



Interim Condensed Consolidated Financial Statements

Q3 2023

Extendicare Inc.
Dated: November 9, 2023

Extendicare Inc.

Interim Condensed Consolidated Financial Statements

Three and nine months ended September 30, 2023 and 2022

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Extendicare Inc.
Interim Condensed Consolidated Statements of Financial Position
(Unaudited)

<i>(thousands of dollars)</i>	<i>notes</i>	September 30, 2023	December 31, 2022
Assets			
Current assets			
Cash and cash equivalents		96,252	167,281
Restricted cash		599	2,701
Accounts receivable		79,837	61,166
Income taxes recoverable		1,104	2,908
Other assets		28,110	23,982
Total current assets		205,902	258,038
Non-current assets			
Property and equipment	4	290,480	388,719
Goodwill and other intangible assets	5	124,876	97,064
Other assets		35,772	30,468
Deferred tax assets		5,335	7,290
Investment in joint ventures	6	25,629	—
Total non-current assets		482,092	523,541
Total assets		687,994	781,579
Liabilities and Equity			
Current liabilities			
Accounts payable and accrued liabilities		207,049	250,140
Income taxes payable		1,971	5,606
Long-term debt	7	20,567	19,239
Total current liabilities		229,587	274,985
Non-current liabilities			
Long-term debt	7	318,708	364,735
Provisions		10,788	10,512
Other long-term liabilities		25,261	23,757
Deferred tax liabilities		8,021	6,889
Total non-current liabilities		362,778	405,893
Total liabilities		592,365	680,878
Share capital	9	472,255	475,415
Equity portion of convertible debentures		7,085	7,085
Contributed surplus		11,543	10,619
Accumulated deficit		(391,054)	(384,620)
Accumulated other comprehensive loss		(4,200)	(7,798)
Shareholders' equity		95,629	100,701
Total liabilities and equity		687,994	781,579

See accompanying notes to the unaudited interim condensed consolidated financial statements.
Commitments and Contingencies (*Note 14*), Subsequent Event (*Note 14*).

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

	notes	Three months ended September 30,		Nine months ended September 30,	
		2023	2022	2023	2022
<i>(thousands of dollars except for per share amounts)</i>					
CONTINUING OPERATIONS					
Revenue		322,529	308,889	954,776	911,184
Operating expenses		287,319	285,363	846,532	824,341
Administrative costs		14,440	13,492	41,720	38,549
Total expenses	10	301,759	298,855	888,252	862,890
Earnings before depreciation, amortization, and other		20,770	10,034	66,524	48,294
Depreciation and amortization		9,023	7,558	23,547	23,867
Other (income) expense	11	(5,048)	3,587	(28)	5,202
Share of profit from investment in joint ventures	6	(598)	—	(598)	—
Earnings (loss) before net finance costs and income taxes		17,393	(1,111)	43,603	19,225
Net finance costs	12	3,725	3,931	11,064	13,357
Earnings (loss) before income taxes		13,668	(5,042)	32,539	5,868
Current income tax expense (recovery)		1,035	(25)	5,387	5,035
Deferred income tax expense (recovery)		802	(655)	1,790	(2,360)
Total income tax expense (recovery)		1,837	(680)	7,177	2,675
Earnings (loss) from continuing operations		11,831	(4,362)	25,362	3,193
DISCONTINUED OPERATIONS					
Earnings from discontinued operations, net of income taxes	13	—	96	—	68,054
Net earnings (loss)		11,831	(4,266)	25,362	71,247
Basic Earnings per Share					
Earnings (loss) from continuing operations		\$0.14	\$(0.04)	\$0.30	\$0.04
Net earnings (loss)		\$0.14	\$(0.04)	\$0.30	\$0.79
Diluted Earnings per Share					
Earnings (loss) from continuing operations		\$0.14	\$(0.04)	\$0.30	\$0.04
Net earnings (loss)		\$0.14	\$(0.04)	\$0.30	\$0.75

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

Extendicare Inc.

Interim Condensed Consolidated Statements of Comprehensive Income

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
<i>(thousands of dollars)</i>	2023	2022	2023	2022
Net earnings (loss)	11,831	(4,266)	25,362	71,247
Other Comprehensive Income, Net of Taxes				
Items that will not be reclassified to profit or loss:				
Defined benefit plan actuarial gains (losses)	4,106	(906)	4,895	4,929
Tax (expense) recovery on changes in defined benefit plan	(1,088)	239	(1,297)	(1,308)
Other comprehensive income (loss), net of taxes	3,018	(667)	3,598	3,621
Total comprehensive income (loss)	14,849	(4,933)	28,960	74,868

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

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

<i>(thousands of 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		(2,199,112)	(12,321)	—	—	(3,540)	—	(15,861)
Share-based compensation	8	177,425	1,901	—	(169)	—	—	1,732
Net earnings		—	—	—	—	71,247	—	71,247
Dividends declared	9	—	—	—	—	(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

<i>(thousands of 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, 2023		84,728,744	475,415	7,085	10,619	(384,620)	(7,798)	100,701
Purchase of shares for cancellation	9	(875,800)	(4,921)	—	—	(677)	—	(5,598)
Share-based compensation	8	178,702	1,761	—	924	(715)	—	1,970
Net earnings		—	—	—	—	25,362	—	25,362
Dividends declared	9	—	—	—	—	(30,404)	—	(30,404)
Other comprehensive income		—	—	—	—	—	3,598	3,598
Balance at September 30, 2023		84,031,646	472,255	7,085	11,543	(391,054)	(4,200)	95,629

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

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

<i>(thousands of dollars)</i>	notes	Three months ended September 30,		Nine months ended September 30,	
		2023	2022 ⁽¹⁾	2023	2022 ⁽¹⁾
Operating Activities					
Net earnings (loss)		11,831	(4,266)	25,362	71,247
Adjustments for:					
Share-based compensation		940	483	1,970	1,732
Depreciation and amortization	4, 5	9,023	7,558	23,547	24,432
Net finance costs	12	3,725	3,931	11,064	13,788
Current taxes		635	9	4,987	4,616
Deferred taxes		802	(655)	1,790	(1,892)
Defined benefit plan expenses		312	203	934	608
Defined benefit plan contributions		—	(541)	(1,096)	(2,241)
Gain on sale of retirement living segment, net of tax	13	—	—	—	(67,920)
Gain on sale of assets to joint venture, net of tax	3	(8,720)	—	(8,720)	—
Share of profit from investment in joint venture	6	(598)	—	(598)	—
		17,950	6,722	59,240	44,370
Net change in operating assets and liabilities					
Accounts receivable		(1,047)	(8,057)	(20,148)	(2,894)
Other assets		(4,800)	3,885	(4,718)	2,687
Accounts payable and accrued liabilities		(4,304)	(1,407)	(15,743)	24,871
		7,799	1,143	18,631	69,034
Interest paid, net		(1,478)	(1,645)	(7,122)	(11,404)
Income taxes received (paid), net		902	1,445	(7,265)	8,968
Net cash from operating activities		7,223	943	4,244	66,598
Investing Activities					
Purchase of property, equipment and other intangible assets	4, 5	(43,926)	(36,625)	(109,192)	(74,420)
Change in other assets		534	916	2,037	3,133
Proceeds from sale of retirement living segment, net of taxes paid	13	—	—	—	245,631
Proceeds from sale of assets to joint venture	3	66,927	—	66,927	—
Investment in joint ventures	6	(25,373)	—	(25,373)	—
Distributions from investment in joint venture		342	—	342	—
Net cash (used in) from investing activities		(1,496)	(35,709)	(65,259)	174,344
Financing Activities					
Issuance of long-term debt	7	15,306	4,858	38,962	18,211
Repayment of long-term debt and lease liabilities	7, 13	(4,785)	(6,901)	(14,974)	(141,397)
Change in restricted cash		2,387	(135)	2,102	465
Purchase of shares for cancellation	9	(1,471)	(15,861)	(5,598)	(15,861)
Dividends paid	9	(10,114)	(10,665)	(30,432)	(32,169)
Financing costs		(71)	—	(74)	(205)
Net cash from (used in) financing activities		1,252	(28,704)	(10,014)	(170,956)
Increase (decrease) in cash and cash equivalents		6,979	(63,470)	(71,029)	69,986
Cash and cash equivalents at beginning of period		89,273	238,083	167,281	104,627
Cash and cash equivalents at end of period		96,252	174,613	96,252	174,613

⁽¹⁾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 in operation since 1968. The Company is a leading provider of care and services for seniors across Canada, operating under the Extendicare, ParaMed, Extendicare Assist and SGP Purchasing Partner Network ("SGP") 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 (the "Board") of the Company on November 9, 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.

c) New Significant Accounting Policy

JOINT VENTURES

Joint ventures are accounted for in the Company's consolidated financial statements as investments using the equity method, whereby the investment is initially recognized at cost, and adjusted thereafter to recognize the Company's share of the profit or loss and other comprehensive income or loss of the joint venture from the date of acquisition, increased by the Company's contributions and reduced by distributions received. The Company's share of joint venture profit or loss is included in the consolidated statements of earnings.

Unrealized gains and losses arising from transactions with the joint ventures are eliminated against the investment in the joint ventures to the extent of the Company's interest in the joint ventures; unrealized losses are eliminated to the extent that there is no evidence of impairment.

The gain on sale of assets to the joint ventures includes variable consideration. The measurement of variable consideration is subject to judgement.

3. SIGNIFICANT TRANSACTIONS

Revera Transactions

On March 1, 2022, the Company entered into agreements with Revera Inc. and its affiliates ("Revera") to acquire a 15% managed interest in AXR Operating (National) LP (now Axium Extendicare LTC II LP ("Axium JV II")), which owns 19 Class A long-term care ("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 LTC Limited Partnership (with its affiliates, "Axium") and Extendicare will operate the homes in consideration for a customary management fee.

In addition, the Company entered into management contracts with Revera to manage all of Revera's other LTC homes, which comprise 30 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 entered 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 granted the Company (either alone or with Axium) a right to participate in any redevelopment of Revera's 30 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.

On August 1, 2023, Extendicare completed the Revera Transactions.

The aggregate consideration paid for the acquisition of the joint venture interest and rights to manage the 56 homes was \$69.7 million, comprised of cash proceeds, net of holdbacks, of \$32.6 million and the assumption of Extendicare's prorated share of fixed rate mortgages within the joint venture of \$37.1 million. Included in the purchase price, and recorded as an intangible asset, was \$20.8 million for the rights to manage the operations of the 56 homes.

Axium Transaction

On March 1, 2022, the Company entered into an agreement with Axium in respect of the formation of a joint venture, Axium Extencicare LTC LP ("Axium JV"), to jointly redevelop certain of Extencicare's existing Ontario Class C homes. Axium owns an 85% interest in the joint venture and Extencicare has the remaining 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 transaction with Axium, Extencicare and Axium entered into a master development agreement pursuant to which Extencicare 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 in the future should the parties so choose. 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 Axium JV and the Company would operate the homes on the same terms as it will operate the homes acquired in the Revera Acquisition.

On September 13, 2023, Extencicare completed the sale of four of its redevelopment projects, Sudbury, Kingston, Stittsville, and Peterborough (960 LTC beds), to Axium JV, in which Extencicare has a 15% managed interest (the "Axium Transaction") for an aggregate purchase price of \$147.3 million, before assumption of debt of \$72.3 million. The net book value was \$135.8 million, resulting in a gain, net of taxes, certain closing costs and other costs of \$8.7 million. The gain is also net of \$2.7 million of gain eliminated related to the Company's 15% interest in the joint venture.

4. PROPERTY AND EQUIPMENT

	Land & Land Improvements	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 13)	(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	244	4,203	1,251	4,267	55,611	6,133	71,709
Derecognition	—	(1)	(542)	(31)	—	—	(574)
Sale of assets to joint venture (Note 3)	—	—	—	—	(150,573)	—	(150,573)
Transfers	—	1,575	—	3,832	—	(5,407)	—
September 30, 2023	37,432	341,045	106,701	74,481	25,703	11,809	597,171

	Land & Land Improvements	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 13)	(555)	(29,381)	(4)	(3,172)	—	—	(33,112)
December 31, 2022	6,081	198,910	48,218	34,681	—	—	287,890
Depreciation	388	10,710	2,388	5,889	—	—	19,375
Derecognition	—	(1)	(542)	(31)	—	—	(574)
September 30, 2023	6,469	209,619	50,064	40,539	—	—	306,691
Carrying Amounts							
December 31, 2022	31,107	136,358	57,774	31,732	120,665	11,083	388,719
September 30, 2023	30,963	131,426	56,637	33,942	25,703	11,809	290,480

5. GOODWILL AND OTHER INTANGIBLE ASSETS

	Goodwill	Operational Entitlements ⁽¹⁾	Software and 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 13)	—	—	(2,928)	(2,928)
Derecognition	—	—	(67)	(67)
December 31, 2022	45,850	—	86,442	132,292
Additions	—	20,809	11,175	31,984
September 30, 2023	45,850	20,809	97,617	164,276

⁽¹⁾ Amounts related to operational entitlements as part of the transactions with Revera and Axium (Note 3).

	Goodwill	Operational Entitlements	Software and Other Intangible Assets	Total
Accumulated Amortization				
January 1, 2022	—	—	31,852	31,852
Amortization	—	—	4,379	4,379
Disposal of retirement living operations (Note 13)	—	—	(936)	(936)
Derecognition	—	—	(67)	(67)
December 31, 2022	—	—	35,228	35,228
Amortization	—	231	3,941	4,172
September 30, 2023	—	231	39,169	39,400
Carrying Amounts				
December 31, 2022	45,850	—	51,214	97,064
September 30, 2023	45,850	20,578	58,448	124,876

6. JOINT VENTURES

The Company has investments in the following joint ventures, each of which are accounted for using the equity method:

	September 30, 2023
Interest in Axiom JV II - 15% ownership	17,739
Interest in Axiom JV - 15% ownership	7,890
Total	25,629

The assets and liabilities of the joint ventures for the periods below including fair value adjustments at acquisition and a reconciliation to the carrying amount of Extencicare's interest are as follows:

	September 30, 2023
Current assets (including cash and cash equivalents - \$28,471)	37,611
Non-current assets	578,704
Total assets	616,315
Current liabilities (Current portion of long-term debt - \$5,138)	110,720
Long-term debt	334,735
Total liabilities	445,455
Total net assets (100%)	170,860
Company share of net assets (15%)	25,629
Carrying amount of investment in joint ventures	25,629

Financial information of the joint ventures for the periods are as follows:

	Three months ended September 30, 2023
Revenue	52,571
Operating expenses	45,276
Administrative costs	6
Earnings before depreciation, amortization, and net finance costs	7,289
Depreciation and amortization	1,829
Net finance costs	1,474
Net income (100%)	3,986
Company share of net income (15%)	598

7. LONG-TERM DEBT

	Interest Rate	Year of Maturity	September 30, 2023	December 31, 2022
Convertible unsecured subordinated debentures	5.00%	2025	124,572	123,719
CMHC mortgages, fixed rate	2.65% - 7.70%	2024 - 2037	40,794	43,498
CMHC mortgage, variable rate	Variable	2025	20,659	21,121
Non-CMHC mortgages and loans	3.49% - 5.64%	2025 - 2038	100,516	103,248
Construction facilities and loans	N/A	N/A	—	33,288
Lease liabilities	3.53% - 7.19%	2023 - 2029	55,677	63,502
Total debt			342,218	388,376
Deferred financing costs			(2,943)	(4,402)
Total debt, net of deferred financing costs			339,275	383,974
Less: current portion			(20,567)	(19,239)
Long-term debt			318,708	364,735

Principal Repayments

	Convertible Debentures	Mortgages and Loans Regular	Maturity	Lease Liabilities	Total
2023 remaining	—	2,645	—	4,407	7,052
2024	—	8,278	—	15,571	23,849
2025	126,500	7,276	35,921	15,027	184,724
2026	—	6,831	—	14,027	20,858
2027	—	5,115	25,954	7,229	38,298
Thereafter	—	62,076	7,873	8,405	78,354
Total debt principal and lease liability repayments	126,500	92,221	69,748	64,666	353,135
Unamortized accretion of 2025 convertible debentures	(1,928)	—	—	—	(1,928)
Interest on lease liabilities	—	—	—	(8,989)	(8,989)
Principal and lease liabilities, after accretion and interest	124,572	92,221	69,748	55,677	342,218

Long-term Debt Continuity

	September 30, 2023	December 31, 2022
As at January 1	383,974	536,851
Issuance of long-term debt	38,962	36,393
New lease liabilities	1,251	5,476
Accretion and other	853	1,001
Repayments ⁽ⁱ⁾	(5,898)	(136,687)
Payment of lease liabilities	(9,076)	(11,304)
Increase in deferred financing costs	(74)	(382)
Amortization of deferred financing costs and other ⁽ⁱ⁾	1,533	6,077
Assumed debt related to the Retirement Living Sale (Note 13)	—	(53,451)
Assumed debt related to the Axiom Transaction (Note 3)	(72,250)	—
As at end of period	339,275	383,974

⁽ⁱ⁾ Includes amounts related to the Retirement Living Sale in comparative period (Note 13).

Construction Facilities

	September 30, 2023	December 31, 2022
Construction facilities	—	156,573
Amount drawn down, end of period	—	(33,288)
Construction facilities available	—	123,285

On September 13, 2023, Axiom JV assumed the construction facilities upon closing of the Axiom Transaction. The Company continues to guarantee a portion of these construction facilities (Notes 3, 14).

Credit Facilities

The Company has two demand credit facilities totalling \$112.3 million. One 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, 2023, \$27.3 million of the facilities secure the Company's defined benefit pension plan obligations (December 31, 2022 – \$30.5 million), \$9.2 million was used in connection with obligations relating to long-term care homes (December 31, 2022 – \$4.8 million), leaving \$75.8 million unutilized (December 31, 2022 – \$77.0 million).

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 September 30, 2023.

8. 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:

<i>(number of units)</i>	PSUs	
	Nine months ended September 30,	
	2023	2022
Settled in Common Shares issued from treasury	178,702	177,425
Settled in cash	164,650	295,722
PSUs settled during the period	343,352	473,147

The Company's DSUs and PSUs were an expense of \$0.9 million for the three months ended September 30, 2023 (three months ended September 30, 2022 – \$1.0 million), and \$3.0 million for the nine months ended September 30, 2023 (nine months ended September 30, 2022 – \$3.8 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:

	September 30, 2023	December 31, 2022
Contributed surplus – DSUs	5,917	4,994
Contributed surplus – PSUs	5,626	5,625
Total	11,543	10,619

As at September 30, 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:

<i>(number of units)</i>	DSUs		PSUs	
	Nine months ended September 30, 2023	Year ended December 31, 2022	Nine months ended September 30, 2023	Year ended December 31, 2022
Units outstanding, beginning of period	670,671	507,811	1,302,586	1,176,273
Granted	102,901	125,018	531,890	582,875
Reinvested dividend equivalents	38,130	37,842	74,746	92,478
Forfeited	—	—	(79,723)	(21,417)
Settled	—	—	(343,352)	(527,623)
Units outstanding, end of period	811,702	670,671	1,486,147	1,302,586
Weighted average fair value of units granted during the period at grant date	\$6.46	\$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:

	Nine months ended September 30, 2023		Year ended December 31, 2022	
	August 22, 2023	March 14, 2023	September 6, 2022	March 11, 2022
Grant date				
Vesting date	March 14, 2026	March 14, 2026	March 11, 2025	March 11, 2025
PSUs granted	2,088	529,802	49,375	533,500
Fair value of AFFO component	\$3.30	\$3.16	\$3.60	\$3.87
Fair value of TSR component	\$3.25	\$3.19	\$4.06	\$4.24
Grant date fair value	\$6.55	\$6.35	\$7.66	\$8.11
Expected volatility of the Company's Common Shares	17.79 %	19.18 %	23.72 %	31.52 %
Expected volatility of the Index	16.06 %	16.43 %	16.29 %	22.00 %
Risk-free rate	4.68 %	3.50 %	3.56 %	1.67 %
Dividend yield	nil	nil	nil	nil

9. 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 and nine months ended September 30, 2023 and 2022, the Company declared cash dividends of \$0.12 per share and \$0.36 per share, respectively.

In June 2023, the Company received approval from the TSX to renew its normal course issuer bid ("NCIB") to purchase for cancellation up to 7,273,707 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, 2023, and provides the Company with flexibility to purchase Common Shares for cancellation until June 29, 2024, 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 36,281 Common Shares. During the three months ended September 30, 2023, the Company purchased 248,300 Common Shares at a cost of \$1.5 million, representing a weighted average price per share of \$6.18.

Under its prior NCIB that commenced on June 30, 2022 and ended on June 29, 2023, the Company purchased 5,638,680 Common Shares at a cost of \$39.1 million, representing a weighted average price per share of \$6.94, of which 627,500 were acquired during 2023 at a cost of \$4.1 million, representing a weighted average price per share of \$6.53.

10. EXPENSES BY NATURE

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Employee wages and benefits	260,578	247,983	757,088	721,532
Food, drugs, supplies and other variable costs	17,645	21,506	48,201	58,022
Property based and leases	12,585	12,720	43,835	38,021
Other	10,951	16,646	39,128	45,315
Total operating expenses and administrative costs from continuing operations	301,759	298,855	888,252	862,890

11. OTHER INCOME AND EXPENSE

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Strategic transformation costs	4,072	3,587	9,092	5,202
Gain on sale of assets to joint venture (Note 3)	(9,120)	—	(9,120)	—
Total other (income) expense	(5,048)	3,587	(28)	5,202

Strategic Transformation Costs

During the three and nine months ended September 30, 2023, the Company incurred costs related to the strategic transformation of the Company related to the transactions with Revera and Axium in respect of the ownership, operation and redevelopment of long-term care homes (Note 3). Costs incurred include transaction, legal, regulatory, IT integration and management transition costs of \$4.1 million and \$9.1 million, respectively (September 30, 2022 – \$3.6 million and \$5.2 million, respectively).

12. NET FINANCE COSTS

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Interest expense	5,099	5,317	15,602	15,397
Interest revenue	(1,266)	(1,386)	(4,694)	(2,677)
Accretion	381	310	1,128	917
Other	(489)	(310)	(972)	(280)
Net finance costs from continuing operations	3,725	3,931	11,064	13,357

13. 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 the assumption of certain 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 September 30, 2022	Retirement Living	SK LTC Homes	Total
Earnings from Discontinued Operations			
Revenue	—	13,421	13,421
Operating expenses	—	13,291	13,291
Earnings before income taxes	—	130	130
Total income tax expense	—	34	34
Earnings from discontinued operations	—	96	96

For the nine months ended September 30, 2022	Retirement Living	SK LTC Homes	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 income tax expense (recovery)	297	(716)	(419)
Deferred income tax expense	468	—	468
Total income tax expense (recovery)	765	(716)	49
Earnings (loss) from operating activities	2,118	(1,984)	134
Gain on sale of discontinued operations before income tax	78,779	—	78,779
Current income tax expense related to gain on sale	3,842	—	3,842
Deferred income tax expense related to gain on sale	7,017	—	7,017
Total income tax expense on gain on sale of discontinued operations	10,859	—	10,859
Earnings (loss) from discontinued operations	70,038	(1,984)	68,054

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 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)

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

14. COMMITMENTS AND CONTINGENCIES

Commitments

As at September 30, 2023, the Company 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:

	Amount
2023	7,443
2024	12,229
2025 and thereafter	4,588
Total	24,260

Subsequent to September 30, 2023, the Company entered into a \$71.7 million fixed-price construction agreement in connection with the construction of a new 256-bed LTC home in Orleans, Ontario. Construction commenced in the fourth quarter of 2023 and the home is targeted to open in the second quarter of 2026.

Guarantees

The Company provides unsecured guarantees related to certain credit facilities held by its joint ventures; namely, construction loans and letter of credit facilities in support of ongoing construction of joint venture LTC redevelopment projects and term loans and lease-up credit facilities for operating joint venture LTC homes. As at September 30, 2023, 23 LTC homes within the joint ventures have existing credit facilities available of up to \$505.7 million. The guarantees provided by the Company vary depending upon the joint venture and the project, but are typically either on a joint and several basis for 50% of the loan amount or on a several basis for 15% of the loan amount or some lesser portion thereof. The amount of the guarantees will vary as borrowings increase on projects under construction and reduce as homes move into operations when guarantee requirements are generally lower. As at September 30, 2023, the Company has provided unsecured guarantees of \$89.5 million in support of the credit facilities held by its joint ventures.

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 September 30, 2023. This matter could have a materially adverse impact on the Company's business, results of operations and financial condition.

15. 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 September 30, 2023	Carrying Amount	Fair Value	Fair Value Hierarchy
Financial assets			
Construction funding subsidy receivable ⁽ⁱ⁾	30,105	27,478	Level 2
	30,105	27,478	
Financial liabilities			
Long-term debt ⁽ⁱⁱ⁾	161,969	153,585	Level 2
Convertible unsecured subordinated debentures	124,572	119,859	Level 1
	286,541	273,444	
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.

16. RELATED PARTY TRANSACTIONS

Transactions with Joint Ventures

On September 13, 2023, the Company sold four LTC homes under construction to Axium JV. The Company accounted for this transaction as a sale of assets, and has consequently eliminated a portion of the resulting gain of \$2.7 million related to its 15% interest in the joint venture, as an unrealized gain against the investment in the joint venture, to be recognized as other income over the bed licence term of the underlying LTC homes sold into the joint venture. For details on the transaction, see *Note 3*.

Related party transactions occur between the Company and its joint ventures. These related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to between the related parties. Except as disclosed elsewhere in these consolidated financial statements, the related party balances are included in accounts receivable and accounts payable, revenue, and other income, as applicable.

As at September 30, 2023, \$1.9 million (September 30, 2022 – nil) of the Company's accounts receivable related to its joint ventures, and \$2.7 million (September 30, 2022 – nil) of the Company's other long-term liabilities related to unrealized gain. For the three and nine months ended September 30, 2023, \$2.3 million (September 30, 2022 – nil) of its revenue (September 30, 2022 – nil) related to the joint ventures.

There were \$0.3 million of distributions from the joint ventures to the Company for the three and nine months ended September 30, 2023 (three and nine months ended September 30, 2022 – nil).

17. SEGMENTED INFORMATION

The Company reports on the following segments: i) long-term care; ii) home health care; iii) managed services, composed of our Extencare Assist and SGP divisions; and iv) the corporate functions, including the Company's joint venture interests, 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 Extencare Assist division, the Company provides management, consulting and other services to third parties and joint

ventures to which the Company is a party; and through the 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.

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 13).

	Three months ended September 30, 2023				
	Long-term Care	Home Health Care	Managed Services	Corporate	Total
CONTINUING OPERATIONS					
Revenue	191,679	118,132	12,718	—	322,529
Operating expenses	175,086	106,535	5,698	—	287,319
Net operating income	16,593	11,597	7,020	—	35,210
Administrative costs				14,440	14,440
Earnings before depreciation, amortization, and other					20,770
Depreciation and amortization				9,023	9,023
Other income				(5,048)	(5,048)
Share of profit from investment in joint ventures				(598)	(598)
Earnings before net finance costs and income taxes					17,393
Net finance costs				3,725	3,725
Earnings before income taxes					13,668
Current income tax expense				1,035	1,035
Deferred income tax expense				802	802
Total income tax expense				1,837	1,837
Earnings from continuing operations					11,831
DISCONTINUED OPERATIONS					
Earnings from discontinued operations, net of income taxes					—
Net earnings					11,831

	Three months ended September 30, 2022				
	Long-term Care	Home Health Care	Managed Services	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					10,034
Depreciation and amortization				7,558	7,558
Other expense				3,587	3,587
Loss before net finance costs and income taxes					(1,111)
Net finance costs				3,931	3,931
Loss before income taxes					(5,042)
Current income tax recovery				(25)	(25)
Deferred income tax recovery				(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)

	Nine months ended September 30, 2023				
	Long-term Care	Home Health Care	Managed Services	Corporate	Total
CONTINUING OPERATIONS					
Revenue	581,667	341,886	31,223	–	954,776
Operating expenses	517,447	313,803	15,282	–	846,532
Net operating income	64,220	28,083	15,941	–	108,244
Administrative costs				41,720	41,720
Earnings before depreciation, amortization, and other					66,524
Depreciation and amortization				23,547	23,547
Other income				(28)	(28)
Share of profit from investment in joint ventures				(598)	(598)
Earnings before net finance costs and income taxes					43,603
Net finance costs				11,064	11,064
Earnings before income taxes					32,539
Current income tax expense				5,387	5,387
Deferred income tax expense				1,790	1,790
Total income tax expense				7,177	7,177
Earnings from continuing operations					25,362
DISCONTINUED OPERATIONS					
Earnings from discontinued operations, net of income taxes					–
Net earnings					25,362

	Nine months ended September 30, 2022				
	Long-term Care	Home Health Care	Managed Services	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					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
Current income tax expense				5,035	5,035
Deferred income tax recovery				(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