Interim Condensed Consolidated Financial Statements

Q1 2023

Extendicare Inc.
Dated: May 4, 2023

Extendicare Inc.
Interim Condensed Consolidated Financial Statements

Three months ended March 31, 2023 and 2022

Extendicare Inc.

Interim Condensed Consolidated Statements of Financial Position

(Unaudited)

(thousands of dollars)	*notes*	**March 31, 2023**	**December 31, 2022**
Assets			
Current assets			
Cash and cash equivalents		**105,439**	167,281
Restricted cash		**2,843**	2,701
Accounts receivable		**71,821**	61,166
Income taxes recoverable		**2,985**	2,908
Other assets		**22,275**	23,982
Total current assets		**205,363**	258,038
Non-current assets			
Property and equipment	*3*	**404,428**	388,719
Goodwill and other intangible assets	*4*	**99,996**	97,064
Other assets		**29,784**	30,468
Deferred tax assets		**6,314**	7,290
Total non-current assets		**540,522**	523,541
Total assets		**745,885**	781,579
Liabilities and Equity			
Current liabilities			
Accounts payable and accrued liabilities		**204,638**	250,140
Income taxes payable		**2,418**	5,606
Long-term debt	*5*	**19,392**	19,239
Total current liabilities		**226,448**	274,985
Non-current liabilities			
Long-term debt	*5*	**377,527**	364,735
Provisions		**10,602**	10,512
Other long-term liabilities		**23,788**	23,757
Deferred tax liabilities		**6,064**	6,889
Total non-current liabilities		**417,981**	405,893
Total liabilities		**644,429**	680,878
Share capital	*7*	**477,176**	475,415
Equity portion of convertible debentures		**7,085**	7,085
Contributed surplus		**8,971**	10,619
Accumulated deficit		**(383,455)**	(384,620)
Accumulated other comprehensive loss		**(8,321)**	(7,798)
Shareholders' equity		**101,456**	100,701
Total liabilities and equity		**745,885**	781,579

See accompanying notes to the unaudited interim condensed consolidated financial statements.
Commitments and Contingencies (*Note 12*), Subsequent events (*Note 7, Note 12*).

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

		Three months ended March 31,	
(thousands of dollars except for per share amounts)	***notes***	**2023**	**2022**[i]
CONTINUING OPERATIONS			
Revenue		**324,712**	305,710
Operating expenses		**280,148**	272,734
Administrative costs		**13,586**	12,773
Total expenses	***8***	**293,734**	285,507
Earnings before depreciation, amortization, and other expense		**30,978**	20,203
Depreciation and amortization		**7,351**	8,251
Other expense	***9***	**3,618**	640
Earnings before net finance costs and income taxes		**20,009**	11,312
Net finance costs	***10***	**4,243**	5,048
Earnings before income taxes		**15,766**	6,264
Current income tax expense		**3,846**	3,960
Deferred income tax expense (recovery)		**340**	(1,741)
Total income tax expense		**4,186**	2,219
Earnings from continuing operations		**11,580**	4,045
DISCONTINUED OPERATIONS			
Earnings from discontinued operations, net of income taxes	***11***	**—**	75
Net earnings		**11,580**	4,120
Basic and Diluted Earnings per Share			
Earnings from continuing operations		**$0.14**	$0.04
Net earnings		**$0.14**	$0.04

[i] Certain comparative information has been reclassified to conform to the current year presentation.

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

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

	Three months ended March 31,	
(thousands of dollars)	**2023**	**2022**
Net earnings	**11,580**	4,120
Other Comprehensive Income, Net of Taxes		
Items that will not be reclassified to profit or loss:		
Defined benefit plan actuarial (losses) gains	**(712)**	4,090
Tax recovery (expense) on defined benefit plan actuarial (losses) gains	**189**	(1,084)
Other comprehensive (loss) income, net of taxes	**(523)**	3,006
Total comprehensive income	**11,057**	7,126

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

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

(thousands of dollars, except for number of shares)	***notes***	***Number of Shares***	**Share Capital**	**Equity Portion of Convertible Debentures**	**Contributed Surplus**	**Accumulated Deficit**	**Accumulated Other Comprehensive Loss**	**Shareholders' Equity**
Balance at January 1, 2022		*89,562,499*	500,877	7,085	8,182	(402,453)	(11,768)	101,923
Share-based compensation	*6*	—	—	—	1,485	—	—	1,485
Net earnings		—	—	—	—	4,120	—	4,120
Dividends declared	*7*	—	—	—	—	(10,750)	—	(10,750)
Other comprehensive income		—	—	—	—	—	3,006	3,006
Balance at March 31, 2022		*89,562,499*	500,877	7,085	9,667	(409,083)	(8,762)	99,784

(thousands of dollars, except for number of shares)	***notes***	***Number of Shares***	**Share Capital**	**Equity Portion of Convertible Debentures**	**Contributed Surplus**	**Accumulated Deficit**	**Accumulated Other Comprehensive Loss**	**Shareholders' Equity**
Balance at January 1, 2023		***84,728,744***	**475,415**	**7,085**	**10,619**	**(384,620)**	**(7,798)**	**100,701**
Share-based compensation	***6***	***178,702***	**1,761**	**—**	**(1,648)**	**(237)**	**—**	**(124)**
Net earnings		**—**	**—**	**—**	**—**	**11,580**	**—**	**11,580**
Dividends declared	***7***	**—**	**—**	**—**	**—**	**(10,178)**	**—**	**(10,178)**
Other comprehensive loss		**—**	**—**	**—**	**—**	**—**	**(523)**	**(523)**
Balance at March 31, 2023		***84,907,446***	**477,176**	**7,085**	**8,971**	**(383,455)**	**(8,321)**	**101,456**

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

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

		Three months ended March 31,	
(thousands of dollars)	***notes***	**2023**	**2022**[(i)]
Operating Activities			
Net earnings		**11,580**	4,120
Adjustments for:			
Share-based compensation		**(124)**	1,485
Depreciation and amortization	***3, 4***	**7,351**	8,816
Net finance costs	***10***	**4,243**	5,159
Current taxes		**3,846**	3,594
Deferred taxes		**340**	(1,347)
Defined benefit plan expenses		**311**	203
Defined benefit plan contributions		**(1,096)**	(546)
		26,451	21,484
Net change in operating assets and liabilities			
Accounts receivable		**(12,464)**	16,536
Other assets		**1,333**	361
Accounts payable and accrued liabilities		**(37,103)**	9,411
		(21,783)	47,792
Interest paid, net		**(1,158)**	(3,681)
Income taxes (paid) received, net		**(7,198)**	7,226
Net cash (used in) from operating activities		**(30,139)**	51,337
Investing Activities			
Purchase of property, equipment and other intangible assets	***3, 4***	**(33,467)**	(20,738)
Change in other assets		**842**	1,116
Net cash used in investing activities		**(32,625)**	(19,622)
Financing Activities			
Issuance of long-term debt	***5***	**16,605**	3,706
Repayment of long-term debt and lease liabilities	***5, 11***	**(5,371)**	(10,748)
Change in restricted cash		**(142)**	(129)
Dividends paid	***7***	**(10,167)**	(10,750)
Financing costs		**(3)**	(29)
Net cash from (used in) financing activities		**922**	(17,950)
(Decrease) increase in cash and cash equivalents		**(61,842)**	13,765
Cash and cash equivalents at beginning of period		**167,281**	104,627
Cash and cash equivalents at end of period		**105,439**	118,392

[(i)]Certain comparative information has been reclassified to conform to the current year presentation.
See accompanying notes to the unaudited interim condensed consolidated financial statements.

1. GENERAL INFORMATION AND NATURE OF THE BUSINESS

The common shares (the "Common Shares") of Extendicare Inc. ("Extendicare" or the "Company") are listed on the Toronto Stock Exchange ("TSX") under the symbol "EXE". The Company and its predecessors have been operating since 1968, providing care and services to seniors throughout Canada. The Company is a leading provider of care and services for seniors across Canada, operating under the Extendicare, ParaMed, Extendicare Assist and SGP Partner Network brands and is committed to delivering quality care throughout the health continuum to meet the needs of a growing seniors population. The registered office of the Company is located at 3000 Steeles Avenue East, Suite 400, Markham, Ontario, Canada, L3R 4T9.

2. BASIS OF PREPARATION

a) Statement of Compliance

The unaudited interim condensed consolidated financial statements (the "consolidated financial statements") have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" as issued by the International Accounting Standards Board, and were approved by the board of directors of the Company on May 4, 2023.

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 2022 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, 2022.

b) Basis of Measurement

The consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency. All financial information presented in dollars has been rounded to the nearest thousand, unless otherwise noted.

3. PROPERTY AND EQUIPMENT

	Land & Land Improve-ments	Buildings & Leasehold Improvements	Right-of-use Assets	Furniture & Equipment	Construction in Progress ("CIP")	Projects in Progress ("PIP")	Total
Cost							
January 1, 2022	61,343	534,150	102,205	69,101	51,880	10,493	829,172
Additions	362	6,124	5,476	7,738	71,318	13,360	104,378
Derecognition	(2)	(1,565)	(1,669)	(2,021)	—	—	(5,257)
Transfers	94	11,569	—	1,107	—	(12,770)	—
Disposal of retirement living operations (*Note 11*)	(24,609)	(215,010)	(20)	(9,512)	(2,533)	—	(251,684)
December 31, 2022	37,188	335,268	105,992	66,413	120,665	11,083	676,609
Additions	**—**	**650**	**1,074**	**1,444**	**16,948**	**1,966**	**22,082**
Derecognition	**—**	**(1)**	**(542)**	**(31)**	**—**	**—**	**(574)**
Transfers	**—**	**1,519**	**—**	**2,937**	**—**	**(4,456)**	**—**
March 31, 2023	**37,188**	**337,436**	**106,524**	**70,763**	**137,613**	**8,593**	**698,117**

	Land & Land Improve-ments	Buildings & Leasehold Improvements	Right-of-use Assets	Furniture & Equipment	CIP	PIP	Total
Accumulated Depreciation and Impairment Losses							
January 1, 2022	5,968	211,021	44,059	32,524	—	—	293,572
Depreciation	537	14,330	5,832	7,046	—	—	27,745
Derecognition	(2)	(1,565)	(1,669)	(2,021)	—	—	(5,257)
Impairment losses	133	4,505	—	304	—	—	4,942
Disposal of retirement living operations (*Note 11*)	(555)	(29,381)	(4)	(3,172)	—	—	(33,112)
December 31, 2022	6,081	198,910	48,218	34,681	—	—	287,890
Depreciation	**130**	**3,420**	**923**	**1,900**	**—**	**—**	**6,373**
Derecognition	**—**	**(1)**	**(542)**	**(31)**	**—**	**—**	**(574)**
March 31, 2023	**6,211**	**202,329**	**48,599**	**36,550**	**—**	**—**	**293,689**
Carrying Amounts							
December 31, 2022	31,107	136,358	57,774	31,732	120,665	11,083	388,719
March 31, 2023	**30,977**	**135,107**	**57,925**	**34,213**	**137,613**	**8,593**	**404,428**

4. GOODWILL AND OTHER INTANGIBLE ASSETS

	Goodwill	Other Intangible Assets	Total
Cost			
January 1, 2022	45,850	78,486	124,336
Additions	—	10,951	10,951
Disposal of retirement living operations (*Note 11*)	—	(2,928)	(2,928)
Derecognition	—	(67)	(67)
December 31, 2022	45,850	86,442	132,292
Additions	**—**	**3,910**	**3,910**
March 31, 2023	**45,850**	**90,352**	**136,202**

	Goodwill	Other Intangible Assets	Total
Accumulated Amortization			
January 1, 2022	—	31,852	31,852
Amortization	—	4,379	4,379
Disposal of retirement living operations *(Note 11)*	—	(936)	(936)
Derecognition	—	(67)	(67)
December 31, 2022	—	35,228	35,228
Amortization	**—**	**978**	**978**
March 31, 2023	**—**	**36,206**	**36,206**
Carrying Amounts			
December 31, 2022	45,850	51,214	97,064
March 31, 2023	**45,850**	**54,146**	**99,996**

5. LONG-TERM DEBT

	Interest Rate	Year of Maturity	March 31, 2023	December 31, 2022
Convertible unsecured subordinated debentures	5.00%	2025	**124,001**	123,719
CMHC mortgages, fixed rate	2.65% - 7.70%	2024 - 2037	**42,597**	43,498
CMHC mortgage, variable rate	Variable	2025	**20,954**	21,121
Non-CMHC mortgages and loans	3.49% - 5.64%	2025 - 2038	**102,279**	103,248
Construction facilities and loans	Variable	2024	**49,893**	33,288
Lease liabilities	3.53% - 7.19%	2023 - 2029	**61,239**	63,502
Total debt			**400,963**	388,376
Deferred financing costs			**(4,044)**	(4,402)
Total debt, net of deferred financing costs			**396,919**	383,974
Less: current portion			**(19,392)**	(19,239)
Long-term debt, net of deferred financing costs			**377,527**	364,735

Principal Repayments

	Convertible Debentures	Mortgages and Loans Regular	Mortgages and Loans Maturity	Construction Facilities	Lease Liabilities	Total
2023 remaining	—	6,506	—	—	11,860	18,366
2024	—	8,278	—	49,893	15,571	73,742
2025	126,500	7,276	35,921	—	15,027	184,724
2026	—	6,831	—	—	14,024	20,855
2027	—	5,115	25,954	—	7,224	38,293
Thereafter	—	62,076	7,873	—	8,405	78,354
Total debt principal and lease liability repayments	126,500	96,082	69,748	49,893	72,111	414,334
Unamortized accretion of 2025 convertible debentures	(2,499)	—	—	—	—	(2,499)
Interest on lease liabilities	—	—	—	—	(10,872)	(10,872)
Principal and lease liabilities, after accretion and interest	124,001	96,082	69,748	49,893	61,239	400,963

Long-term Debt Continuity

	March 31, 2023	December 31, 2022
As at January 1	**383,974**	536,851
Issuance of long-term debt	**16,605**	36,393
New lease liabilities	**1,074**	5,476
Accretion and other	**279**	1,001
Repayments[i]	**(2,037)**	(136,687)
Payment of lease liabilities	**(3,334)**	(11,304)
Increase in deferred financing costs	**(3)**	(382)
Amortization of deferred financing costs and other[i]	**361**	6,077
Assumed debt related to the Retirement Living Sale *(Note 11)*	**—**	(53,451)
As at end of period	**396,919**	383,974

[i] Includes amounts related to the Retirement Living Sale in comparative period (*Note 11*).

Construction Facilities

	March 31, 2023	December 31, 2022
Construction facilities	**156,573**	156,573
Amount drawn down, end of period	**(49,893)**	(33,288)
Construction facilities available	**106,680**	123,285

Credit Facilities

The Company has two demand credit facilities totalling $112.3 million. One is secured by 13 Class C long-term care ("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 March 31, 2023 and December 31, 2022, $30.5 million of the facilities secure the Company's defined benefit pension plan obligations, $4.8 million was used in connection with obligations relating to long-term care homes, leaving $77.0 million unutilized.

Financial Covenants

The Company is subject to debt service coverage covenants on certain of its mortgages and loans. The Company was in compliance with all of these covenants as at March 31, 2023.

6. 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:

	PSUs	
	Three months ended March 31,	
(number of units)	2023	2022
Settled in Common Shares issued from treasury	**178,702**	—
Settled in cash	**164,650**	—
PSUs settled during the period	**343,352**	—

The Company's DSUs and PSUs were an expense of $0.9 million for the three months ended March 31, 2023 (three months ended March 31, 2022 – $1.5 million), recorded in administrative costs.

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

	March 31, 2023	December 31, 2022
Contributed surplus – DSUs	**5,296**	4,994
Contributed surplus – PSUs	**3,675**	5,625
Total	**8,971**	10,619

As at March 31, 2023, an aggregate of 3,884,611 (December 31, 2022 – 4,063,313) Common Shares were reserved and available for issuance pursuant to the LTIP.

DSU and PSU activity was as follows:

	DSUs		PSUs	
(number of units)	**Three months ended March 31, 2023**	**Year ended December 31, 2022**	**Three months ended March 31, 2023**	**Year ended December 31, 2022**
Units outstanding, beginning of period	**670,671**	507,811	**1,302,586**	1,176,273
Granted	**35,184**	125,018	**529,802**	582,875
Reinvested dividend equivalents	**12,327**	37,842	**23,637**	92,478
Forfeited	**—**	—	**(38,195)**	(21,417)
Settled	**—**	—	**(343,352)**	(527,623)
Units outstanding, end of period	**718,182**	670,671	**1,474,478**	1,302,586
Weighted average fair value of units granted during the period at grant date	**$6.31**	$6.92	**$6.35**	$8.07

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

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

	Three months ended March 31, 2023	**Year ended December 31, 2022**	
Grant date	**March 14, 2023**	September 6, 2022	March 11, 2022
Vesting date	**March 14, 2026**	March 11, 2025	March 11, 2025
PSUs granted	**529,802**	49,375	533,500
Fair value of AFFO component	**$3.16**	$3.60	$3.87
Fair value of TSR component	**$3.19**	$4.06	$4.24
Grant date fair value	**$6.35**	$7.66	$8.11
Expected volatility of the Company's Common Shares	**19.18 %**	23.72 %	31.52 %
Expected volatility of the Index	**16.43 %**	16.29 %	22.00 %
Risk-free rate	**3.50 %**	3.56 %	1.67 %
Dividend yield	**nil**	nil	nil

7. SHARE CAPITAL

Common Shares

Each Common Share is transferable, represents an equal and undivided beneficial interest in the assets of the Company and entitles the holder to one vote at all meetings of shareholders of the Company. Shareholders are entitled to receive dividends from the Company when declared by the Board. During the three months ended March 31, 2023 and 2022, the Company declared cash dividends of $0.12 per share.

In June 2022, the Company received approval from the TSX to make a normal course issuer bid ("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.

There were no purchases under the NCIB during the three months ended March 31, 2023. Subsequent to March 31, 2023, the Company had purchased for cancellation an additional 520,800 Common Shares at a cost of $3.4 million, representing a weighted average price per share of $6.48.

8. EXPENSES BY NATURE

	Three months ended March 31,	
	2023	**2022**[(i)]
Employee wages and benefits	**242,808**	236,568
Food, drugs, supplies and other variable costs	**15,180**	20,155
Property based and leases	**17,772**	13,023
Other	**17,974**	15,761
Total operating expenses and administrative costs from continuing operations	**293,734**	285,507

[(i)]Certain comparative information has been reclassified to conform to the current year presentation.

9. OTHER EXPENSE

Strategic Transformation Costs

During the three months ended March 31, 2023, 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 Ontario Ministry of Long-Term Care (“MLTC”), Manitoba Health and Winnipeg Regional Health Authority (*Note 12*). Costs incurred include transaction, legal, regulatory, IT integration and management transition costs of $3.6 million (March 31, 2022 – $0.6 million).

10. NET FINANCE COSTS

	Three months ended March 31,	
	2023	**2022**
Interest expense	**5,354**	5,058
Interest revenue	**(1,809)**	(750)
Accretion	**370**	847
Other	**328**	(107)
Net finance costs from continuing operations	**4,243**	**5,048**

11. DISCONTINUED OPERATIONS

On May 16, 2022, the Company completed the sale of its retirement living operations to Sienna-Sabra LP. In addition, on October 9, 2022, the Company completed the transition of the operations and delivery of care services of its Saskatchewan long-term care homes (“SK LTC Homes”) to the Saskatchewan Health Authority (“SHA”), including the sale of the property and equipment, certain assets and liabilities by the SHA.

Financial information of the discontinued operations in the interim condensed consolidated statements of earnings is set out below:

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

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

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

12. COMMITMENTS AND CONTINGENCIES

Commitments

As at March 31, 2023, 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**
2023	37,799	11,534	49,333
2024	4,368	11,594	15,962
2025 and thereafter	—	2,732	2,732
Total	42,167	25,860	68,027

Subsequent to March 31, 2023, the Company entered into a $69.6 million fixed-price construction agreement in connection with the construction of a new 256-bed LTC home in Peterborough, Ontario. Construction is targeted to commence in the second quarter of 2023 and be complete in the fourth quarter of 2025.

Revera and Axium Transactions

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

REVERA TRANSACTIONS

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

On closing of the Revera Acquisition, the Company will enter into management contracts with Revera to manage all of Revera's other LTC homes, which comprise 31 Class C homes located in Ontario and one personal care home located in Manitoba, and will offer employment to Revera's head office LTC personnel. 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 the Company (either alone or with Axium) a right to participate in any redevelopment of Revera's 31 Class C homes in Ontario should Revera determine to pursue redevelopment of any of those homes into new LTC homes. If the Company determines, in its discretion, to participate in any such redevelopment project, Revera will act as development and construction manager and will be paid customary development and construction management fees.

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

The aggregate cash consideration for the Revera Transactions is approximately $32.5 million plus the assumption of approximately $37.5 million in debt (at Extendicare's share), subject to customary adjustments. Certain of the associated debt will be refinanced or repaid on or before closing, resulting in changes in the allocation between cash consideration and debt assumption. The purchase price is expected to be funded from cash on hand.

AXIUM TRANSACTION

In addition to the Revera Transactions, the Company entered into an agreement with Axium in respect of the formation of a joint venture with Axium to jointly redevelop certain of Extendicare's existing Ontario Class C homes (the "Axium Transaction"). Axium will own an 85% interest in the joint venture with Extendicare retaining a 15% managed interest. The Company will continue to undertake all development activities in respect of the joint venture homes and will operate the homes upon completion of construction.

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

Pursuant to the Axium MDA and a limited partnership agreement between affiliates and/or subsidiaries of Extendicare and Axium, the parties entered into a purchase and sale agreement 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 personal support workers and other direct care workers in other industries are included in determining pay equity. The matter has now been referred back to the Pay Equity Tribunal to settle the matter between the participating LTC homes, unions and the Government and establish a framework for pay equity suitable for the sector. The Company, along with other participants in the long-term care sector, including the Government of Ontario, are working to resolve the matter. Given the uncertainty of the matter and the various stakeholders involved, and as a result the wide range of possible settlement outcomes and related funding changes the Company is unable to determine a reliable estimate of the potential outcome. Therefore, the Company did not record a provision with respect to this matter as at March 31, 2023. This matter could have a materially adverse impact on the Company's business, results of operations and financial condition.

13. FINANCIAL INSTRUMENTS

Fair Values of Financial Instruments

The following table presents the fair value and fair value hierarchy of the Company's financial instruments and excludes financial instruments measured at amortized cost that are short-term in nature. The carrying amounts of the Company's financial instruments approximate their fair values except for items presented below.

As at March 31, 2023	**Carrying Amount**	**Fair Value**	**Fair Value Hierarchy**
Financial assets			
Construction funding subsidy receivable[i]	**31,300**	**29,678**	Level 2
	31,300	**29,678**	
Financial liabilities			
Long-term debt[ii]	**215,723**	**215,007**	Level 2
Convertible unsecured subordinated debentures	**124,001**	**120,175**	Level 1
	339,724	**335,182**	

As at December 31, 2022	**Carrying Amount**	**Fair Value**	**Fair Value Hierarchy**
Financial assets			
Construction funding subsidy receivable[i]	32,142	30,636	Level 2
	32,142	30,636	
Financial liabilities			
Long-term debt[ii]	201,157	198,314	Level 2
Convertible unsecured subordinated debentures	123,719	119,543	Level 1
	324,876	317,857	

[i] Includes current portion.
[ii] Excludes leases, convertible debentures and netting of deferred financing costs.

14. SEGMENTED INFORMATION

The Company reports the following segments: i) long-term care; ii) home health care; iii) managed services; and iv) the corporate functions and any intersegment eliminations as "corporate".

The long-term care segment represents the 53 long-term care homes that the Company owns and operates in Canada. Through the Company's 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 managed services are composed of its management, consulting and group purchasing divisions. Through the Extendicare Assist division, the Company provides management and consulting services to third parties; and through the 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 were transitioned to SHA, and the Company's retirement living segment was sold; in the comparative period, the two are treated as discontinued operations and are therefore excluded from continuing operations (*Note 11*).

	Three months ended March 31, 2023				
	Long-term Care	**Home Health Care**	**Managed Services**	**Corporate**	**Total**
CONTINUING OPERATIONS					
Revenue	**207,611**	**107,427**	**9,674**	**—**	**324,712**
Operating expenses	**173,857**	**100,994**	**5,297**	**—**	**280,148**
Net operating income	**33,754**	**6,433**	**4,377**	**—**	**44,564**
Administrative costs				**13,586**	**13,586**
Earnings before depreciation, amortization, and other expense					**30,978**
Depreciation and amortization				**7,351**	**7,351**
Other expense				**3,618**	**3,618**
Earnings before net finance costs and income taxes					**20,009**
Net finance costs				**4,243**	**4,243**
Earnings before income taxes					**15,766**
Current income tax expense				**3,846**	**3,846**
Deferred income tax expense				**340**	**340**
Total income tax expense				**4,186**	**4,186**
Earnings from continuing operations					**11,580**
DISCONTINUED OPERATIONS					
Earnings from discontinued operations, net of income taxes					**—**
Net earnings					**11,580**

	Three months ended March 31, 2022[i]				
	Long-term Care	**Home Health Care**	**Managed Services**	**Corporate**	**Total**
CONTINUING OPERATIONS					
Revenue	199,808	98,649	7,253	—	305,710
Operating expenses	173,244	95,938	3,552	—	272,734
Net operating income	26,564	2,711	3,701	—	32,976
Administrative costs				12,773	12,773
Earnings before depreciation, amortization, and other expense					20,203
Depreciation and amortization				8,251	8,251
Other expense				640	640
Earnings before net finance costs and income taxes					11,312
Net finance costs				5,048	5,048
Earnings before income taxes					6,264
Current income tax expense				3,960	3,960
Deferred income tax recovery				(1,741)	(1,741)
Total income tax expense				2,219	2,219
Earnings from continuing operations					4,045
DISCONTINUED OPERATIONS					
Earnings from discontinued operations, net of income taxes					75
Net earnings					4,120

[i]Certain comparative information has been reclassified to conform to the current year presentation.