	5,035	6,474	(1,439)
Deferred	(655)	(253)	(402)	(2,360)	(920)	(1,440)
Total income tax expense	(680)	1,384	(2,064)	2,675	5,554	(2,879)
(Loss) earnings from continuing operations	(4,362)	2,812	(7,174)	3,193	11,987	(8,794)
Earnings (loss) from operating activities of discontinued operations	96	3,231	(3,135)	134	3,339	(3,205)
Gain on sale of discontinued operations, net of income taxes	—	—	—	67,920	—	67,920
Net (loss) earnings	(4,266)	6,043	(10,309)	71,247	15,326	55,921
(Loss) earnings from continuing operations	(4,362)	2,812	(7,174)	3,193	11,987	(8,794)
Add (Deduct)⁽¹⁾:						
Foreign exchange and fair value adjustments	(228)	(355)	127	(216)	11	(227)
Other expense	2,643	—	2,643	3,831	—	3,831
(Loss) earnings from continuing operations before separately reported items, net of taxes⁽¹⁾	(1,947)	2,457	(4,404)	6,808	11,998	(5,190)

(i) The separately reported items being added to or deducted from earnings from continuing operations are net of income taxes.

2022 THIRD QUARTER FINANCIAL REVIEW

The following is an analysis of the consolidated results from operations for Q3 2022, as compared to Q3 2021. Refer to the discussion that follows under “Summary of Results of Operations by Segment” for an analysis of the revenue and net operating income by operating segment.

Revenue

Revenue of \$308.9 million for Q3 2022 increased by \$24.6 million or 8.7% from \$284.3 million in Q3 2021. Improvements in revenue were driven primarily by LTC flow-through funding enhancements and timing of spend under the flow-through care envelopes, home health care billing rate increases and growth from other operations, partially offset by lower COVID-19 funding (\$9.0 million) and a decline in home health care ADV of 1.2%.

Operating Expenses

Operating expenses of \$285.4 million for Q3 2022 increased by \$30.1 million or 11.8% from Q3 2021. The increase in operating expenses was driven by increased costs related to labour (including increased hours of care supported by increased flow-through funding, labour rate increases and agency costs), utilities, technology, supplies and insurance across the business segments, partially offset by lower estimated costs related to COVID-19 and funded pandemic pay programs (\$7.7 million).

Net Operating Income

Net operating income of \$23.5 million for Q3 2022 declined by \$5.5 million or 18.9% from \$29.0 million for Q3 2021 and represented 7.6% of revenue as compared to 10.2% for Q3 2021. The decrease in NOI was impacted by higher operating costs across all segments, lower home health care ADV and the net increase in estimated unfunded COVID-19 costs (\$1.3 million).

Administrative Costs

Administrative costs increased by \$1.3 million to \$13.5 million for Q3 2022, primarily due to higher wages and technology costs, partially offset by lower costs related to COVID-19 of \$0.7 million.

Adjusted EBITDA

Adjusted EBITDA declined by \$6.8 million to \$10.0 million for Q3 2022 from \$16.8 million for Q3 2021 and represented 3.2% of revenue as compared to 5.9%, respectively, reflecting the decline in NOI and increase in administrative costs.

Depreciation and Amortization

Depreciation and amortization costs declined by \$0.3 million to \$7.6 million for Q3 2022.

Other Expense

Other expense of \$3.6 million recorded in Q3 2022 reflects costs incurred related to the strategic transformation of the Company in connection with the Revera and Axium Transactions, and includes transaction, legal, regulatory, IT integration and management transition costs. Refer to the discussion under “Significant Developments – Strategic Transactions with Revera and Axium to Expand Long-term Care”.

Net Finance Costs

Net finance costs declined by \$0.8 million for Q3 2022, reflecting increased interest revenue from cash on hand, partially offset by higher interest expense and accretion costs, and an unfavourable change in foreign exchange and fair value adjustments related to interest rate swaps.

Income Taxes

The income tax provision was \$0.7 million for Q3 2022, representing an effective tax rate of 13.5%, as compared to \$1.4 million and an effective tax rate of 33.0% for Q3 2021, largely due to a change in taxable income of certain of the legal entities.

(Loss) Earnings from Continuing Operations

The Company reported a loss from continuing operations of \$4.4 million (\$0.04 loss per basic share) for Q3 2022 as compared to earnings of \$2.8 million (\$0.03 per basic share) for Q3 2021. The decrease in earnings of \$7.2 million resulted from the decline in Adjusted EBITDA of \$6.8 million and other expense of \$3.6 million (\$2.6 million net of tax), partially offset by lower net finance costs and depreciation and amortization.

Summary of Results of Operations by Segment

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

Three months ended September 30 <i>(thousands of dollars unless otherwise noted)</i>	Long-term Care	Home Health Care	Other Operations	Total
2022				
Revenue	192,293	107,780	8,816	308,889
Operating expenses	178,440	102,592	4,331	285,363
Net operating income ⁽¹⁾	13,853	5,188	4,485	23,526
<i>NOI margin⁽²⁾</i>	7.2 %	4.8 %	50.9 %	7.6 %
2021⁽³⁾				
Revenue	175,678	102,042	6,551	284,271
Operating expenses	158,832	93,378	3,052	255,262
Net operating income ⁽¹⁾	16,846	8,664	3,499	29,009
<i>NOI margin⁽²⁾</i>	9.6 %	8.5 %	53.4 %	10.2 %
Change				
Revenue	16,615	5,738	2,265	24,618
Operating expenses	19,608	9,214	1,279	30,101
Net operating income ⁽¹⁾	(2,993)	(3,476)	986	(5,483)

LONG-TERM CARE OPERATIONS

Revenue from the LTC operations grew by \$16.6 million or 9.5% to \$192.3 million for Q3 2022, largely driven by funding enhancements and timing of spend, including \$19.5 million in Ontario flow-through funding, partially offset by reduced funding of \$4.6 million to support the costs associated with COVID-19 and pandemic pay programs.

Net operating income from the LTC operations declined by \$3.0 million or 17.8% to \$13.9 million for Q3 2022 as compared to \$16.8 million for Q3 2021, with NOI margins of 7.2% and 9.6%, respectively, and included lower estimated net COVID-19 recoveries of \$1.1 million (refer to "Significant Developments – COVID-19 Related Expenses and Funding"). Excluding the reduction in COVID-19 recoveries, NOI declined by \$1.9 million, reflecting funding increases from the various provincial governments that were insufficient to address rising operating costs, including in respect of labour, utilities, supplies and insurance.

HOME HEALTH CARE OPERATIONS

Revenue from the home health care operations increased by \$5.7 million or 5.6% to \$107.8 million for Q3 2022 from \$102.0 million for Q3 2021 due to billing rate increases, including approximately \$6.7 million to support government funded wage enhancements, partially offset by reduced funding of \$4.4 million to support the costs associated with COVID-19 and pandemic pay programs, and a decline in ADV of 1.2%.

Net operating income from the home health care operations declined by \$3.5 million or 40.1% to \$5.2 million for Q3 2022 from \$8.7 million for Q3 2021, with NOI margins of 4.8% and 8.5%, respectively. The decline in NOI reflected billing rate increases, offset by higher wages and benefits, travel and technology costs, including increased costs associated with recruitment, retention and training to address increased staff turnover and staffing capacity challenges, and an increase in unfunded COVID-19 costs of \$0.2 million (refer to the discussion under "Significant Developments – COVID-19 Related Expenses and Funding").

OTHER OPERATIONS

Revenue from other operations increased by \$2.3 million or 34.6% to \$8.8 million in Q3 2022 compared to Q3 2021, largely due to growth in SGP clients and timing and mix of Assist services.

Net operating income from other operations increased by \$1.0 million or 28.2% to \$4.5 million for Q3 2022 compared to Q3 2021, reflecting revenue growth, partially offset by increased staff and technology costs in support of growth initiatives.

2022 NINE MONTH FINANCIAL REVIEW

The following is an analysis of the consolidated results from operations for the nine months ended September 30, 2022, as compared to the same period in 2021. Refer to the discussion that follows under “Summary of Results of Operations by Segment” for an analysis of the revenue and net operating income by operating segment.

Revenue

Revenue of \$911.2 million for the nine months ended September 30, 2022, increased by \$50.4 million or 5.9% from the nine months ended September 30, 2021. Improvements in revenue were driven primarily by LTC flow-through funding enhancements, home health care billing rate increases and growth from other operations, partially offset by lower COVID-19 funding (\$23.9 million) and the impact of timing of spend under the flow-through care envelopes.

Operating Expenses

Operating expenses of \$824.3 million for the nine months ended September 30, 2022, increased by \$57.7 million or 7.5% from the nine months ended September 30, 2021. Excluding the year-over-year impact on operating expenses from CEWS (\$17.4 million) received by the home health care segment in 2021, operating expenses increased by \$40.3 million or 5.1% to \$824.3 million for the nine months ended September 30, 2022, from \$784.0 million in the same prior year period. The increase in operating expenses was driven by increased costs related to labour (including increased hours of care supported by increased flow-through funding, labour rate increases and agency costs), utilities, technology, supplies, and insurance across the business segments, partially offset by workers compensation rebates of \$3.9 million received in Q2 2022, and lower estimated costs related to COVID-19 and funded pandemic pay programs (\$36.4 million).

Net Operating Income

Net operating income declined by \$7.4 million to \$86.8 million for the nine months ended September 30, 2022, and represented 9.5% of revenue as compared to 10.9% for the nine months ended September 30, 2021. Excluding the impact of CEWS (\$17.4 million) received by the home health care segment in 2021, NOI increased by \$10.0 million to \$86.8 million for the nine months ended September 30, 2022, from \$76.8 million in the same prior year period, representing 9.5% and 8.9% of revenue, respectively. The increase in NOI was driven by a decline in estimated unfunded COVID-19 costs (\$12.5 million), workers compensation rebates (\$3.9 million), and retroactive LTC funding (\$2.9 million), partially offset by higher operating costs across all segments and the impact of the loss of occupancy protection for Ontario LTC homes.

Administrative Costs

Administrative costs increased by \$0.4 million or 0.9% to \$38.5 million for the nine months ended September 30, 2022, primarily due to higher wages and technology costs, partially offset by lower costs related to COVID-19 of \$2.5 million.

Adjusted EBITDA

Adjusted EBITDA declined by \$7.7 million to \$48.3 million for the nine months ended September 30, 2022, from \$56.0 million for the nine months ended September 30, 2021, and represented 5.3% of revenue as compared to 6.5%, respectively. Excluding the impact of CEWS (\$17.4 million) received by the home health care segment in 2021, Adjusted EBITDA increased by \$9.7 million to \$48.3 million for the nine months ended September 30, 2022 from \$38.6 million in the same prior year period, representing 5.3% and 4.5% of revenue, respectively, reflecting the increase in NOI, partially offset by higher administrative costs.

Depreciation and Amortization

Depreciation and amortization costs increased by \$0.9 million to \$23.9 million for nine months ended September 30, 2022, due to higher capital expenditures.

Other Expense

Other expense of \$5.2 million recorded for the nine months ended September 30, 2022, reflects costs incurred related to the strategic transformation of the Company in connection with the Revera and Axiom Transactions, and includes transaction, legal, regulatory, IT integration and management transition costs. Refer to the discussion under “Significant Developments – Strategic Transactions with Revera and Axiom to Expand Long-term Care”.

Net Finance Costs

Net finance costs decreased by \$2.1 million for the nine months ended September 30, 2022, reflecting increased interest revenue from cash on hand, lower interest expense and a net favourable change of \$0.3 million in foreign exchange and fair value adjustments related to interest rate swaps. Interest expense of \$15.4 million declined by \$0.6 million, reflecting lower debt levels.

Income Taxes

The income tax provision was \$2.7 million for the nine months ended September 30, 2022, representing an effective tax rate of 45.6%, as compared to \$5.6 million and an effective tax rate of 31.7% for the nine months ended September 30, 2021. The income tax provision for 2021 included \$4.6 million of current income taxes payable on CEWS (\$17.4 million) received by the home health care segment.

Earnings from Continuing Operations

Earnings from continuing operations declined by \$8.8 million to \$3.2 million (\$0.04 per basic share) for the nine months ended September 30, 2022, from \$12.0 million (\$0.13 per basic share) for the nine months ended September 30, 2021, impacted by the decline in Adjusted EBITDA of \$7.7 million, other expense of \$5.2 million (\$3.8 million net of tax) and higher depreciation and amortization, partially offset by lower net finance costs. The year-over-year decline in earnings included the impact of CEWS (\$17.4 million) received by the home health care segment in 2021 (\$12.8 million net of tax, or \$0.14 per basic share), partially offset by the decline in estimated unfunded COVID-19 costs (\$11.0 million net of tax, or \$0.12 per basic share).

Summary of Results of Operations by Segment

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

Nine months ended September 30, 2022 <i>(thousands of dollars unless otherwise noted)</i>	Long-term Care	Home Health Care	Other Operations	Total
2022				
Revenue	573,742	313,203	24,239	911,184
Operating expenses	515,678	297,096	11,567	824,341
Net operating income ⁽¹⁾	58,064	16,107	12,672	86,843
<i>NOI margin⁽¹⁾</i>	10.1 %	5.1 %	52.3 %	9.5 %
2021⁽³⁾				
Revenue	539,178	300,806	20,841	860,825
Operating expenses	495,413	262,139	9,045	766,597
Net operating income ⁽¹⁾	43,765	38,667	11,796	94,228
<i>NOI margin⁽¹⁾</i>	8.1 %	12.9 %	56.6 %	10.9 %
Change				
Revenue	34,564	12,397	3,398	50,359
Operating expenses	20,265	34,957	2,522	57,744
Net operating income ⁽¹⁾	14,299	(22,560)	876	(7,385)

LONG-TERM CARE OPERATIONS

Revenue from the LTC operations grew by \$34.6 million or 6.4% to \$573.7 million for the nine months ended September 30, 2022, largely driven by funding enhancements, including Manitoba retroactive funding of \$2.9 million and \$43.2 million in Ontario flow-through funding enhancements and timing of spend under the care envelopes, partially offset by reduced funding of \$15.0 million to support the costs associated with COVID-19 and pandemic pay programs.

Net operating income from the LTC operations increased by \$14.3 million to \$58.1 million for the nine months ended September 30, 2022, from \$43.8 million for the nine months ended September 30, 2021, with NOI margins of 10.1% and 8.1%, respectively, due largely to higher estimated net COVID-19 recoveries of \$15.1 million (refer to "Significant Developments – COVID-19 Related Expenses and Funding"). Excluding the net change in COVID-19 recoveries, NOI declined by \$0.8 million, reflecting the loss of occupancy protection for Ontario LTC homes and funding increases from the various provincial governments that were insufficient to address rising operating costs, including in respect of labour, utilities,

supplies, insurance and repairs and maintenance, partially offset by \$2.9 million in retroactive funding and a workers compensation rebate of \$1.8 million.

HOME HEALTH CARE OPERATIONS

The following discussion of the home health care operations excludes CEWS of \$17.4 million received for the nine months ended September 30, 2021 (refer to the discussion under “Select Quarterly Financial Information”).

Revenue from the home health care operations increased by \$12.4 million or 4.1% to \$313.2 million for the nine months ended September 30, 2022, from \$300.8 million in the same prior year period, reflecting billing rate increases and approximately \$11.0 million to support government funded wage enhancements, partially offset by reduced funding of \$8.9 million to support the costs associated with COVID-19 and pandemic pay programs and a decline in ADV of 0.3%.

Net operating income from the home health care operations decreased by \$5.2 million to \$16.1 million for the nine months ended September 30, 2022, from \$21.3 million for the nine months ended September 30, 2021, with NOI margins of 5.1% and 7.1%, respectively. The decline in NOI reflected billing rate increases and a workers compensation rebate of \$2.1 million, offset by higher wages and benefits, travel and technology costs, including increased costs associated with recruitment, retention and training to address increased staff turnover and staffing capacity challenges, and an increase in unfunded COVID-19 costs of \$2.6 million (refer to the discussion under “Significant Developments – COVID-19 Related Expenses and Funding”).

OTHER OPERATIONS

Revenue from other operations increased by \$3.4 million or 16.3% to \$24.2 million for the nine months ended September 30, 2022, largely due to growth in SGP clients and timing and mix of Assist services.

Net operating income from other operations increased by \$0.9 million or 7.4% to \$12.7 million for the nine months ended September 30, 2022, with revenue growth offset by increased staff and technology costs in support of growth initiatives.

FUNDS FROM OPERATIONS AND ADJUSTED FUNDS FROM OPERATIONS

Reconciliations of FFO to Net Earnings

The following table provides a reconciliation of “net earnings” to FFO, which the Company believes is the most comparable GAAP measure to FFO. In addition, the table includes a reconciliation from FFO to AFFO as supplemental information, both of which include discontinued operations. Refer to the discussion under “Non-GAAP Measures”.

<i>(thousands of dollars unless otherwise noted)</i>	Three months ended September 30,			Nine months ended September 30,		
	2022	2021 ⁽³⁾	Change	2022 ⁽²⁾	2021 ⁽³⁾	Change
Earnings from continuing operations	(4,362)	2,812	(7,174)	3,193	11,987	(8,794)
Add (Deduct):						
Depreciation and amortization	7,558	7,829	(271)	23,867	22,986	881
Depreciation for FFEC (maintenance capex)	(2,173)	(1,995)	(178)	(6,763)	(5,288)	(1,475)
Depreciation for office leases	(771)	(723)	(48)	(2,181)	(2,073)	(108)
Other expense	3,587	—	3,587	5,202	—	5,202
Foreign exchange and fair value adjustments	(310)	(364)	54	(280)	11	(291)
Current income tax expense (recovery) on other expense, foreign exchange and fair value adjustments	(944)	—	(944)	(1,371)	—	(1,371)
Deferred income tax expense (recovery)	(655)	(253)	(402)	(2,360)	(920)	(1,440)
FFO from discontinued operations	96	766	(670)	(534)	3,330	(3,864)
FFO	2,026	8,072	(6,046)	18,773	30,033	(11,260)
Amortization of deferred financing costs	443	485	(42)	1,287	1,522	(235)
Accretion costs	310	324	(14)	843	961	(118)
Non-cash share-based compensation	483	714	(231)	1,732	2,538	(806)
Principal portion of government capital funding	917	1,512	(595)	3,134	4,569	(1,435)
Additional maintenance capex	(2,067)	(1,534)	(533)	(1,515)	(2,432)	917
AFFO	2,112	9,573	(7,461)	24,254	37,191	(12,937)
Per Basic Share (\$)						
FFO	0.02	0.09	(0.07)	0.21	0.33	(0.12)
AFFO	0.02	0.11	(0.09)	0.27	0.41	(0.14)
Per Diluted Share (\$)						
FFO	0.02	0.09	(0.07)	0.21	0.33	(0.12)
AFFO	0.02	0.11	(0.09)	0.27	0.40	(0.13)
Dividends (\$)						
Declared	10,584	10,752	(168)	32,088	32,248	(160)
Declared per share (\$)	0.12	0.12	—	0.36	0.36	—
Weighted Average Number of Shares (thousands)						
Basic	89,178	90,009		89,794	89,973	
Diluted	100,079	100,786		100,799	100,735	
Current income tax expense included in FFO	953	1,696	(743)	5,987	6,614	(627)
<i>FFO effective tax rate</i>	32.0 %	17.4 %		24.2 %	18.1 %	

Reconciliations of AFFO to Net Cash From Operating Activities

The following table provides a reconciliation of AFFO, which includes discontinued operations, to “net cash from operating activities”, which the Company believes is the most comparable GAAP measure to AFFO. Refer to the discussion under “Non-GAAP Measures”.

<i>(thousands of dollars)</i>	Three months ended September 30,			Nine months ended September 30,		
	2022	2021	Change	2022 ⁽²⁾	2021	Change
Net cash from (used in) operating activities	(1,291)	35,823	(37,114)	68,511	44,930	23,581
Add (Deduct):						
Net change in operating assets and liabilities, including interest, and taxes	4,854	(23,252)	28,106	(40,689)	(1,669)	(39,020)
Other expense	3,587	—	3,587	5,202	—	5,202
Current income tax on items excluded from AFFO	(944)	46	(990)	(1,371)	46	(1,417)
Depreciation for office leases	(771)	(723)	(48)	(2,181)	(2,073)	(108)
Depreciation for FFEC (maintenance capex) ⁽ⁱ⁾	(2,173)	(2,299)	126	(6,837)	(6,180)	(657)
Additional maintenance capex ⁽ⁱ⁾	(2,067)	(1,534)	(533)	(1,515)	(2,432)	917
Principal portion of government capital funding	917	1,512	(595)	3,134	4,569	(1,435)
AFFO	2,112	9,573	(7,461)	24,254	37,191	(12,937)
Total maintenance capex⁽ⁱ⁾	4,240	3,833	407	8,352	8,612	(260)

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

AFFO 2022 Financial Review

For Q3 2022, AFFO decreased by \$7.5 million to \$2.1 million (\$0.02 per basic share) from \$9.6 million (\$0.11 per basic share) for Q3 2021, reflecting the decline in Adjusted EBITDA, loss of earnings from the disposed retirement living segment (down \$1.5 million or \$0.02 per basic share), a decline in the principal portion of government capital funding and higher maintenance capex, partially offset by higher interest income and lower current income taxes.

For the nine months ended September 30, 2022, AFFO declined by \$12.9 million to \$24.3 million (\$0.27 per basic share) from \$37.2 million (\$0.41 per basic share) for the nine months ended September 30, 2021, reflecting the decrease in Adjusted EBITDA, loss of earnings from the disposed retirement living segment (down \$4.6 million or \$0.05 per basic share), a decline in the principal portion of government capital funding, and a reduction in the portion of non-cash share-based compensation due to cash withholding tax on settlement of awards in the quarter, partially offset by lower net finance costs, current income taxes and maintenance capex. The year-over-year decline in AFFO included the impact of CEWS received by the home health care segment in 2021 of \$12.8 million net of tax (\$0.14 per basic share), largely offset by a favourable change in estimated unfunded COVID-19 costs from continuing operations of \$11.0 million net of tax (a net recovery of \$5.4 million (\$0.06 per basic share) for the nine months ended September 30, 2022, in comparison to net unfunded costs of \$5.6 million (\$0.06 loss per basic share) in the same prior year period).

Dividends declared as a percentage of AFFO for the nine months ended September 30, 2022, represented a payout ratio of 132%. In addition to cash on hand of \$174.6 million at September 30, 2022, and ongoing cash generated from operations, the Company has available undrawn credit facilities totalling \$76.9 million (refer to the discussion under “Liquidity and Capital Resources”).

A discussion of the factors impacting net earnings and Adjusted EBITDA can be found under “2022 Third Quarter Financial Review”, “2022 Nine Month Financial Review” and “Discontinued Operations”.

The current income tax expense included in arriving at AFFO was \$6.0 million for the nine months ended September 30, 2022, and \$6.6 million for the same prior year period, representing an effective tax rate on FFO of 24.2% and 18.1%, respectively. The Company’s current income taxes for both periods have been impacted by the effects of COVID-19 and the impact of CEWS received by the home health care segment in 2021. In particular, increased costs as a result of COVID-19 and CEWS received by ParaMed have had an impact on the level of taxable income in our various legal entities and the resulting effective tax rate on the Company’s FFO. The determination of FFO includes a deduction for current income tax expense and does not include deferred income tax expense. As a result, the effective tax rates on FFO can be impacted by: adjustments to estimates of annual deferred timing differences, particularly when dealing with cash-based tax items versus

accounting accruals; changes in the proportion of earnings between taxable and non-taxable entities; book-to-file adjustments for prior year filings; and the ability to utilize loss carryforwards. For 2022, the Company expects the effective tax rate on FFO will be in the range of 22% to 24%. However, the continuing impact of the COVID-19 pandemic on the Company's operations and financial results may impact the effective tax rate on FFO.

Including the activity of discontinued operations, maintenance capex was \$4.2 million for Q3 2022 as compared to \$3.8 million for Q3 2021 and to \$2.7 million for Q2 2022, representing 1.3%, 1.2% and 0.9% of revenue, respectively. For the nine months ended September 30, 2022, maintenance capex was \$8.4 million as compared to \$8.6 million in the same prior year period, each representing 0.9% of revenue. These costs fluctuate on a quarterly and annual basis with the timing of projects and seasonality.

The following provides a reconciliation of "Adjusted EBITDA" to AFFO, which includes discontinued operations, as supplemental information. Refer to the discussion under "Non-GAAP Measures".

<i>(thousands of dollars)</i>	Three months ended September 30,			Nine months ended September 30,		
	2022	2021	Change	2022 ⁽²⁾	2021	Change
Adjusted EBITDA	10,034	16,789	(6,755)	48,294	56,033	(7,739)
Add (Deduct):						
Depreciation for FFEC (maintenance capex)	(2,173)	(1,995)	(178)	(6,763)	(5,288)	(1,475)
Depreciation for office leases	(771)	(723)	(48)	(2,181)	(2,073)	(108)
Accretion costs	(310)	(305)	(5)	(917)	(904)	(13)
Interest expense	(5,317)	(5,248)	(69)	(15,397)	(15,981)	584
Interest revenue	1,386	425	961	2,677	1,390	1,287
Discontinued operations, pre-tax	130	825	(695)	(953)	3,470	(4,423)
	2,979	9,768	(6,789)	24,760	36,647	(11,887)
Current income tax expense (recovery)	953	1,696	(743)	5,987	6,614	(627)
FFO	2,026	8,072	(6,046)	18,773	30,033	(11,260)
Amortization of deferred financing costs	443	485	(42)	1,287	1,522	(235)
Accretion costs	310	324	(14)	843	961	(118)
Non-cash share-based compensation	483	714	(231)	1,732	2,538	(806)
Principal portion of government capital funding	917	1,512	(595)	3,134	4,569	(1,435)
Additional maintenance capex	(2,067)	(1,534)	(533)	(1,515)	(2,432)	917
AFFO	2,112	9,573	(7,461)	24,254	37,191	(12,937)

LIQUIDITY AND CAPITAL RESOURCES

Sources and Uses of Cash

The following summarizes the sources and uses of cash between continuing and discontinued operations for three months ended September 30, 2022 and 2021.

<i>(thousands of dollars)</i>	Nine months ended September 30, 2022			Nine months ended September 30, 2021		
	Continuing	Discontinued	Total	Continuing	Discontinued	Total
Net cash from (used in) operating activities	73,423	(4,912)	68,511	41,839	3,091	44,930
Net cash (used in) from investing activities	(72,483)	244,782	172,299	(35,234)	(1,345)	(36,579)
Net cash used in financing activities	(49,160)	(121,796)	(170,956)	(49,196)	(6,758)	(55,954)
Foreign exchange gain (loss) on U.S. cash held	132	—	132	(151)	—	(151)
(Decrease) increase in cash and cash equivalents	(48,088)	118,074	69,986	(42,742)	(5,012)	(47,754)

As at September 30, 2022, the Company had cash and cash equivalents on hand of \$174.6 million, reflecting an increase in cash of \$70.0 million from the beginning of the year. Cash flow from operating activities of the continuing operations was \$73.4 million for the nine months ended September 30, 2022, and was in excess of dividends paid of \$32.2 million for the same period.

Net cash from operating activities was a source of cash of \$68.5 million for the nine months ended September 30, 2022, up \$23.6 million from \$44.9 million for the same prior year period, reflecting favourable changes in operating assets and liabilities and cash income taxes between periods. Net income taxes received of \$9.0 million to date in 2022 included

receipt of a prior year tax recoverable related to the former U.S. operations, compared to taxes paid of \$21.4 million in 2021 resulting from CEWS recognized in 2020 and timing of related payments. Fluctuations in operating assets and liabilities between periods are primarily attributable to the volatility and timing of cash receipts related to flow-through funding and COVID-19, and the timing of payroll cycles.

Net cash from investing activities was a source of cash of \$172.3 million for the nine months ended September 30, 2022 as compared to a use of cash of \$36.6 million for the same prior year period. The 2022 activity included proceeds from the sale of the retirement living segment including assumed debt, net of taxes paid, of \$245.6 million and the collection of other assets of \$3.1 million, partially offset by purchases of property, equipment and other intangible assets of \$76.5 million. The 2021 activity included purchases of property, equipment and other intangible assets of \$41.1 million, partially offset by the collection of other assets of \$4.6 million.

The table that follows summarizes the capital expenditures for each of the continuing and discontinued operations. Growth capex relates to the LTC redevelopment projects, building improvements, IT projects, or other capital projects, all of which are aimed at earnings growth. Maintenance capex relates to the actual capital expenditures incurred to sustain and upgrade existing property and equipment.

<i>(thousands of dollars)</i>	Nine months ended September 30, 2022			Nine months ended September 30, 2021		
	Continuing	Discontinued	Total	Continuing	Discontinued	Total
Growth capex	68,113	—	68,113	32,306	230	32,536
Maintenance capex	7,534	818	8,352	7,499	1,113	8,612
	75,647	818	76,465	39,805	1,343	41,148

Management monitors and prioritizes the capital expenditure requirements of its properties throughout the year, taking into account the urgency and necessity of the expenditure. In 2022, the Company expects to spend in the range of \$13.0 million to \$15.0 million in maintenance capex and in the range of \$110 million to \$115.0 million in growth capex related primarily to the LTC projects under construction, redevelopment activities and investments in technology as part of our ongoing strategy of transitioning our key IT platforms to the cloud to support our growth initiatives. Depending on the timing of further announcements of our LTC redevelopment projects the level of our growth capex could change (refer to “Key Performance Indicators – LTC Projects Under Construction”).

Net cash used in financing activities was a use of cash of \$171.0 million for the nine months ended September 30, 2022, an increase of \$115.0 million from \$56.0 million for the same prior year period. The 2022 activity included debt repayments of \$141.4 million, including \$2.6 million related to the Saskatchewan LTC Homes and \$119.0 million related to the retirement communities, cash dividends paid of \$32.2 million and financing costs, partially offset by \$18.2 million in draws on LTC construction financings (\$12.8 million) and term loans (\$5.4 million). The 2021 activity included debt repayments of \$23.3 million, cash dividends paid of \$32.2 million and financing costs.

Discontinued operations reflect the operations of the retirement living segment and the Saskatchewan LTC Homes. Further details are provided under “Discontinued Operations” and in *Note 15* of the unaudited interim condensed consolidated financial statements.

Capital Structure

SHAREHOLDERS’ EQUITY

Total shareholders’ equity as at September 30, 2022, was \$130.6 million as compared to \$101.9 million at December 31, 2021, reflecting the contributions from net earnings and comprehensive income, offset by dividends declared of \$32.1 million and the purchase of Common Shares through the NCIB at a cost of \$15.9 million.

As at September 30, 2022, the Company had 87,540,812 Common Shares issued and outstanding (carrying value – \$490.5 million), as compared to 89,562,499 Common Shares (carrying value – \$500.9 million) as at December 31, 2021, reflecting 2,199,112 Common Shares purchased and cancelled through the NCIB, partially offset by 177,425 Common Shares issued under the Company’s equity-based compensation plan.

Share Information (thousands)	November 9, 2022	September 30, 2022	September 30, 2021
Common Shares (TSX symbol: EXE) ⁽ⁱ⁾	83,938.9	87,540.8	89,562.5

(i) Closing market value per TSX on November 9, 2022, was \$7.06.

As at November 10, 2022, the Company had an aggregate of 4,063,313 Common Shares reserved and available for issuance pursuant to the Company's long-term incentive plan, of which there were in aggregate 1,963,519 performance share units and deferred share units outstanding as at September 30, 2022 (refer to *Note 9* of the unaudited interim condensed consolidated financial statements).

As at November 10, 2022, the Company had \$126.5 million in aggregate principal amount of convertible subordinate debentures outstanding that mature in April 2025 (the "2025 Debentures"), which in the aggregate are convertible into 10,326,531 Common Shares.

Dividends

The Company declared cash dividends of \$0.36 per share in the nine months ended September 30, 2022, consistent with that declared in the same 2021 period, representing \$32.1 million and \$32.2 million in each period, respectively.

Normal Course Issuer Bid

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. The Company has entered into an automatic purchase plan ("APP") with its designated broker in connection with its NCIB to facilitate the purchase of Common Shares during times when the Company would ordinarily not be active in the market. As at November 9, 2022, the Company had purchased for cancellation 3,601,962 Common Shares at a cost of \$25.5 million, representing a weighted average price per share of \$7.08, of which 2,199,112, at a cost of \$15.9 million, had been acquired at September 30, 2022 (refer to "Significant Developments – Normal Course Issuer Bid ("NCIB)").

Long-term Debt

Long-term debt totalled \$372.3 million as at September 30, 2022, as compared to \$536.9 million as at December 31, 2021, representing a decrease of \$164.6 million, reflecting the repayment and transfer of debt of \$117.6 million and \$53.5 million, respectively, in connection with the Retirement Living Sale, and regular debt repayments of \$21.2 million, partially offset by \$18.2 million in draws on construction loans (\$12.8 million) and term loans (\$5.4 million), new lease liabilities and changes in accretion and deferred financing costs. The current portion of long-term debt as at September 30, 2022, was \$22.7 million. The Company is subject to debt service coverage covenants on certain of its loans and was in compliance with all of these covenants as at September 30, 2022. Details of the components, maturities dates, terms and conditions of long-term debt are provided in *Note 7* of the unaudited interim condensed consolidated financial statements.

LTC CONSTRUCTION FINANCING

As at September 30, 2022, \$15.1 million was drawn on the Company's LTC redevelopment construction facilities, aggregating \$156.6 million in connection with the Sudbury, Kingston and Stittsville LTC projects. Secured in 2021, these financings include \$54.7 million for Sudbury, \$41.1 million for Kingston and \$60.7 million for Stittsville, and mature on the earlier of 42 months from closing or the date of refinancing following completion of construction or lease up of the applicable project. Interest rates are prime plus 1.25% or CDOR plus 2.75% with standby fees of 0.55%. The facilities also provide for an aggregate \$6.0 million in letter of credit facilities. Interest is capitalized during construction and is payable following completion of construction until maturity.

NON-CMHC MORTGAGES AND LOANS

In May 2022, the Company amended an existing loan agreement to increase the principal amount by \$5.4 million to \$29.9 million and extended the term to April 2027. The Company entered into interest rate swap contracts to lock in the interest rate at a fixed rate of 5.40% per annum.

CREDIT FACILITIES

The Company has two demand credit facilities totalling \$112.3 million, one of which is secured by 13 Class C LTC homes in Ontario and the other is secured by the assets of the home health care business. Neither of these facilities has financial covenants but do contain normal and customary terms. As at September 30, 2022, \$30.5 million of the facilities secure the Company's defined benefit pension plan obligations and \$4.9 million was used in connection with obligations relating to LTC homes, leaving \$76.9 million available.

Management has limited the amount of debt that may be subject to changes in interest rates, with only \$21.2 million of mortgage debt and \$15.1 million of construction loans in connection with the LTC projects at variable rates. The Company's term loan aggregating \$29.7 million as at September 30, 2022, has effectively been converted to fixed-rate financings with interest rate swaps over the full term. As at September 30, 2022, the interest rate swaps were valued as an asset of \$0.1 million.

The following summarizes key metrics of consolidated long-term debt as at September 30, 2022, and June 30, 2022.

<i>(thousands of dollars unless otherwise noted)</i>	September 30, 2022	December 31, 2021⁽³⁾
Weighted average interest rate of long-term debt outstanding	5.3 %	4.3 %
Weighted average term to maturity of long-term debt outstanding	6.2 yrs	5.9 yrs
Trailing twelve months consolidated interest coverage ratio ⁽¹⁾	3.3 X	3.5 X
Debt to Gross Book Value (GBV)		
Total assets (carrying value)	779,861	900,323
Accumulated depreciation on property and equipment	270,740	284,428
Accumulated amortization on other intangible assets	34,272	31,852
Deduct assets held for sale	(6,432)	(7,262)
GBV ⁽ⁱ⁾	1,078,441	1,209,341
Debt ⁽ⁱⁱ⁾	380,098	550,212
Debt to GBV⁽ⁱ⁾	35.2 %	45.5 %

(i) GBV excludes assets held for sale.

(ii) Debt includes convertible debentures at face value of \$126.5 million and excludes deferred financing costs and debt related to assets held for sale.

Future Liquidity and Capital Resources

The Company's consolidated cash and cash equivalents on hand was \$174.6 million as at September 30, 2022, as compared with \$104.6 million as at December 31, 2021, representing an increase of \$70.0 million. In addition, the Company has access to a further \$76.9 million in undrawn demand credit facilities. Cash and cash equivalents exclude restricted cash of \$2.6 million.

The Company has construction facilities in connection with three LTC projects in the aggregate of \$156.6 million, of which \$15.1 million was drawn as at September 30, 2022. For more information refer to the discussion under "Liquidity and Capital Resources – Long-term Debt – LTC Construction Financing".

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

OTHER CONTRACTUAL OBLIGATIONS AND CONTINGENCIES

Commitments

As at September 30, 2022, the Company has outstanding commitments of \$72.1 million in connection with construction contracts for three LTC redevelopment projects, of which \$14.0 million is estimated to be payable in 2022, \$54.5 million in 2023 and the balance in 2024, based on the anticipated construction schedules. The Company also has outstanding commitments of \$33.4 million 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 (refer to *Note 16* of the unaudited interim condensed consolidated financial statements).

Revera and Axiom Transactions

On March 1, 2022, the Company entered into agreements with Revera and Axiom in respect of the ownership, operation and redevelopment of LTC homes in Ontario and Manitoba (refer to the discussion under “Significant Developments – Advancing Regulatory Approvals and Integration Planning for Strategic Transactions with Revera and Axiom to Expand Long-term Care”).

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 (see “Risks and Uncertainties”).

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 and it could have a materially adverse impact on the Company’s business, results of operations and financial condition.

DISCONTINUED OPERATIONS

The following describes those operations affecting the results for discontinued operations for the past eight quarters. Further details are provided in *Note 15* of the unaudited interim condensed consolidated financial statements.

Retirement Living Sale

The Company previously announced an agreement to sell its retirement living operations composed of 11 retirement communities (1,050 suites), located in Ontario and Saskatchewan, to Sienna-Sabra LP, a partnership formed between Sienna Senior Living Inc. and SABRA Healthcare REIT, in February 2022. Accordingly, the Company classified its retirement living segment as discontinued in Q1 2022 and re-presented its comparative consolidated financial statements, including the comparative financial information presented in this MD&A.

On May 16, 2022, the Company completed the Retirement Living Sale for an aggregate purchase price of \$307.5 million, and recorded a gain on sale of \$78.8 million, or \$67.9 million net of taxes, other adjustments and transaction costs, through discontinued operations.

Saskatchewan LTC Home Sale

The Company previously announced its intent to transition the operation of five long-term care homes to the SHA in October 2021. Accordingly, the Company classified its Saskatchewan LTC Homes as discontinued in Q4 2021 and re-presented its comparative consolidated financial statements, including the comparative financial information presented in this MD&A.

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 other assets and the assumption of certain liabilities by the SHA, for an aggregate purchase price of \$13.1 million. The Company expects to record a gain, net of tax and closing costs, of approximately \$4.9 million through discontinued operations in Q4 2022 (refer to “Significant Developments – Completed Transition and Sale of Saskatchewan LTC Homes”).

Former U.S. Segment

Discontinued operations for the three and 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.

Earnings (Loss) from Discontinued Operations

The following is an analysis of the results of discontinued operations for the periods ended September 30, 2022 and 2021.

Net operating income from discontinued operations declined by \$2.4 million to \$0.1 million for Q3 2022, compared to \$2.6 million for Q3 2021. For the nine months ended September 30, 2022, NOI declined by \$7.7 million to \$1.2 million compared to \$8.8 million for the nine months ended September 30, 2021. The sale of the retirement living segment in mid-May 2022 contributed to the year-over-year decline in NOI by \$3.0 million for Q3 2022 and \$6.3 million for the nine months ended September 30, 2022.

The net operating income of the Saskatchewan LTC Homes improved by \$0.6 million in Q3 2022, reflecting a reduction in estimated unfunded COVID-19 costs of \$0.1 million, and lower operating expenses. For the nine months ended September 30, 2022, the net operating loss of the Saskatchewan LTC homes declined by \$1.4 million and was impacted by retroactive funding received in 2021 and higher operating costs, partially offset by a reduction in estimated unfunded COVID-19 costs of \$0.6 million.

Earnings from operating activities of discontinued operations was \$0.1 million for each of Q3 2022 and the nine months ended September 30, 2022, compared to \$3.2 million for Q3 2021 and \$3.3 million for the nine months ended September 30, 2021. The year-over-year comparisons for both periods were impacted by the reduction in NOI, lower depreciation and amortization, lower net finance costs due to the repayment of debt related to the discontinued operations during 2022, and the release of indemnification provisions in connection with the Company’s former U.S. operations.

AFFO from discontinued operations declined by \$0.5 million to \$0.1 million for Q3 2022, compared to \$0.6 million for Q3 2021. For the nine months ended September 30, 2022, AFFO from discontinued operations declined by \$4.8 million to a loss of \$1.1 million compared to AFFO of \$3.7 million for the nine months ended September 30, 2021. The year-over-year comparisons for both periods were impacted by the decline in NOI, partially offset by lower maintenance capex and interest expense.

The following tables provide the results of discontinued operations and a calculation of AFFO for the for the three and nine months ended September 30, 2022 and 2021.

DISCONTINUED OPERATIONS	Three months ended September 30,							
	2022			2021				
	Retirement Living	SK LTC Homes	Total	Retirement Living	SK LTC Homes	U.S. Sale	Total	Total Change
<i>(thousands of dollars unless otherwise noted)</i>								
Revenue	—	13,421	13,421	12,086	13,773	—	25,859	(12,438)
Operating expense	—	13,291	13,291	9,084	14,223	—	23,307	(10,016)
Net operating income (loss)	—	130	130	3,002	(450)	—	2,552	(2,422)
RECONCILIATION TO AFFO								
Earnings (loss) from operating activities of discontinued operations	—	96	96	60	(471)	3,642	3,231	(3,135)
Add (Deduct):								
Depreciation and amortization	—	—	—	1,697	165	—	1,862	(1,862)
Depreciation for FFEC (maintenance capex)	—	—	—	(231)	(73)	—	(304)	304
Other expense, net of current tax	—	—	—	—	—	(3,642)	(3,642)	3,642
Foreign exchange and fair value	—	—	—	(174)	—	—	(174)	174
Deferred income tax expense (recovery)	—	—	—	(34)	(173)	—	(207)	207
FFO from discontinued operations	—	96	96	1,318	(552)	—	766	(670)
Amortization of deferred financing costs	—	—	—	166	—	—	166	(166)
Accretion costs	—	—	—	19	—	—	19	(19)
Additional maintenance capex	—	(1)	(1)	(137)	(230)	—	(367)	366
AFFO from discontinued operations	—	95	95	1,366	(782)	—	584	(489)
AFFO per basic share (\$)	—	—	—	0.02	(0.01)	—	0.01	(0.01)
Total maintenance capex	—	1	1	368	303	—	671	(670)

DISCONTINUED OPERATIONS	Nine months ended September 30,							
	2022			2021				
	Retirement Living	SK LTC Homes	Total	Retirement Living	SK LTC Homes	U.S. Sale	Total	Total Change
<i>(thousands of dollars unless otherwise noted)</i>								
Revenue	18,937	39,791	58,728	36,561	42,574	—	79,135	(20,407)
Operating expense	15,058	42,491	57,549	26,412	43,875	—	70,287	(12,738)
Net operating income (loss)	3,879	(2,700)	1,179	10,149	(1,301)	—	8,848	(7,669)
RECONCILIATION TO AFFO								
Earnings (loss) from operating activities of discontinued operations	2,118	(1,984)	134	1,093	(1,396)	3,642	3,339	(3,205)
Add (Deduct):								
Depreciation and amortization	565	—	565	5,350	517	—	5,867	(5,302)
Depreciation for FFEC (maintenance capex)	(74)	—	(74)	(693)	(199)	—	(892)	818
Other expense, net of current tax	—	—	—	—	—	(3,642)	(3,642)	3,642
Foreign exchange and fair value	(1,627)	—	(1,627)	(1,095)	—	—	(1,095)	(532)
Deferred income tax expense (recovery)	468	—	468	257	(504)	—	(247)	715
FFO from discontinued operations	1,450	(1,984)	(534)	4,912	(1,582)	—	3,330	(3,864)
Amortization of deferred financing costs	263	—	263	531	—	—	531	(268)
Accretion costs	(74)	—	(74)	57	—	—	57	(131)
Additional maintenance capex	(727)	(17)	(744)	51	(272)	—	(221)	(523)
AFFO from discontinued operations	912	(2,001)	(1,089)	5,551	(1,854)	—	3,697	(4,786)
AFFO per basic share (\$)	0.01	(0.02)	(0.01)	0.06	(0.02)	—	0.04	(0.05)
Total maintenance capex	801	17	818	642	471	—	1,113	(295)

The following table provides the results of discontinued operations and a calculation of AFFO for the for the year ended December 31, 2021.

DISCONTINUED OPERATIONS	Twelve months ended December 31, 2021			
	Retirement Living	SK LTC Homes	U.S. Sale	Total
<i>(thousands of dollars unless otherwise noted)</i>				
Revenue	49,771	56,649	—	106,420
Operating expense	36,395	57,414	—	93,809
Net operating income (loss)	13,376	(765)	—	12,611
RECONCILIATION TO AFFO				
Earnings (loss) from operating activities of discontinued operations	1,508	(1,150)	3,642	4,000
Add (Deduct):				
Depreciation and amortization	7,046	691	—	7,737
Depreciation for FFEC (maintenance capex)	(921)	(260)	—	(1,181)
Other expense, net of current tax	—	—	(3,642)	(3,642)
Foreign exchange and fair value adjustments	(1,567)	—	—	(1,567)
Deferred income tax expense (recovery)	369	(415)	—	(46)
FFO from discontinued operations	6,435	(1,134)	—	5,301
Amortization of deferred financing costs	697	3	—	700
Accretion costs	76	—	—	76
Additional maintenance capex	(69)	(267)	—	(336)
AFFO from discontinued operations	7,139	(1,398)	—	5,741
AFFO per basic share (\$)	0.08	(0.02)	—	0.06
Total maintenance capex	990	527	—	1,517

ACCOUNTING POLICIES AND ESTIMATES

Critical Accounting Policies and Estimates

A full discussion of the Company's critical accounting policies and estimates was provided in the MD&A and the accompanying notes to the audited consolidated financial statements for the year ended December 31, 2021, contained in the Company's 2021 Annual Report. The disclosures in such report have not materially changed since that report was filed, and to the extent there have been any changes in management's estimates, they are discussed under "Significant Developments".

Accounting Standards Adopted During the Period

During the nine months ended September 30, 2022, the Company adopted certain IFRS standards and amendments, the nature and effect of which are provided in *Note 2* of the unaudited interim condensed consolidated financial statements, and described below:

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.

Future Changes in Accounting Standards

The following accounting standards, amendments and interpretations will take effect for the Company after December 31, 2022, the nature and effect of which are provided in *Note 2* of the unaudited interim condensed consolidated financial statements, and described below:

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.

NON-GAAP MEASURES

Certain measures used in this MD&A listed below, including any related per share amounts, used by management to measure, compare and explain the operating results and financial performance of the Company, are not measures recognized under GAAP and do not have standardized meanings prescribed by GAAP. These measures may differ from similar computations as reported by other issuers and, accordingly, may not be comparable to similarly titled measures as reported by such issuers. These measures are not intended to replace earnings (loss) from continuing operations, net earnings (loss), cash flow, or other measures of financial performance and liquidity reported in accordance with GAAP. Such measures are presented in this document because management believes that they are a relevant measure of Extendicare's operating performance and ability to pay cash dividends.

Management uses these measures to exclude the impact of certain items, because it believes doing so provides investors a more effective analysis of underlying operating and financial performance and improves comparability of underlying financial performance between periods. The exclusion of certain items does not imply that they are non-recurring or not useful to investors.

These measures are defined below and reconciliations to the most comparable GAAP measure are referenced, as applicable.

"Net operating income", or **"NOI"**, is defined as revenue less operating expenses, and this value represents the underlying performance of the operating business segments.

"NOI margin" is defined as NOI as a percentage of revenue.

"EBITDA" is defined as earnings (loss) from continuing operations before net finance costs, income taxes, depreciation and amortization.

"Adjusted EBITDA" is defined as EBITDA adjusted to exclude the line item "other expense", and as a result, is equivalent to the line item "earnings before depreciation, amortization, and other expense" reported on the consolidated statements of earnings. Management believes that certain lenders, investors and analysts use EBITDA, Adjusted EBITDA and Adjusted EBITDA margin to measure a company's ability to service debt and meet other payment obligations, and as a common valuation measurement.

"Adjusted EBITDA Margin" is defined as Adjusted EBITDA as a percentage of revenue.

Reconciliations of "net operating income" and "Adjusted EBITDA" to "earnings (loss) from continuing operations before income taxes" are provided under "Select Quarterly Financial Information – Reconciliations of Adjusted EBITDA and Net Operating Income".

"Earnings (loss) from continuing operations before separately reported items, net of tax" is defined as earnings (loss) from continuing operations, excluding the following separately reported line items: "foreign exchange and fair value adjustments" and "other expense". These line items are reported separately and excluded from certain performance measures, because they are transitional in nature and would otherwise distort historical trends. "Foreign exchange and fair value adjustments" relate to the change in the fair value of or gains and losses on interest rate agreements, and foreign exchange gains or losses on capital items. "Other expense", or "other income", relates to gains or losses on the disposal or impairment of assets and early retirement of debt, transaction and integration costs in connection with acquisitions, restructuring and transformation charges, and proxy related costs. The above separately reported line items are reported on a pre-tax and on an after-tax basis as a means of deriving earnings (loss) from operations and related earnings per share excluding such items.

Reconciliations of “earnings (loss) from continuing operations before separately reported items” to “earnings (loss) from continuing operations” are provided under “Statement of Earnings”.

“**Funds from Operations**”, or “**FFO**”, is defined as net earnings before income taxes, depreciation and amortization, foreign exchange and fair value adjustments, and the line item “other expense” (otherwise referred to as “Adjusted EBITDA”) less depreciation for furniture, fixtures, equipment and computers, or “depreciation for FFEC”, depreciation for office leases, accretion costs, net interest expense and current income taxes (excluding current income taxes in respect of “foreign exchange and fair value adjustments” and “other expense” that are not otherwise included in FFO). Depreciation for FFEC is considered representative of the amount of maintenance (non-growth) capital expenditures, or “maintenance capex”, to be used in determining FFO, as the depreciation term is generally in line with the life of these assets. FFO is a recognized earnings measure that is widely used by public real estate entities, particularly by those entities that own and/operate income-producing properties. Management believes that certain investors and analysts use FFO, and as such has included FFO to assist with their understanding of the Company’s operating results.

Reconciliations of FFO to “earnings from continuing operations” are provided under “Funds from Operations and Adjusted Funds from Operations – Reconciliations of FFO to Net Earnings”.

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

“**Payout ratio**” is defined as the ratio of dividends declared to AFFO. Management considers this a useful metric to evaluate the Company’s dividend capacity.

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

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

“**Interest coverage ratio**” and “**net interest coverage ratio**” are defined as the ratio of Adjusted EBITDA to interest expense with interest capitalized included and financing prepayment costs and the amortization of deferred financing costs excluded, and in the case of ‘net interest’ with interest revenue included. Management considers these relevant measures as they indicate the Company’s ability to meet its interest cost obligations on a trailing twelve-month basis.

“**NOI Yield**” is defined as the estimated stabilized NOI of a development property in the first year it achieves expected stabilized occupancy, plus the annual construction funding subsidy (“CFS”) for certain LTC homes, if applicable, divided by the estimated Adjusted Development Costs, as defined below. Management considers this a relevant measure of the Company’s total economic return of a development project.

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

RISKS AND UNCERTAINTIES

There are certain risks inherent in an investment in securities and activities of the Company, which investors should carefully consider before investing in the Company. Risks and uncertainties are disclosed in the Company's 2021 Annual Information Form, including without limitation, "Risks Related to a Pandemic, Epidemic or Outbreak of a Contagious Illness, such as COVID-19", "Risks Related to Inflationary Pressures", "Risks Related to Liability and Insurance" and "Risks Related to Government Funding and Regulatory Changes" found under the section "Risk Factors – Risks Related to the Business". To the extent there have been any changes to those risks or uncertainties as of the date of this MD&A, they are discussed under "Forward-looking Statements" and "Significant Developments".

Endnotes

- (1) This is a non-GAAP financial measure. Refer to the discussion under "Non-GAAP Measures".
- (2) Certain prior period figures in Q1 2022 and Q2 2022 have been re-presented to conform with the Q3 2022 presentation in connection with the classification of strategic transformation costs as "other expense". Refer to the discussion under *Note 12* of the unaudited interim condensed consolidated financial statements.
- (3) The 2021 comparative figures have been re-presented to reflect discontinued operations. Refer to the discussion under "Discontinued Operations".

EXTENDICARE[®]

... helping people live better

**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)

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Extencicare Inc.

Interim Condensed Consolidated Statements of Financial Position

(Unaudited)

<i>(in thousands of Canadian dollars)</i>	<i>notes</i>	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)

Extencicare Inc.

Interim Condensed Consolidated Statements of Earnings

(Unaudited)

<i>(in thousands of Canadian dollars except for per share amounts)</i>	<i>notes</i>	Three months ended September 30,		Nine months ended September 30,	
		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)

<i>(in thousands of Canadian dollars)</i>	Three months ended September 30,		Nine months ended September 30,	
	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.

Extencicare Inc.

Interim Condensed Consolidated Statements of Changes in Equity

(Unaudited)

<i>(in thousands of Canadian dollars, except for number of shares)</i>	<i>notes</i>	<i>Number of shares</i>	<i>Share capital</i>	<i>Equity portion of convertible debentures</i>	<i>Contributed surplus</i>	<i>Accumulated deficit</i>	<i>Accumulated other comprehensive loss</i>	<i>Shareholders' equity</i>
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

<i>(in thousands of Canadian dollars, except for number of shares)</i>	<i>notes</i>	<i>Number of shares</i>	<i>Share capital</i>	<i>Equity portion of convertible debentures</i>	<i>Contributed surplus</i>	<i>Accumulated deficit</i>	<i>Accumulated other comprehensive loss</i>	<i>Shareholders' equity</i>
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.

Extencicare Inc.

Interim Condensed Consolidated Statements of Cash Flows

(Unaudited)

<i>(in thousands of Canadian dollars)</i>	<i>notes</i>	Three months ended September 30,		Nine months ended September 30,	
		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 Extencicare Inc. (“Extencicare” 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 Extencicare, ParaMed, Extencicare 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 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)
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 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 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 (<i>Note 15</i>)	—	(2,928)	(2,928)
Write-off of fully amortized assets	—	(67)	(67)
September 30, 2022	45,850	82,508	128,358
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 (<i>Note 15</i>)	—	(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 (<i>Note 15</i>)	(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	Construction 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

<i>(in millions of Canadian dollars)</i>	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			
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			
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			
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 Extencicare 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 Extencicare’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 Extencicare’s existing Ontario Class C homes (the “Axium Transaction”). Axium will own an 85% interest in the joint venture with Extencicare 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, Extencicare and Axium have entered into a Master Development Agreement (“Axium MDA”) pursuant to which Extencicare has granted Axium a right to participate in the redevelopment of five of Extencicare’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 Extencicare/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 Extencicare 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	
<hr/>					
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 Extencare 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*).

<i>(in thousands of Canadian dollars)</i>	Three months ended September 30, 2022				
	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)

<i>(in thousands of Canadian dollars)</i>	Three months ended September 30, 2021 ⁽ⁱ⁾				
	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).

<i>(in thousands of Canadian dollars)</i>	Nine months ended September 30, 2022				
	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⁾				
<i>(in thousands of Canadian dollars)</i>	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).



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