



EXTENDICARE[®]

... helping people live better

Extendicare Inc.
2018 Annual Report



MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2018

Extendicare Inc.

Dated: February 28, 2019



Management's Discussion and Analysis

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BASIS OF PRESENTATION

This Management's Discussion and Analysis (MD&A) provides information on Extencicare Inc. and its subsidiaries, and unless the context otherwise requires, references to "Extencicare", the "Company", "we", "us" and "our" or similar terms refer to Extencicare 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 Extencicare is located at 3000 Steeles Avenue East, Suite 700, Markham, Ontario, Canada, L3R 9W2.

Extencicare and its predecessors have been in operation since 1968, providing care and services to seniors throughout Canada. Following the sale of its U.S. business in 2015 and the repositioning of the Company as a pure-play Canadian services provider to the expanding senior care sector, we have continued to grow the Company's operations across the continuum of seniors' care.

Extencicare has prepared this MD&A to provide information to current and prospective investors of the Company to assist them to understand Extencicare's financial results for the year ended December 31, 2018. This MD&A should be read in conjunction with Extencicare's audited consolidated financial statements for the years ended 2018 and 2017, and the notes thereto, prepared in accordance with International Financial Reporting Standards (IFRS). These financial statements and notes are available on Extencicare's website at www.extencicare.com. All currencies are in Canadian dollars unless otherwise indicated. Except as otherwise specified, references to years indicate the fiscal year ended December 31, 2018, or December 31 of the year referenced.

The discussion and analysis in this MD&A are based upon information available to management as of February 28, 2019. This MD&A should not be considered all-inclusive, as it excludes 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 Extencicare, including its latest Annual Information Form, may be found on SEDAR's website at www.sedar.com under Extencicare's issuer profile and on Extencicare's website at www.extencicare.com. A copy of this and other public documents of Extencicare are available upon request to the Corporate Secretary of Extencicare.

FORWARD-LOOKING STATEMENTS

Information provided by Extendicare from time to time, including in this Annual Report, contains or may contain forward-looking statements 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) to be derived from development projects and adjusted funds from operations to be derived from acquisitions and development projects; and statements relating to indemnification provisions and deferred consideration in respect of disposed operations. Forward-looking statements can 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.

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 Extendicare to differ materially from those expressed or implied by the forward-looking statements, include, without limitation, the following: changes in the overall health of the economy and government; the 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 and economic influences; changes in applicable accounting policies; changes in regulations governing the health care and long-term care industries and the compliance by Extendicare with such regulations; changes in government funding levels for health care services; 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 Extendicare to maintain and increase resident occupancy levels and home health care volumes; changes in competition; changes in demographics and local environment economies; changes in foreign exchange and interest rates; changes in the financial markets, which may affect the ability of Extendicare to refinance debt; and the availability and terms of capital to Extendicare to fund capital expenditures and acquisitions; changes in the anticipated outcome and benefits of dispositions, acquisitions and development projects, including risks relating to completion; 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 Extendicare’s issuer profile.

The forward-looking statements contained in this Annual Report are expressly qualified by this cautionary statement. Given these risks and uncertainties, readers are cautioned not to place undue reliance on the forward-looking statements of Extendicare. The forward-looking statements speak only as of the date of this Annual Report. 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.

NON-GAAP MEASURES

Extendicare assesses and measures operating results and financial position based on performance measures referred to as “net operating income”, “net operating income margin”, “EBITDA”, “Adjusted EBITDA”, “Adjusted EBITDA margin”, “earnings before depreciation, amortization, and other expense”, “earnings (loss) from continuing operations before separately reported items, net of taxes”, “Funds from Operations”, and “Adjusted Funds from Operations”. These measures are commonly used by Extendicare and its investors as a means of assessing the performance of the core operations in comparison to prior periods. They are presented by Extendicare on a consistent basis from period to period, thereby allowing for consistent comparability of its operating performance. In addition, the Company assesses its return on investment in development activities using the non-GAAP financial measure “NOI Yield”. These measures are not recognized under GAAP and do not have standardized meanings prescribed by GAAP. These non-GAAP measures are presented in this document because either: (i) management believes that they are a relevant measure for users of the Company’s financial statements to assess the Company’s operating performance and ability to pay cash dividends; or (ii) certain ongoing rights and obligations of Extendicare may be calculated using these measures. Such non-GAAP 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. They 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.

References to “net operating income”, or “NOI”, in this document are to revenue less operating expenses, and this value represents the underlying performance of our operating business segments. References to “net operating income margin” are to net operating income as a percentage of revenue.

References to “EBITDA” in this document are to earnings (loss) from continuing operations before net finance costs, income taxes, depreciation and amortization. References to “Adjusted EBITDA” in this document are to 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. References to “Adjusted EBITDA Margin” are to Adjusted EBITDA as a percentage of revenue. Management believes that certain lenders, investors and analysts use EBITDA and Adjusted EBITDA to measure a company’s ability to service debt and meet other payment obligations, and as a common valuation measurement in the long-term care industry. For example, certain of our debt covenants use Adjusted EBITDA in their calculations.

References to “earnings (loss) from continuing operations before separately reported items, net of tax” in this document are to earnings (loss) from continuing operations, excluding the following separately reported line items: “fair value adjustments”, “loss (gain) on foreign exchange and investments”, 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. They relate to the change in the fair value of, or gains and losses on termination of, convertible debentures, and interest rate agreements, as well as gains or losses on the disposal or impairment of assets and investments, and foreign exchange gains or losses on capital items. In addition, these line items may include acquisition related costs, restructuring charges, proxy contest costs, and the write-off of unamortized deferred financing costs on early retirement of debt. 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.

“Funds from Operations”, or “FFO”, is defined as Adjusted EBITDA less depreciation for furniture, fixtures, equipment and computers, or “depreciation for FFEC”, accretion costs, net interest expense, and current income taxes. Depreciation for FFEC is considered representative of the amount of maintenance (non-growth) capital expenditures, or “maintenance capex”, to be used in determining “Funds from Operations”, 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.

“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 are funded through investments held for U.S. self-insured liabilities, which are not included in the Company’s reported cash and short-term investments. 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 our 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 believes that AFFO is a relevant measure of the ability of the Company to earn cash and pay cash dividends to shareholders.

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

References to “payout ratio” in this document are to the ratio of dividends declared per share to AFFO per basic share.

References to “NOI Yield” in this document are to a financial measure used by the Company to assess its return on investment in development activities. NOI Yield is defined by the Company as the estimated stabilized NOI of a development property in the first year it achieves expected stabilized occupancy divided by the estimated Adjusted Development Costs, as defined below. Management believes that this is 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.

Reconciliations of “earnings (loss) from continuing operations before income taxes” to “Adjusted EBITDA” and “net operating income” are provided under the headings “2018 Selected Quarterly Information”, “2018 Fourth Quarter Financial Review” and “2018 Financial Review”.

Reconciliations of “earnings from continuing operations” to “FFO” and “AFFO” are provided under the heading “Adjusted Funds from Operations”.

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

BUSINESS STRATEGY

Our strategy is to be the leading provider of care and services to seniors in Canada. To do this, we strive to provide quality, person-centred care through compassionate caregivers across the continuum of care – offering the right care at the right time, in the right place for Canadian seniors as they age and their care and service needs change – and to be an employer of choice in the communities in which we operate.

Our core long-term care services are complemented by a market leading home health care platform operating under the ParaMed banner and a private-pay retirement business operating under the Esprit Lifestyle Communities banner, as well as growing management/consulting and group purchasing divisions. We have continued to grow Esprit through acquisition and development and to pursue private-pay home health care opportunities with the intent to diversify our revenue streams to achieve a better balance between government and privately funded activities.

We believe that the effective execution of this strategy will provide an appropriate and consistent return to our shareholders who have demonstrated their belief in our mission by investing in Extencicare.

SIGNIFICANT 2018 EVENTS AND DEVELOPMENTS

This section provides an update on our current activities related to the growth of our retirement operations and the completion of our convertible debt refinancing in 2018. Refer to the discussion under the heading “Other Significant Developments” for a summary of other developments affecting the financial results or operations of Extencicare.

Growth of Retirement Operations

As part of the execution of our strategy to continue to grow along the senior care and services continuum, we continue to expand our private-pay retirement operations through the acquisition and development of retirement communities under our Esprit Lifestyle Communities brand. Our retirement communities offer a variety of lifestyle options, including independent and enhanced living and memory care, as well as short-term stay, and respite care.

During 2018, Esprit Lifestyle Communities had nine retirement communities in operation that it had either acquired or developed since 2015, and in January 2019, it opened its tenth, Bolton Mills Retirement Community (Bolton Mills) in Bolton, Ontario.

RETIREMENT ACQUISITIONS

In April 2018, the Company completed the acquisition of the Lynde Creek Retirement Community, located in Whitby, Ontario, for a cash purchase price of \$33.8 million, including working capital adjustments (the “Lynde Creek Acquisition”). The acquired community consists of Lynde Creek Manor, a retirement residence offering 93 independent and assisted living suites, (the “Manor”); Lynde Creek Village, a life lease seniors community of 113 townhomes, (the “Village”); and 3.7 acres of adjacent land for expansion (the “Excess Land”). Further details of the Lynde Creek Acquisition are provided in *note 6* of the audited consolidated financial statements.

The Manor is a modern private pay luxury retirement residence with 93 suites offering independent supportive living (ISL) and assisted living (AL) suites. The Village is an enclave of 113 townhomes adjacent to the Manor. Included in the purchase agreement is the ownership of the underlying land and the leasehold interest related to the life leases. Upon the resale of a townhome, the Company earns a fee equal to 10% of the proceeds. The Excess Land is situated immediately adjacent to the Manor, with zoning that allows for a strategic expansion to include additional ISL/AL suites or seniors’ apartments.

2018 COMPLETED PROJECTS

In November 2018, we completed the 45-suite expansion of Douglas Crossing Retirement Community (Douglas Crossing), in Uxbridge, Ontario, and at January 31, 2019, the expanded 148-suite community was 80% leased. Phase 1, or 103 suites, opened in October 2017, and by the end of 2018 was 92% leased. The robust pre-lease activity of phase 1 led to the decision in 2017 to accelerate the phase 2 expansion plans. The Adjusted Development Costs for the total 148-suite project are estimated to be \$35.7 million, with an expected stabilized occupancy of 94% in the 2019 fourth quarter, an estimated stabilized NOI of \$4.1 million and a corresponding NOI Yield of 11.4%.

At the end of December 2018, we completed development of Bolton Mills, a 112-suite retirement community in Bolton, Ontario, and welcomed its first resident in January 2019. The Adjusted Development Costs for this project are estimated to be \$30.7 million, with an expected stabilized occupancy of 95% in the 2021 fourth quarter, an estimated stabilized NOI of \$2.4 million and a corresponding NOI Yield of 7.8%.

PROJECTS UNDER CONSTRUCTION

We currently have a 124-suite retirement project under construction in Barrie, Ontario, that is scheduled to open in the 2019 fourth quarter. The Adjusted Development Costs for this project are estimated to be \$38.5 million, with an expected stabilized occupancy of 92% in the 2022 second quarter, an estimated stabilized NOI of \$3.2 million and a corresponding NOI Yield of 8.2%.

Issue of 2025 Convertible Debentures and Redemption of 2019 Convertible 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 “Offering”). 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 net proceeds from the Offering of \$120.9 million, together with cash on hand, was used by the Company to finance the redemption of its outstanding 6.00% convertible unsecured subordinated debentures due September 30, 2019 (the “2019 Debentures”). The redemption of the 2019 Debentures was completed on April 30, 2018, at a price equal to the sum of the outstanding aggregate principal amount of \$126.5 million and all accrued and unpaid interest thereon for a total of \$127.1 million, or \$1,004.93 for each \$1,000 principal amount of 2019 Debentures. As a result of the early redemption, the unaccrued liability of \$1.4 million and unamortized deferred financing costs of \$1.1 million were expensed, and the related equity portion of \$5.6 million was classified as part of accumulated deficit during the 2018 second quarter. Further details of the issuance and redemption are provided in *note 12* of the audited consolidated financial statements.

BUSINESS OVERVIEW

Extendicare, through its subsidiaries, is the largest private-sector operator of long-term care centres in Canada and we believe is the largest private-sector provider of publicly funded home health care services in Canada through our wholly owned subsidiary ParaMed Inc. (ParaMed). In addition, the Company owns and operates retirement communities under the Esprit Lifestyle Communities brand, provides management and consulting services to third-party owners of senior care and living centres through its Extendicare Assist division, and provides group purchasing services to third-party clients through its SGP Purchasing Partner Network, or SGP, division. In 2018, approximately 56% of the revenue from our Canadian operations was derived from our long-term care operations, approximately 39% was from our home health care business, approximately 3% was from our retirement living operations, and the balance was from the Extendicare Assist and SGP divisions.

As at December 31, 2018, Extendicare owned and operated 58 LTC centres, 9 retirement communities, and managed 53 senior care and living centres for third parties. In total, we operated 120 senior care and living centres across four provinces in Canada, with capacity for 15,447 residents, with a significant presence in Ontario and Alberta, where approximately 76% and 11% of our residents, respectively were served. ParaMed’s home health care services operated from 35 locations across six provinces (29 in Ontario, 1 in British Columbia, 2 in Alberta, 1 in Manitoba, 1 in Nova Scotia, and 1 in Quebec) providing approximately 10.9 million hours of service in 2018. SGP Purchasing Partner Network provided group purchasing services to third-party clients representing approximately 51,100 seniors across Canada. Our highly trained workforce of approximately 23,000 individuals across Canada is dedicated to helping people live better through a commitment to quality service and passion for what we do.

The table below summarizes the senior care and living centres operated by Extendicare, including those managed for third parties, as at December 31, 2018. Included are nine LTC centres in Ontario that the Company operates under 25-year finance lease arrangements, with full ownership obtained at the end of the lease term. In addition to the following, the Company owns land adjacent to its retirement residence at Lynde Creek in Whitby, Ontario, on which there is an enclave of 113 townhomes, known as Lynde Creek Village, that are leased by the Company to seniors under life leases.

By Province	Long-term Care		Retirement Living		Chronic Care Unit		Total	
	No. of Centres	Resident Capacity	No. of Centres	Resident Capacity	No. of Centres	Resident Capacity	No. of Centres	Resident Capacity
Owned/Leased								
Ontario	34	5,207	5	472	–	–	39	5,679
Alberta	14	1,519	–	–	–	–	14	1,519
Saskatchewan	5	649	4	341	–	–	9	990
Manitoba	5	762	–	–	–	–	5	762
	58	8,137	9	813	–	–	67	8,950
Managed								
Ontario	42	5,338	6	660	1	120	49	6,118
Alberta	1	102	1	109	–	–	2	211
Manitoba	2	168	–	–	–	–	2	168
	45	5,608	7	769	1	120	53	6,497
Total	103	13,745	16	1,582	1	120	120	15,447

(1) The centres are categorized based on the predominant level of care provided, the type of licensing and the type of funding provided. For example, two of our long-term care centres with retirement wings have been categorized as LTC centres. In addition, government-funded supportive living suites have been categorized as LTC centres due to the nature of the regulatory oversight and government-determined fee structure.

The following reflects the change in operating capacity of our Canadian senior care and living centres during 2018 and 2017.

Senior Care and Living Centres	2018		2017	
	No. of Centres	Resident Capacity	No. of Centres	Resident Capacity
As at beginning of year	116	15,004	118	15,022
Managed contracts added	4	524	7	764
Managed contracts ceased	(1)	(243)	(10)	(900)
Retirement communities acquired/developed	1	138	1	103
LTC addition	–	24	–	–
Operational capacity adjustments	–	–	–	15
As at end of year	120	15,447	116	15,004

Operating Segments

The Company reports the following segments within its Canadian operations: i) long-term care; ii) retirement living; iii) home health care; iv) management, consulting and group purchasing as “other Canadian operations”; and v) the Canadian corporate functions and any intersegment eliminations as “corporate Canada”. For financial reporting purposes, the Company’s owned and operated centres are reported under the “long-term care” or the “retirement living” operating segment based on the predominate level of care provided. The Company’s managed centres are reported under the “other Canadian operations” segment, as the revenue from those operations is earned on a fee-for-service basis.

The Company continues to group its remaining U.S. operations as one segment, consisting of its wholly owned Bermuda-based captive insurance company, Laurier Indemnity Company, Ltd. (the “Captive”) that insured Extendicare’s U.S. general and professional liability risks up to the date of the sale of the Company’s U.S. business in 2015 (the “U.S. Sale Transaction”). The Captive’s expense incurred or release of reserves for self-insured liabilities as well as the disposed U.S. businesses are presented as discontinued operations; while the Captive’s costs to administer and manage the settlement of the remaining claims are reported as continuing operations within the U.S. segment.

The following describes the continuing businesses and operating segments of Extencicare.

LONG-TERM CARE (including government-funded supportive living)

Extencicare owns and operates for its own account 58 LTC centres with capacity for 8,137 residents, inclusive of a stand-alone designated supportive living centre (140 suites) and a designated supportive living wing (60 suites) in Alberta, and two retirement wings (76 suites) in Ontario. Revenue from the long-term care operations represented 56.5% of consolidated revenue from continuing operations in 2018 (2017 year – 56.2%).

In Canada, provincial legislation and regulations closely control all aspects of operation and funding of LTC centres, including the fee structure, subsidies, the adequacy of physical centres, 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 portion to be paid by the resident. Nobody is refused access to long-term care due to an inability to pay. A government subsidy, generally based on an income test, is available for residents who are unable to afford the resident co-payment. In Alberta, designated supportive living centres provide services similar to those provided by retirement communities, and were introduced by Alberta Health Services (AHS) as an alternative setting for residents not yet requiring the needs of a more expensive LTC centre. The designated supportive living operations are licensed, regulated and funded by AHS in a similar manner to LTC centres, including a government-determined fee structure.

In Ontario, 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. Operators are permitted to designate up to 60% of the resident capacity of a centre as preferred accommodation and charge higher accommodation rates that vary according to the structural classification of the LTC centre.

The following summarizes the composition of the owned/leased LTC centres operated by Extencicare in Ontario, as at December 31, 2018, as well as the maximum preferred differential rates for each classification of bed.

Ontario Owned/Leased	No. of Centres	Composition of Beds					Total
		Private \$26.04 premium	Private \$18.74 premium	Semi-private \$8.33 premium	Basic/Other		
New	13	1,106	–	–	741	1,847	
Class C ⁽¹⁾	21	–	476	1,396	1,412	3,284	
	34	1,106	476	1,396	2,153	5,131	

(1) Beds in operation of 3,284 exclude 3 beds held in abeyance.

RETIREMENT LIVING

Under the Esprit Lifestyle Communities brand, the Company owned and operated nine retirement communities with 813 suites as at December 31, 2018, with a tenth community (112 suites) that opened in January 2019. Four of these communities (341 suites) are located in Saskatchewan and six communities (584 suites) are located in Ontario. A new retirement community (124 suites) is presently under construction in Ontario, and plans are under way for a 59-suite expansion of our 63-suite Empire Crossing retirement community in Port Hope, Ontario.

Extencicare's retirement communities provide accommodation and services to private-pay residents at rates set by the Company based on the services provided and market conditions. The monthly fees vary depending on the type of accommodation, level of care and services chosen by the resident, and the location of the retirement community. Residents are able to choose the living arrangements best suited to their personal preference and needs, as well as the level of care and support they receive as their needs evolve over time. Revenue from these operations represented 3.0% of consolidated revenue from continuing operations in 2018 (2017 year – 1.9%).

HOME HEALTH CARE

Extencicare 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. Revenue from these operations represented 38.5% of consolidated revenue from continuing operations in 2018 (2017 year – 39.7%).

Provincial governments fund a wide range of home health care services, and contract these services to providers such as ParaMed. In 2018, ParaMed received approximately 98% of its revenue from contracts tendered by locally administered provincial agencies (2017 year – 98%), with the remainder from private-pay clients. During 2018, ParaMed's 35 locations

across Canada provided approximately 10.9 million hours of service, of which approximately 83% were provided in Ontario, 11% in British Columbia, 4% in Alberta, and the balance were provided in Manitoba, Nova Scotia and Quebec.

OTHER CANADIAN OPERATIONS

Extencicare's other Canadian operations are composed of its management and consulting services provided by Extencicare Assist, and group purchasing services provided by SGP Purchasing Partner Network. Revenue from these two divisions, collectively, represented 2.0% of consolidated revenue from continuing operations in 2018 (2017 year – 1.7%).

Management and Consulting Services

Through its Extencicare Assist division, Extencicare leverages its expertise in operating senior care centres in providing a wide range of management and consulting services to third-party owners of senior care and living centres. Extencicare Assist partners with not-for-profit and for-profit organizations, hospitals and municipalities that seek to improve their management practices, quality of care practices and operating efficiencies. Extencicare Assist provides a broad range of services aimed at meeting the needs of its partners, from operational consulting to overall facility management. The management service offering can include a broad spectrum of services, including: financial administration, record keeping, regulatory compliance and purchasing. In addition, Extencicare Assist provides consulting services to third parties for the development and redevelopment of long-term care centres, and secured such a contract in 2018 with a Toronto area hospital network.

As a skilled manager and operator of senior care centres for third parties, Extencicare Assist's managed portfolio consisted of 53 senior care centres with capacity for 6,497 residents as at December 31, 2018 (December 31, 2017 – 50 centres with capacity for 6,216 residents).

Group Purchasing Services

Through its SGP Purchasing Partner Network division, Extencicare 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 and high volume contracts with suppliers that provide members with preferred pricing, thereby providing a cost-effective way to secure quality national brand-name products, along with a range of innovative services. As at December 31, 2018, SGP provided services to third-party clients, serving approximately 51,100 seniors across Canada, and beginning in January 2019, brought on new clients increasing those served to over 56,800 (December 31, 2017 – 45,200 seniors).

U.S. REMAINING OPERATIONS – CAPTIVE INSURANCE COMPANY

Prior to the U.S. Sale Transaction, Extencicare self-insured certain risks related to general and professional liability of its disposed U.S. operations through the Captive. The obligation to settle any such claims relating to the period prior to the closing of the U.S. Sale Transaction, including claims incurred but yet to be reported, remains with Extencicare, which it intends to continue to fund through the Captive. The majority of the risks that Extencicare self-insured relating to the U.S. operations are long-term in nature, and accordingly, claim payments for any particular policy year can occur over a long period of time. In addition, through the Captive, the Company maintained third-party liability insurance on a "claims made" basis, as opposed to "occurrence based" coverage, meaning that some level of coverage may continue to be required. Any expense incurred or release of reserves for U.S. self-insured liabilities are presented as discontinued operations; while the costs to administer and manage the settlement of the remaining claims are reported as continuing operations within the U.S. segment.

As at December 31, 2018, the accrual for U.S. self-insured general and professional liabilities was \$37.1 million (US\$27.2 million) compared to \$61.1 million (US\$48.6 million) at the beginning of the year, and the investments held for U.S. self-insured liabilities totalled \$67.9 million (US\$49.8 million) compared to \$86.3 million (US\$68.6 million) at the beginning of the year, with the decline in each primarily reflecting the "run off" of these operations and release of reserves. Following the completion of an independent actuarial review, the Company released US\$9.9 million of reserves for self-insured liabilities in 2018, bringing the total since the sale of the U.S. operations in 2015 to US\$29.6 million. Following the release of these reserves, the Captive has transferred a total of US\$28.5 million of its funds previously held for investment to the Company for general corporate use since the sale in 2015, of which US\$7.5 million was transferred in October 2018. The loss provisions for our U.S. general and professional liability risks are based upon management's best available information, including independent actuarial estimates. The Captive is currently appropriately capitalized, but there can be no assurance that it will remain as such in the future should general and professional liability claims incurred prior to the closing of the U.S. Sale Transaction, including claims incurred but yet to be reported, increase significantly. For further information on our self-insured liabilities, refer to the discussion under the heading "Accrual for U.S. Self-insured Liabilities" found within the "Liquidity and Capital Resources" section of this MD&A.

KEY PERFORMANCE INDICATORS

In addition to those measures identified under the heading “Non-GAAP Measures”, management uses certain key performance indicators in order to compare the financial performance of Extencicare’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 Extencicare’s financial results from continuing operations.

The following is a glossary of terms for some of our key performance indicators:

“**Stabilized community**” is the classification by the Company of a retirement community that has achieved its expected stabilized occupancy level, which varies from project to project; such operations in respect of this report specifically refer to five retirement communities (Empire Crossing, Harvest, Lynde Creek Manor, Riverbend Crossing and Stonebridge Crossing);

“**Non same-store**” or “**NSS**”, generally refers to those centres or business that were not continuously operated by us since the beginning of the previous fiscal year or have been classified as held for sale, such operations in respect of this report specifically refer to one retirement community that opened during 2017 (Douglas Crossing), Lynde Creek that was acquired in April 2018, and two retirement communities that were under development (Bolton and Barrie);

“**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; and

“**Same-store**” or “**SS**” generally refers to those centres or businesses that were continuously operated by us since the beginning of the previous fiscal year, and which are not classified as held for sale; such operations in respect of this report specifically refer to all continuing operations excluding the four retirement communities classified as NSS above.

Long-term Care

The following table provides the average occupancy levels of our LTC operations for the past eight quarters.

Long-term Care Centres	2018					2017				
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year
Average Occupancy (%)										
Total LTC	96.4%	97.2%	97.8%	97.6%	97.3%	97.2%	97.6%	98.2%	97.7%	97.7%
Ontario LTC										
Total operations	97.1%	97.7%	98.3%	98.2%	97.8%	97.6%	98.2%	98.5%	98.2%	98.1%
Preferred Accommodation ⁽¹⁾										
“New” centres – private	96.3%	96.7%	97.6%	96.6%	96.8%	97.1%	98.0%	98.3%	98.1%	97.9%
“C” centres – private	97.4%	97.3%	97.8%	97.6%	97.5%	98.5%	98.3%	97.8%	98.8%	98.4%
“C” centres – semi-private	65.2%	65.7%	66.5%	66.1%	65.9%	64.5%	65.7%	67.3%	66.5%	66.1%

(1) 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 average occupancy at our LTC centres was 97.6% this quarter compared to 97.7% in the 2017 fourth quarter, and to 97.8% in the 2018 third quarter. For the year, occupancy averaged 97.3% compared to 97.7% in 2017. In terms of the quarterly trends throughout the year, slightly lower occupancy levels are to be expected during the winter months as a result of outbreaks, which can lead to a temporary freeze on admissions. In addition, occupancy levels in the 2018 first quarter were impacted by the fill-up of a 24-bed addition to one of our LTC centres that opened in February, yet achieved stabilized occupancy levels in April 2018.

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. Extencicare’s LTC centres in Ontario achieved an overall average occupancy of 97.8%, with all but two of the centres achieving the 97% occupancy threshold.

In addition, Extencicare’s Ontario LTC centres receive premiums for preferred accommodation. The average occupancy of the private beds in our “New” centres was 96.8% this year compared to 97.9% in 2017. The average occupancy of the private beds at our Class C centres was 97.5% this year compared to 98.4% in 2017.

Retirement Living

During 2018, we had nine retirement communities in operation, two of which were classified as non same-store. Five of the retirement communities were classified as stabilized, including Lynde Creek Manor, which had achieved stabilized occupancy at the time it was acquired earlier this year, and four that were acquired in 2015 (Empire, Harvest, Riverbend, and Stonebridge). The remaining four communities were classified as lease-up communities during 2018.

AS AT OCCUPANCY

The following table provides the combined occupancy of our stabilized and lease-up retirement communities at the end of each quarter in 2018 and 2017.

Retirement Communities	2018				2017			
	Mar. 31	Jun. 30	Sept. 30	Dec. 31	Mar. 31	Jun. 30	Sept. 30	Dec. 31
As at Occupancy (%)								
Stabilized communities (Empire/Harvest/ Lynde Creek/Riverbend/Stonebridge)	90.5%	93.2%	94.8%	95.0%	83.8%	83.2%	89.6%	93.4%
Lease-up communities	70.6%	76.4%	82.4%	81.0%	38.6%	43.9%	55.7%	63.0%

The average occupancy of the stabilized communities improved to 95.0% on December 31, 2018, from 93.4% on December 31, 2017. In terms of the quarterly trends throughout the year, lower occupancy levels can be expected during the winter months as a result of higher attrition, as was experienced in the first half of 2018 from the 2017 year-end levels. The average occupancy of the four lease-up communities grew to 81.0% at year end from 63.0% on December 31, 2017, with the slight decline from September 30, 2018 due to the completion of the 45-suite addition at Douglas Crossing.

AVERAGE OCCUPANCY

The following table provides the average occupancy of the retirement communities in total and for each of the stabilized and lease-up groupings for the past eight quarters. The average occupancy of the stabilized communities improved to 94.8% this quarter from 93.4% in each of the 2017 fourth and 2018 third quarters, and averaged 93.3% for the year.

Retirement Communities	2018					2017				
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year
Average Occupancy (%) – total	80.4%	84.4%	87.9%	88.4%	85.5%	63.4%	66.6%	71.9%	75.9%	69.7%
Stabilized communities	92.6%	92.1%	93.4%	94.8%	93.3%	82.7%	83.1%	86.8%	93.4%	86.5%
Lease-up communities	67.6%	74.5%	80.6%	80.6%	75.9%	34.0%	41.7%	49.4%	55.5%	46.0%

Home Health Care

The following table provides the service volumes of our home health care operations for the past eight quarters.

Home Health Care	2018					2017				
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year
Service Volumes										
Hours of service (000's)	2,705.0	2,734.8	2,708.6	2,750.0	10,898.4	2,815.7	2,859.1	2,833.6	2,818.4	11,326.8
Hours per day	30,055	30,053	29,441	29,891	29,859	31,285	31,418	30,800	30,634	31,032

Revenue from provincial programs represented approximately 98% of Extendicare's home health care revenue in 2018 (2017 year – 98%). ParaMed's average daily hours of service increased this quarter from the 2018 third quarter by 1.5% to 29,891, the first quarter-over-quarter sequential increase in the past six quarters. For the year, ParaMed's average daily hours of service were 29,859, or 3.8% below 2017, largely due to challenges with the Ontario operations. Competition for personal support workers (PSWs), and to a lesser extent nurses, intensified in 2018. A labour shortage in many areas across the country has adversely impacted our ability to continue to meet the growing demand in services. We continue efforts to build capacity to address these challenges and to take advantage of the significant organic growth opportunity that exists across Canada. Retention efforts have reduced turnover rates by half in the last half of 2018 compared to the beginning of the year. If sustained, we believe this will improve capacity in future quarters.

Also, in the summer of 2018 we successfully launched new enterprise software to replace three legacy systems, which is expected to enhance ParaMed's operational capabilities enabling it to respond to the growing market demand. As of the end of February 2019, we have completed the roll out of the new software to branch offices representing approximately 53% of our business volumes and anticipate completing the balance by the end of 2019. During the implementation, we will be shouldering the cost of the legacy systems and investing in significant one-time training and implementation resources. Costs incurred in 2018 in respect of the three legacy systems to be decommissioned and temporary staff for training, data

migration, and implementation of the new software impacted EBITDA by approximately \$3.3 million (\$2.3 million at the NOI level), compared to \$1.6 million at the NOI and EBITDA levels in 2017. Management anticipates these costs will escalate in 2019 to approximately \$5.0 million (\$2.8 million at the NOI level), after which the implementation will be complete. As we start to leverage the new system throughout 2019, we expect productivity and service volumes to improve.

For further information on the home health care operations, refer to the discussion under the heading “Update of Regulatory and Funding Changes Affecting Results – Ontario Home Health Care Legislation and Funding”.

2018 SELECTED ANNUAL INFORMATION

The following is a summary of selected annual financial information for each of the past three years.

<i>(thousands of dollars unless otherwise noted)</i>	2018	2017	2016
Financial Results			
Revenue	1,120,007	1,097,331	1,060,758
Earnings before depreciation, amortization and other expense (Adjusted EBITDA)	94,238	97,597	92,935
Earnings from continuing operations	8,084	31,712	31,417
per basic share (\$)	0.09	0.36	0.36
Gain (loss) on sale of U.S. operations, net of taxes	–	–	(8,458)
Earnings (loss) from discontinued operations	23,654	(29,580)	12,493
Net earnings	31,738	2,132	35,452
per basic share (\$)	0.36	0.02	0.40
per diluted share (\$)	0.36	0.02	0.40
AFFO (continuing operations)	57,751	58,495	66,722
per basic share (\$)	0.653	0.659	0.755
AFFO	57,751	58,495	65,056
per basic share (\$)	0.653	0.659	0.736
Cash dividends declared	42,351	42,583	42,422
per share (\$)	0.480	0.480	0.480
Financial Position (at year end)			
Total assets	896,324	934,281	988,617
Total non-current liabilities	543,359	588,804	605,353
Long-term debt	454,344	476,404	448,742
Long-term debt, including current portion	528,970	536,068	503,568

Financial Results – The selected information provided for each of the years under the heading “Financial Results”, reflects the classification of disposed U.S. operations as discontinued. The U.S. senior care operations were sold in 2015 and the U.S. information technology hosting and professional services business was sold in 2016, resulting in a loss, net of tax of \$8.4 million recorded in 2016. The financial results for 2017 reflect an improvement in earnings from continuing operations over 2016, resulting from growth in home health care volumes, continued lease up of retirement communities, and an increase in clients served by the Extencare Assist and SGP divisions, partially offset by higher costs of resident care in our LTC operations and a reduction in interest revenue in connection with deferred consideration from the disposed U.S. operations. A comparison of the 2018 financial results to 2017 is provided under the heading “2018 Financial Review”.

Financial Position – Since the end of 2016, total assets and non-current liabilities have declined, largely due to the “run off” of the U.S. self-insured liabilities and related investments held by the Captive and an impairment charge recorded in 2018. Total assets declined by \$54.3 million and \$38.0 million in 2017 and 2018, respectively. The investments held by the Captive declined by \$49.8 million in 2017 and by \$18.4 million in 2018. In addition, the Company recorded an impairment charge of \$16.2 million in 2018 in respect of certain of its retirement and LTC centres (refer to the discussion under the heading “Other Significant Developments – Impairment Charge”).

In 2017, total non-current liabilities declined by \$16.5 million, largely due to the decline in the accrual for U.S. self-insured liabilities by \$33.7 million (US\$22.0 million), partially offset by an increase in long-term debt. Total long-term debt, including current portion, increased by \$32.5 million, reflecting the issuance of debt in connection with the acquisition and development of our retirement communities.

In 2018, total non-current liabilities declined by \$45.4 million, largely due to the decline in the accrual for U.S. self-insured liabilities of \$24.0 million (US\$21.4 million) and a decline in long-term debt. Total long-term debt, including current portion, declined by \$7.1 million primarily due to the convertible debt refinancing completed in 2018, and resulting bifurcation of a component to equity.

A comparison between the 2018 and 2017 financial results is provided in the discussion under the headings “2018 Financial Review” and “Liquidity and Capital Resources”.

2018 SELECTED QUARTERLY INFORMATION

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

<i>(thousands of dollars unless otherwise noted)</i>	2018				2017			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	288,793	280,302	279,488	271,424	281,398	273,230	273,845	268,858
Net operating income	32,863	35,492	36,307	29,322	35,622	34,729	33,867	31,604
<i>NOI margin</i>	11.4%	12.7%	13.0%	10.8%	12.7%	12.7%	12.4%	11.8%
Adjusted EBITDA	22,538	24,393	27,330	19,977	27,555	24,025	24,588	21,429
<i>Adjusted EBITDA margin</i>	7.8%	8.7%	9.8%	7.4%	9.8%	8.8%	9.0%	8.0%
Earnings (loss) from continuing operations	(9,055)	7,598	5,975	3,566	10,301	6,545	9,919	4,947
Earnings (loss) from discontinued operations	15,562	975	5,852	1,265	3,333	–	(32,913)	–
Net earnings (loss)	6,507	8,573	11,827	4,831	13,634	6,545	(22,994)	4,947
AFFO (continuing operations)	11,955	13,379	17,133	14,669	15,713	15,646	14,448	12,688
per basic share (\$)	0.135	0.151	0.194	0.166	0.178	0.176	0.162	0.143
AFFO	11,955	13,379	17,133	14,669	15,713	15,646	14,448	12,688
per basic share (\$)	0.135	0.151	0.194	0.166	0.178	0.176	0.162	0.143
Maintenance Capex								
Continuing operations	4,817	3,639	3,783	1,051	3,271	2,777	1,858	907
Discontinued operations	–	–	–	–	–	–	–	–
Cash dividends declared	10,612	10,591	10,570	10,578	10,623	10,642	10,666	10,652
per share (\$)	0.120	0.120	0.120	0.120	0.120	0.120	0.120	0.120
Weighted Average Number of Shares								
Basic	88,612	88,412	88,208	88,379	88,633	88,844	88,938	88,807
Diluted	98,962	98,788	98,595	99,688	99,916	100,123	100,244	100,086

The following is a reconciliation of “earnings (loss) from continuing operations before income taxes” to Adjusted EBITDA and “net operating income”.

<i>(thousands of dollars)</i>	2018				2017			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Earnings (loss) from continuing operations before income taxes	(12,327)	10,135	9,131	5,380	13,212	9,874	12,763	6,715
Add (Deduct):								
Depreciation and amortization	10,184	9,014	8,235	7,837	8,170	7,766	7,911	7,532
Net finance costs	8,039	5,244	6,591	6,580	6,173	6,385	3,914	7,182
Other expense	16,642	–	3,373	180	–	–	–	–
Adjusted EBITDA	22,538	24,393	27,330	19,977	27,555	24,025	24,588	21,429
Add (Deduct):								
Administrative costs	8,601	9,376	7,309	7,718	6,372	9,058	7,524	8,513
Lease costs	1,724	1,723	1,668	1,627	1,695	1,646	1,755	1,662
Net operating income	32,863	35,492	36,307	29,322	35,622	34,729	33,867	31,604

There are a number of factors affecting the trend of our quarterly results from continuing operations. With respect to our core operations, while year-over-year quarterly comparisons will generally remain comparable, sequential quarters can vary materially for seasonal and other trends. The significant factors that impact the results from period to period 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, and they are generally at their lowest in the first quarter and at their highest in the fourth quarter;
- Ontario long-term care providers generally receive annual flow-through funding increases and case mix index adjustments effective April 1st and accommodation funding increases 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 our AFFO, fluctuates on a quarterly basis with the timing of projects and seasonality, and is generally at its lowest in the first quarter and its highest in the fourth quarter; and
- utility costs are generally at their highest in the first quarter and their lowest in the second and third quarters, and can vary by as much as \$1.5 million to \$1.6 million quarterly.

In addition, we report as separate line items, “other expense”, “fair value adjustments”, and “loss (gain) on foreign exchange and investments”, as these are transitional in nature and would otherwise distort historical trends. Those items impacting our results are as follows:

- transaction and integration costs in connection with acquisitions, asset impairment charges, gains or losses on disposals, and other costs considered transitional in nature are reported as “other expense”; as a result of these items, the results from continuing operations included “other expense” of \$20.2 million in 2018 (\$0.2 million in the first quarter, \$3.4 million in the second quarter, and \$16.6 million in the fourth quarter), compared to no such charges in 2017);
- interest rate swaps are measured at fair value through profit or loss each period, along with realized gains or losses, as part of “fair value adjustments”; as a result, a net loss of \$1.0 million was recorded in 2018 (gain of \$0.3 million, nil, gain of \$0.5 million, and loss of \$1.8 million in each of the quarters, respectively), compared to a net gain of \$2.5 million in 2017 (loss of \$0.1 million, gain of \$1.1 million, gain of \$1.2 million, and a gain of \$0.3 million, in each of the quarters, respectively); and
- foreign currency exchange rate fluctuations between the U.S. and Canadian dollars impact translation of our remaining U.S. net assets in connection with net proceeds and deferred consideration received in respect of the disposed U.S. operations and repatriation of funds from our Captive, in addition, our investments held for U.S. self-insured liabilities are measured at fair value through profit and loss and reflected as part of “loss (gain) on foreign exchange and investments” (in 2017 unrealized changes in fair value were reflected in other comprehensive income); as a result of these activities, a net gain of \$1.2 million was recorded in 2018 (loss of \$0.2 million, gain of \$0.4 million, gain of \$0.9 million, and gain of \$0.1 million, in each of the quarters, respectively), compared to a net gain of \$0.8 million in 2017 (loss of \$0.4 million, gain of \$1.5 million, loss of \$0.7 million, and a gain of \$0.4 million, in each of the quarters, respectively).

Further details on the above can be found under the sections “Significant 2018 Events and Developments”, “Key Performance Indicators”, “Other Significant Developments” and “Update of Regulatory and Funding Changes Affecting Results”.

2018 FOURTH QUARTER FINANCIAL REVIEW

The following provides a breakdown of our consolidated statement of earnings between our Canadian and remaining U.S. operations.

<i>(thousands of dollars)</i>	Three months ended December 31						
	2018			2017			Total Change
	Canada	U.S.	Total	Canada	U.S.	Total	
Revenue	288,516	277	288,793	279,085	2,313	281,398	7,395
Operating expenses	255,930	–	255,930	245,776	–	245,776	10,154
Net operating income	32,586	277	32,863	33,309	2,313	35,622	(2,759)
Administrative costs	8,262	339	8,601	6,462	(90)	6,372	2,229
Lease costs	1,724	–	1,724	1,695	–	1,695	29
Adjusted EBITDA	22,600	(62)	22,538	25,152	2,403	27,555	(5,017)
Depreciation and amortization	10,184	–	10,184	8,170	–	8,170	2,014
Other expense	16,642	–	16,642	–	–	–	16,642
Earnings (loss) before net finance costs and income taxes	(4,226)	(62)	(4,288)	16,982	2,403	19,385	(23,673)
Interest expense (net of capitalized interest)	6,685	–	6,685	7,342	–	7,342	(657)
Interest revenue	(926)	–	(926)	(1,091)	–	(1,091)	165
Accretion	299	336	635	351	265	616	19
Fair value adjustments	1,792	–	1,792	(271)	–	(271)	2,063
Loss (gain) on foreign exchange and investments	(503)	356	(147)	(179)	(244)	(423)	276
Net finance costs (income)	7,347	692	8,039	6,152	21	6,173	1,866
Earnings (loss) from continuing operations before income taxes	(11,573)	(754)	(12,327)	10,830	2,382	13,212	(25,539)
Income tax expense (recovery)							
Current	2,001	–	2,001	1,679	–	1,679	322
Deferred	(5,273)	–	(5,273)	1,232	–	1,232	(6,505)
Total income tax expense	(3,272)	–	(3,272)	2,911	–	2,911	(6,183)
Earnings (loss) from continuing operations	(8,301)	(754)	(9,055)	7,919	2,382	10,301	(19,356)
Earnings from discontinued operations	–	15,562	15,562	–	3,333	3,333	12,229
Net earnings (loss)	(8,301)	14,808	6,507	7,919	5,715	13,634	(7,127)
Earnings (loss) from continuing operations	(8,301)	(754)	(9,055)	7,919	2,382	10,301	(19,356)
Add (Deduct)⁽¹⁾:							
Fair value adjustments	1,315	–	1,315	(199)	–	(199)	1,514
Loss (gain) on foreign exchange and investments	(600)	356	(244)	(206)	(244)	(450)	206
Other expense	12,153	–	12,153	–	–	–	12,153
Earnings (loss) from continuing operations before separately reported items, net of taxes	4,567	(398)	4,169	7,514	2,138	9,652	(5,483)

(1) The separately reported items being added to or deducted from earnings (loss) from continuing operations are net of income taxes, and are non-GAAP measures. Refer to the discussion of non-GAAP measures.

The following provides a reconciliation of “earnings from continuing operations before income taxes” to “Adjusted EBITDA” and “net operating income”.

<i>(thousands of dollars)</i>	Three months ended December 31						
	2018			2017			Total Change
	Canada	U.S.	Total	Canada	U.S.	Total	
Earnings (loss) from continuing operations before income taxes	(11,573)	(754)	(12,327)	10,830	2,382	13,212	(25,539)
Add (Deduct):							
Depreciation and amortization	10,184	–	10,184	8,170	–	8,170	2,014
Net finance costs (income)	7,347	692	8,039	6,152	21	6,173	1,866
Other expense	16,642	–	16,642	–	–	–	16,642
Adjusted EBITDA	22,600	(62)	22,538	25,152	2,403	27,555	(5,017)
Add (Deduct):							
Administrative costs	8,262	339	8,601	6,462	(90)	6,372	2,229
Lease costs	1,724	–	1,724	1,695	–	1,695	29
Net operating income	32,586	277	32,863	33,309	2,313	35,622	(2,759)

The following is an analysis of the consolidated results from operations for the 2018 fourth quarter in comparison to the 2017 fourth quarter. Refer to the discussion that follows under the heading “Summary of Results of Operations by Segment” for an analysis of the revenue and net operating income by operating segment, including the components of non same-store revenue and net operating income.

Consolidated Revenue

Consolidated revenue from continuing operations grew by \$7.4 million or 2.6% to \$288.8 million in the 2018 fourth quarter, driven primarily by LTC funding enhancements, expansion of the retirement living operations, home health care funding increases, including \$1.2 million accrued to support legislated amendments resulting from the *Fair Workplaces, Better Jobs Act, 2017* (Ontario), or Bill 148, that came into effect on January 1, 2018, and growth in management and group purchasing services, partially offset by a decline in home health care volumes, and lower investment income from the Captive. For further information on Bill 148, refer to the discussion under the heading “Update of Regulatory and Funding Changes Affecting Results – Ontario Home Health Care Legislation and Funding”.

Consolidated Operating Expenses

Consolidated operating expenses from continuing operations increased by \$10.1 million or 4.1% to \$255.9 million in the 2018 fourth quarter, driven by increased costs of resident care, expansion of the retirement living operations, and higher labour costs, including the impact on the home health care operations of Bill 148, partially offset by the impact of lower home health care volumes delivered. Total labour costs increased by \$7.6 million over the 2017 fourth quarter, and represented 85.1% and 85.5% of operating expenses in the fourth quarters of 2018 and 2017, respectively, and as a percentage of revenue were 75.4% and 74.7%, respectively.

Consolidated Net Operating Income

Consolidated net operating income from continuing operations declined by \$2.7 million or 7.7% to \$32.9 million in the 2018 fourth quarter, and represented 11.4% of revenue compared to 12.7% in the same 2017 period. Net operating income from the Canadian operations declined by \$0.7 million and was favourably impacted by home health care funding enhancements, and growth of our retirement living, management and group purchasing operations, offset by lower home health care volumes and higher labour related costs, including the impact of Bill 148. Net operating income from our U.S. operations reflects investment income from the Captive, which was nominal this quarter compared to the same 2017 period.

Administrative and Lease Costs

Administrative and lease costs from continuing operations increased by \$2.3 million in the 2018 fourth quarter, and were impacted by increased costs of approximately \$0.4 million to support the implementation of new enterprise software, a non-recurring reinsurance premium refund of \$0.5 million received by the Captive in 2017, and other higher compensation costs and professional fees.

Consolidated Adjusted EBITDA

Consolidated Adjusted EBITDA from continuing operations declined by \$5.0 million to \$22.5 million this quarter, and represented 7.8% of revenue compared to 9.8% in the same 2017 period, of which \$2.5 million was from the Canadian operations, reflecting the \$0.7 million decline in net operating income and increase in administrative and lease costs.

Other Expense

Other expense of \$16.6 million (\$12.2 million after tax) recorded this period related primarily to an impairment charge in respect of certain of the Company’s retirement and LTC centres (refer to discussion under the heading “Other Significant Developments – Impairment Charge”).

Net Finance Costs

Net finance costs increased by \$1.8 million to \$8.0 million this quarter, primarily due to a net change in loss (gain) on foreign exchange and the Captive’s investments and interest rate swap fair value adjustments aggregating \$2.3 million, partially offset by slightly lower net interest costs associated with a lower weighted average interest rate and decline in net debt levels.

Income Taxes

The Company recognized a consolidated income tax recovery this quarter of \$3.3 million, representing an effective tax rate of 26.5%, compared to a provision of \$2.9 million and an effective tax rate of 22.0% in the 2017 fourth quarter. The effective tax rate of the Canadian operations was 28.3% this quarter compared to 26.9% in the 2017 fourth quarter, and was impacted by, among other things, fair value adjustments, gains and losses on foreign exchange and investments, and other expense items that have been separately reported. The effective tax rate of the Canadian operations excluding the impact of separately reported items was 28.2% compared to 27.6%.

Discontinued Operations

Earnings from discontinued operations relate to the former U.S. operations. The after-tax earnings of \$15.5 million in the 2018 fourth quarter included \$6.0 million related to the Captive's reserves (release and favourable impact of discount rate adjustments), a \$3.6 million decrease in indemnification provisions and other items, and a net tax recovery of \$5.9 million. The after-tax earnings of \$3.3 million in the 2017 fourth quarter related to a release of the Captive's reserves of \$3.1 million and a net reduction in indemnification provisions and other items of \$0.3 million, partially offset by a tax provision of \$0.1 million.

Summary of Results of Operations by Segment

The following provides an analysis of the operating performance of each of our operating segments. Refer to the table at the end of the discussion for a summary of the segmented "revenue", "operating expenses" and "net operating income".

LONG-TERM CARE OPERATIONS

Net operating income from our long-term care operations was \$18.8 million this quarter compared to \$18.3 million in the 2017 fourth quarter, representing 11.4% of revenue compared to 11.6%, respectively. Revenue this quarter grew by \$6.0 million, or 3.8%, of which approximately \$2.1 million related to the Ontario flow-through funding envelopes, and was therefore directly offset by increased costs of resident care, and the balance was from other funding enhancements. Operating expenses increased by \$5.5 million, or 3.9%, and included the impact of higher labour, maintenance, supply, and food costs. Total labour costs increased by \$3.3 million and represented 81.2% of operating expenses this quarter compared to 82.0% in the same 2017 period.

RETIREMENT LIVING OPERATIONS

Net operating income from our retirement living operations improved by \$1.3 million this quarter, with growth from same-store operations of \$0.4 million, reflecting an increase in average occupancy to 90.7% from 81.0% in the 2017 fourth quarter. Non same-store net operating income improved by \$0.9 million this period, reflecting the contribution from the Lynde Creek Acquisition in April 2018 and the opening of Douglas Crossing in October 2017, partially offset by pre-opening costs associated with two communities under construction.

HOME HEALTH CARE OPERATIONS

Net operating income from our home health care operations declined by \$3.1 million or 27.9% to \$7.9 million this quarter, and represented 7.3% of revenue compared to 10.1% in the 2017 fourth quarter. Operations were impacted this quarter by a 2.4% decline in volumes, and higher labour related costs, partially offset by government contract funding increases. The reduction in home health care volumes was in large part due to an industry-wide capacity shortage of PSWs, and to a lesser extent nurses, which has adversely impacted our ability to continue to meet the growing demand, and in some locations has given rise to increased overtime and use of subcontracted staff. Initiatives are under way to improve our ability to attract and retain care staff. As well, in addition to temporary costs associated with the implementation of new enterprise software, the number of back office administrative staff increased as we manage through the implementation process and associated re-engineering of workflows. Despite the reduction in business volumes as compared to the same 2017 period, total labour costs increased this quarter by \$3.6 million and represented 92.8% of operating expenses compared to 91.9% in the same 2017 period. While volumes this quarter were below that of the same 2017 period, this was the first time in six quarters that we experienced a quarter-over-quarter sequential increase in business volumes. Refer to the discussions under the heading "Key Performance Indicators – Home Health Care" and "Update of Regulatory and Funding Changes Affecting Results – Ontario Home Health Care Legislation and Funding".

OTHER CANADIAN OPERATIONS

Net operating income from our management and group purchasing operations increased by \$0.6 million this quarter, and represented 61.7% of revenue compared to 57.8% in the 2017 fourth quarter, due to growth in clients served.

U.S. OPERATIONS

The decline in net operating income from the U.S. operations reflected lower investment income from the Captive, and the impact of a non-recurring reinsurance premium refund received in the 2017 fourth quarter.

The following summarizes our segmented “revenue”, “operating expenses” and “net operating income”.

Three months ended December 31 <i>(thousands of dollars)</i>	Long-term	Retirement	Home	Other	Corporate	Total	Total	Total
	Care	Living	Health	Canadian	Canada	Canada	U.S.	Total
2018 – Same-store								
Revenue	164,656	6,433	109,012	5,808	1	285,910	277	286,187
Operating expenses	145,849	4,788	101,097	2,223	–	253,957	–	253,957
Net operating income	18,807	1,645	7,915	3,585	1	31,953	277	32,230
<i>NOI margin %</i>	11.4%	25.6%	7.3%	61.7%	100.0%	11.2%	100.0%	11.3%
2018 – Non Same-store								
Revenue	–	2,606	–	–	–	2,606	–	2,606
Operating expenses	–	1,973	–	–	–	1,973	–	1,973
Net operating income	–	633	–	–	–	633	–	633
2018 – Total								
Revenue	164,656	9,039	109,012	5,808	1	288,516	277	288,793
Operating expenses	145,849	6,761	101,097	2,223	–	255,930	–	255,930
Net operating income	18,807	2,278	7,915	3,585	1	32,586	277	32,863
<i>NOI margin %</i>	11.4%	25.2%	7.3%	61.7%	100.0%	11.3%	100.0%	11.4%
2017 – Same-store								
Revenue	158,694	5,746	109,141	5,149	3	278,733	2,313	281,046
Operating expenses	140,349	4,492	98,160	2,175	–	245,176	–	245,176
Net operating income	18,345	1,254	10,981	2,974	3	33,557	2,313	35,870
<i>NOI margin %</i>	11.6%	21.8%	10.1%	57.8%	100.0%	12.0%	100.0%	12.8%
2017 – Non Same-store								
Revenue	–	352	–	–	–	352	–	352
Operating expenses	–	600	–	–	–	600	–	600
Net operating loss	–	(248)	–	–	–	(248)	–	(248)
2017 – Total								
Revenue	158,694	6,098	109,141	5,149	3	279,085	2,313	281,398
Operating expenses	140,349	5,092	98,160	2,175	–	245,776	–	245,776
Net operating income	18,345	1,006	10,981	2,974	3	33,309	2,313	35,622
<i>NOI margin %</i>	11.6%	16.5%	10.1%	57.8%	100.0%	11.9%	100.0%	12.7%
Change in Total								
Revenue	5,962	2,941	(129)	659	(2)	9,431	(2,036)	7,395
Operating expenses	5,500	1,669	2,937	48	–	10,154	–	10,154
Net operating income	462	1,272	(3,066)	611	(2)	(723)	(2,036)	(2,759)

2018 FINANCIAL REVIEW

The following provides a breakdown of our consolidated statement of earnings between our Canadian and remaining U.S. operations.

<i>(thousands of dollars)</i>	2018			Years ended December 31			Total Change
	Canada	U.S.	Total	Canada	U.S.	Total	
Revenue	1,119,602	405	1,120,007	1,092,082	5,249	1,097,331	22,676
Operating expenses	986,023	–	986,023	961,509	–	961,509	24,514
Net operating income	133,579	405	133,984	130,573	5,249	135,822	(1,838)
Administrative costs	31,828	1,176	33,004	30,333	1,134	31,467	1,537
Lease costs	6,742	–	6,742	6,758	–	6,758	(16)
Adjusted EBITDA	95,009	(771)	94,238	93,482	4,115	97,597	(3,359)
Depreciation and amortization	35,270	–	35,270	31,379	–	31,379	3,891
Other expense	20,195	–	20,195	–	–	–	20,195
Earnings (loss) before net finance costs and income taxes	39,544	(771)	38,773	62,103	4,115	66,218	(27,445)
Interest expense (net of capitalized interest)	27,584	–	27,584	28,082	–	28,082	(498)
Interest revenue	(3,761)	–	(3,761)	(3,695)	(207)	(3,902)	141
Accretion	1,250	1,628	2,878	1,529	1,283	2,812	66
Fair value adjustments	956	–	956	(2,474)	–	(2,474)	3,430
Loss (gain) on foreign exchange and investments	(1,105)	(98)	(1,203)	666	(1,530)	(864)	(339)
Net finance costs (income)	24,924	1,530	26,454	24,108	(454)	23,654	2,800
Earnings (loss) from continuing operations before income taxes	14,620	(2,301)	12,319	37,995	4,569	42,564	(30,245)
Income tax expense (recovery)							
Current	8,129	–	8,129	10,149	–	10,149	(2,020)
Deferred	(3,894)	–	(3,894)	603	100	703	(4,597)
Total income tax expense	4,235	–	4,235	10,752	100	10,852	(6,617)
Earnings (loss) from continuing operations	10,385	(2,301)	8,084	27,243	4,469	31,712	(23,628)
Earnings (loss) from discontinued operations	–	23,654	23,654	–	(29,580)	(29,580)	53,234
Net earnings (loss)	10,385	21,353	31,738	27,243	(25,111)	2,132	29,606
Earnings (loss) from continuing operations	10,385	(2,301)	8,084	27,243	4,469	31,712	(23,628)
Add (Deduct) ⁽¹⁾:							
Fair value adjustments	702	–	702	(1,813)	–	(1,813)	2,515
Loss (gain) on foreign exchange and investments	(1,225)	(98)	(1,323)	805	(1,512)	(707)	(616)
Other expense	15,165	–	15,165	–	–	–	15,165
Earnings (loss) from continuing operations before separately reported items, net of taxes	25,027	(2,399)	22,628	26,235	2,957	29,192	(6,564)

(1) The separately reported items being added to or deducted from earnings (loss) from continuing operations are net of income taxes, and are non-GAAP measures. Refer to the discussion of non-GAAP measures.

The following provides a reconciliation of “earnings from continuing operations before income taxes” to “Adjusted EBITDA” and “net operating income”.

<i>(thousands of dollars)</i>	2018			Years ended December 31			Total Change
	Canada	U.S.	Total	Canada	U.S.	Total	
Earnings (loss) from continuing operations before income taxes	14,620	(2,301)	12,319	37,995	4,569	42,564	(30,245)
Add (Deduct):							
Depreciation and amortization	35,270	–	35,270	31,379	–	31,379	3,891
Net finance costs (income)	24,924	1,530	26,454	24,108	(454)	23,654	2,800
Other expense	20,195	–	20,195	–	–	–	20,195
Adjusted EBITDA	95,009	(771)	94,238	93,482	4,115	97,597	(3,359)
Add (Deduct):							
Administrative costs	31,828	1,176	33,004	30,333	1,134	31,467	1,537
Lease costs	6,742	–	6,742	6,758	–	6,758	(16)
Net operating income	133,579	405	133,984	130,573	5,249	135,822	(1,838)

The following is an analysis of the consolidated results from operations for 2018 in comparison to 2017. Refer to the discussion that follows under the heading “Summary of Results of Operations by Segment” for an analysis of the revenue and net operating income by operating segment, including the components of non same-store revenue and net operating income.

Consolidated Revenue

Consolidated revenue from continuing operations grew by \$22.7 million or 2.1% to \$1,120.0 million in 2018, driven primarily by LTC funding enhancements (despite the impact of a \$0.8 million prior period settlement adjustment received in the 2017 first quarter), expansion of the retirement living operations, home health care funding increases, including \$5.3 million in enhanced funding to offset costs related to Bill 148, and growth in management and group purchasing services, partially offset by a decline in home health care volumes, and lower investment income from the Captive. For further information on Bill 148, refer to the discussion under the heading “Update of Regulatory and Funding Changes Affecting Results – Ontario Home Health Care Legislation and Funding”.

Consolidated Operating Expenses

Consolidated operating expenses from continuing operations increased by \$24.5 million or 2.5% to \$986.0 million in 2018, driven by, increased costs of resident care, expansion of the retirement living operations, and higher labour related costs, including the impact of Bill 148, increased overtime and use of subcontracted staff in response to industry wide staffing shortages in certain positions and locations, and the implementation of a new enterprise system, partially offset by lower direct costs due to the impact of lower home health care volumes delivered. Total labour costs increased by \$15.7 million over 2017, and represented 86.0% and 86.6% of operating expenses in 2018 and 2017, respectively, and as a percentage of revenue were 75.7% and 75.9%, respectively.

Consolidated Net Operating Income

Consolidated net operating income from continuing operations declined by \$1.8 million or 1.4% to \$134.0 million in 2018, and represented 12.0% of revenue compared to 12.4% in 2017. Net operating income from the Canadian operations improved by \$3.0 million or 2.3% to \$133.6 million, and as a percentage of revenue was 11.9% this year compared to 12.0% in 2017, reflecting growth of our retirement living, management and group purchasing operations, partially offset by a decline in contribution from our LTC operations of \$0.9 million due to prior period adjustments and higher costs of resident care, and a decline of \$5.8 million from our home health care operations due to higher labour related costs and lower business volumes. Net operating income from our U.S. operations reflects investment income from the Captive, which was nominal this period compared to \$5.2 million in 2017.

Administrative and Lease Costs

Administrative and lease costs from continuing operations increased by \$1.6 million in 2018, and were impacted by increased costs of approximately \$1.0 million to support the implementation of new enterprise software. Both periods included lump-sum executive compensation charges, net of the impact of forfeited non-cash share-based awards, of \$1.7 million in 2018 and \$2.0 million in 2017.

Consolidated Adjusted EBITDA

Consolidated Adjusted EBITDA from continuing operations declined by \$3.4 million or 3.4% to \$94.2 million this year, representing 8.4% of revenue compared to 8.9% in 2017. Adjusted EBITDA from the Canadian operations improved by \$1.5 million, and as a percentage of revenue was 8.5% compared to 8.6% in 2017. Adjusted EBITDA from the U.S. operations declined by \$4.9 million reflecting lower investment income from the Captive.

Other Expense

Other expense of \$20.2 million (\$15.2 million after tax) recorded this year included an impairment charge of \$16.2 million in respect of certain of the Company’s retirement and LTC centres (refer to discussion under the heading “Other Significant Developments – Impairment Charge”), \$2.5 million expensed in connection with the redemption of the 2019 Debentures, and transaction costs of \$1.0 million associated with the Lynde Creek Acquisition.

Net Finance Costs

Net finance costs increased by \$2.8 million to \$26.5 million this year, reflecting a net change in interest rate swap fair value adjustments and loss (gain) on foreign exchange and the Captive’s investments aggregating \$3.1 million, partially offset by slightly lower net interest costs associated with a lower weighted average interest rate and decline in net debt levels.

Income Taxes

The consolidated income tax provision in 2018 was \$4.2 million, and represented an effective tax rate of 34.4%, compared to \$10.8 million and an effective tax rate of 25.5% in 2017, with the increase primarily reflecting the proportion of taxable and non-taxable entities. The effective tax rate of the Canadian operations was 29.0% this year compared to 28.3% in 2017, and was impacted by, among other things, fair value adjustments, gains and losses on foreign exchange and investments, and other expense items that have been separately reported. The effective tax rate of the Canadian operations excluding the impact of separately reported items was 27.8% compared to 27.5%.

Discontinued Operations

Earnings (loss) from discontinued operations relate to the former U.S. operations. The after-tax earnings of \$23.6 million in 2018 included \$14.1 million related to the Captive's reserves (release and favourable impact of discount rate adjustments), a \$3.6 million decrease in indemnification provisions and other items, and a net tax recovery of \$5.9 million. The after-tax loss of \$29.6 million in 2017 related to the write-off of deferred consideration of \$37.5 million, and a net increase in indemnification provisions and other items of \$4.8 million, partially offset by a release of the Captive's reserves of \$5.7 million, and a tax recovery of \$7.0 million.

Summary of Results of Operations by Segment

The following provides an analysis of the operating performance of each of our operating segments. Refer to the table at the end of the discussion for a summary of the segmented "revenue", "operating expenses" and "net operating income".

LONG-TERM CARE OPERATIONS

Net operating income from our long-term care operations declined by \$0.9 million to \$73.0 million in 2018, representing 11.5% of revenue this year compared to 12.0% in 2017, and included the impact of \$0.8 million of favourable prior period revenue adjustments received in 2017. Revenue grew by \$15.6 million, or 2.5%, of which approximately \$6.5 million related to Ontario flow-through funding envelopes, and was therefore directly offset by increased costs of resident care, approximately \$0.4 million was from improvements in preferred accommodation, and the balance was from other funding enhancements. Operating expenses increased by \$16.5 million, or 3.0%, primarily due to higher labour, supply, maintenance, and food costs. Recruitment challenges in some markets have led to an increased use of subcontracted staff and overtime premiums in response to staffing shortages. Total labour costs increased by \$9.8 million and represented 82.5% of operating expenses this year compared to 83.2% in 2017.

RETIREMENT LIVING OPERATIONS

Net operating income from our retirement living operations improved by \$6.6 million this year, reflecting continued improvements across all communities and the acquisition completed in April 2018. On a same-store basis, growth in net operating income of \$3.5 million was primarily attributable to higher revenue, reflecting an improvement in average occupancy to 85.7% this year from 70.8% in 2017. Non same-store net operating income improved by \$3.1 million this period, reflecting the contribution from the Lynde Creek Acquisition and the opening of Douglas Crossing, partially offset by pre-opening costs associated with two communities under construction.

HOME HEALTH CARE OPERATIONS

Net operating income from our home health care operations declined by \$5.8 million or 13.4% to \$38.0 million this year, and represented 8.8% of revenue compared to 10.1% in 2017. Operations were impacted this year by a 3.8% decline in volumes, and higher labour related costs, partially offset by government contract funding increases. The reduction in home health care volumes was in large part due to an industry-wide capacity shortage of PSWs, and to a lesser extent nurses, which has adversely impacted our ability to continue to meet the growing demand, and in some locations has given rise to increased overtime and use of subcontracted staff. Initiatives are under way to improve our ability to attract and retain care staff. In addition to temporary costs associated with the implementation of new enterprise software, the number of back office administrative staff increased as we manage through the implementation process and associated re-engineering of workflows. Despite the reduction in business volumes in 2017, total labour costs increased this year by \$2.5 million and represented 92.8% of operating expenses compared to 92.5% in 2017. Refer to the discussion under the heading "Key Performance Indicators – Home Health Care" and "Update of Regulatory and Funding Changes Affecting Results – Ontario Home Health Care Legislation and Funding".

OTHER CANADIAN OPERATIONS

Net operating income from our management and group purchasing operations increased by \$3.1 million this period, and represented 60.7% of revenue compared to 55.4% in 2017, due to growth in clients served.

U.S. OPERATIONS

The decline in net operating income from the U.S. operations reflected lower investment income from the Captive.

The following summarizes our segmented “revenue”, “operating expenses” and “net operating income”.

Years ended December 31 <i>(thousands of dollars)</i>	Long-term Care	Retirement Living	Home Health Care	Other Canadian Operations	Corporate Canada	Total Canada	Total U.S.	Total
2018 – Same-store								
Revenue	632,533	24,466	431,343	22,291	23	1,110,656	405	1,111,061
Operating expenses	559,489	18,093	393,354	8,750	–	979,686	–	979,686
Net operating income	73,044	6,373	37,989	13,541	23	130,970	405	131,375
<i>NOI margin %</i>	<i>11.5%</i>	<i>26.0%</i>	<i>8.8%</i>	<i>60.7%</i>	<i>100.0%</i>	<i>11.8%</i>	<i>100.0%</i>	<i>11.8%</i>
2018 – Non Same-store								
Revenue	–	8,946	–	–	–	8,946	–	8,946
Operating expenses	–	6,337	–	–	–	6,337	–	6,337
Net operating income	–	2,609	–	–	–	2,609	–	2,609
2018 – Total								
Revenue	632,533	33,412	431,343	22,291	23	1,119,602	405	1,120,007
Operating expenses	559,489	24,430	393,354	8,750	–	986,023	–	986,023
Net operating income	73,044	8,982	37,989	13,541	23	133,579	405	133,984
<i>NOI margin %</i>	<i>11.5%</i>	<i>26.9%</i>	<i>8.8%</i>	<i>60.7%</i>	<i>100.0%</i>	<i>11.9%</i>	<i>100.0%</i>	<i>12.0%</i>
2017 – Same-store								
Revenue	616,887	20,321	435,718	18,789	15	1,091,730	5,249	1,096,979
Operating expenses	542,965	17,448	391,867	8,387	–	960,667	–	960,667
Net operating income	73,922	2,873	43,851	10,402	15	131,063	5,249	136,312
<i>NOI margin %</i>	<i>12.0%</i>	<i>14.1%</i>	<i>10.1%</i>	<i>55.4%</i>	<i>100.0%</i>	<i>12.0%</i>	<i>100.0%</i>	<i>12.4%</i>
2017 – Non Same-store								
Revenue	–	352	–	–	–	352	–	352
Operating expenses	–	842	–	–	–	842	–	842
Net operating loss	–	(490)	–	–	–	(490)	–	(490)
2017 – Total								
Revenue	616,887	20,673	435,718	18,789	15	1,092,082	5,249	1,097,331
Operating expenses	542,965	18,290	391,867	8,387	–	961,509	–	961,509
Net operating income	73,922	2,383	43,851	10,402	15	130,573	5,249	135,822
<i>NOI margin %</i>	<i>12.0%</i>	<i>11.5%</i>	<i>10.1%</i>	<i>55.4%</i>	<i>100.0%</i>	<i>12.0%</i>	<i>100.0%</i>	<i>12.4%</i>
Change in Total								
Revenue	15,646	12,739	(4,375)	3,502	8	27,520	(4,844)	22,676
Operating expenses	16,524	6,140	1,487	363	–	24,514	–	24,514
Net operating income	(878)	6,599	(5,862)	3,139	8	3,006	(4,844)	(1,838)

ADJUSTED FUNDS FROM OPERATIONS

The following provides a reconciliation of our “net earnings” to FFO and AFFO. A reconciliation of our “net cash from operating activities” to AFFO is also provided under the heading “Reconciliation of Net Cash from Operating Activities to AFFO”.

<i>(thousands of dollars unless otherwise noted)</i>	Three months ended			Twelve months ended		
	December 31			December 31		
	2018	2017	Change	2018	2017	Change
Net earnings	6,507	13,634	(7,127)	31,738	2,132	29,606
Add (Deduct):						
Depreciation and amortization	10,184	8,170	2,014	35,270	31,379	3,891
Depreciation for FFEC (maintenance capex) ⁽¹⁾	(1,882)	(1,914)	32	(7,422)	(7,495)	73
Other expense (continuing operations)	16,642	–	16,642	20,195	–	20,195
Other expense (income) (discontinued operations)	(9,663)	(3,441)	(6,222)	(17,755)	36,576	(54,331)
Fair value adjustments	1,792	(271)	2,063	956	(2,474)	3,430
Gain on foreign exchange and investments	(147)	(423)	276	(1,203)	(864)	(339)
Current income tax recovery on other expense, fair value adjustments, and gain/loss on foreign exchange and investments ⁽²⁾	(12,076)	(1,391)	(10,685)	(11,805)	(1,230)	(10,575)
Deferred income tax expense (recovery)	830	2,570	(1,740)	1,936	(5,063)	6,999
FFO	12,187	16,934	(4,747)	51,910	52,961	(1,051)
Amortization of deferred financing costs	391	417	(26)	1,736	1,728	8
Accretion costs	635	616	19	2,878	2,812	66
Non-cash share-based compensation	214	289	(75)	430	1,496	(1,066)
Principal portion of government capital funding	1,300	1,232	68	5,200	4,928	272
Income support (retirement acquisitions)	–	–	–	–	66	(66)
Amounts offset through investments held for self-insured liabilities ⁽³⁾	163	(2,418)	2,581	850	(4,178)	5,028
Additional maintenance capex ⁽¹⁾	(2,320)	(1,357)	(963)	(5,253)	(1,318)	(3,935)
AFFO	12,570	15,713	(3,143)	57,751	58,495	(744)
Per Basic Share (\$)						
FFO	0.137	0.191	(0.054)	0.587	0.596	(0.009)
AFFO	0.142	0.178	(0.036)	0.653	0.659	(0.006)
Per Diluted Share (\$)						
FFO	0.137	0.191	(0.054)	0.587	0.596	(0.009)
AFFO	0.138	0.171	(0.033)	0.634	0.640	(0.006)
Dividends (\$)						
Declared	10,612	10,623	(11)	42,351	42,583	(232)
Declared per share (\$)	0.120	0.120	–	0.480	0.480	–
Weighted Average Number of Shares (thousands)						
Basic	88,612	88,633		88,403	88,805	
Diluted	98,962	99,916		98,753	100,088	
Total maintenance capex ⁽¹⁾	4,202	3,271	931	12,675	8,813	3,862

(1) The aggregate of the items “depreciation for FFEC” and “additional maintenance capex” represents our total actual maintenance capex incurred in the period. An amount equivalent to our 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.

(2) Represents current income tax with respect to items that are excluded from the computation of FFO and AFFO, such as fair value adjustments, gains or losses on foreign exchange and investments, and other expense.

(3) Represents AFFO of the Captive that decreases/(increases) the Captive’s investments held for self-insured liabilities not impacting the Company’s reported cash and short-term investments.

AFFO 2018 Fourth Quarter Financial Review

AFFO for the 2018 fourth quarter declined by \$3.1 million to \$12.6 million (\$0.142 per basic share) from \$15.7 million (\$0.178 per basic share) in the same 2017 period, reflecting a decrease in Adjusted EBITDA (excluding the impact of any earnings from the Captive and any non-cash share-based compensation), and an increase in maintenance capex and current income taxes. A discussion of the factors impacting net earnings can be found under the heading “2018 Fourth Quarter Financial Review”.

Maintenance capex was \$4.2 million this quarter, compared to \$3.3 million in 2017, and compared to \$3.6 million in the 2018 third quarter, representing 1.5%, 1.2% and 1.3% of revenue, respectively.

AFFO 2018 Financial Review

AFFO for the year declined by \$0.7 million to \$57.8 million (\$0.653 per basic share) from \$58.5 million (\$0.659 per basic share) in 2017, reflecting an improvement in Adjusted EBITDA (excluding the impact of any earnings from the Captive and any non-cash share-based compensation), and lower current income taxes of \$1.9 million, offset by an increase in maintenance capex of \$3.9 million. AFFO for both years was impacted by lump-sum executive cash compensation charges of \$2.1 million and \$1.5 million on an after-tax basis in 2018 and 2017, respectively. A discussion of the factors impacting net earnings can be found under the heading “2018 Financial Review”.

Our current income taxes benefitted in 2018 from favourable timing differences, and the utilization of tax loss carryforwards, and represented an effective tax rate on FFO of 13.6% in 2018 compared to 16.1% in 2017. In 2019, we anticipate our effective tax rate on FFO will be in the range of 17% to 19%. 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 our FFO can be impacted by: adjustments to our 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.

Maintenance capex was \$12.7 million in 2018, compared to \$8.8 million in 2017, representing 1.1% and 0.8% of revenue, respectively. These costs fluctuate on a quarterly and annual basis with the timing of projects and seasonality. 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 2019, we are expecting to spend in the range of \$10 million to \$12 million in maintenance capex.

Reconciliation of Net Cash from Operating Activities to AFFO

The following provides a reconciliation of our “net cash from operating activities” to AFFO.

	Three months ended		Twelve months ended	
	December 31		December 31	
<i>(thousands of dollars)</i>	2018	2017	2018	2017
Net cash from operating activities	1,189	10,581	39,473	47,160
Add (Deduct):				
Net change in operating assets and liabilities, including interest, taxes and payments for U.S. self-insured liabilities	26,196	10,980	36,708	20,562
Current income tax on items excluded from AFFO ⁽¹⁾	(12,076)	(1,391)	(11,805)	(1,230)
Depreciation for FFEC (maintenance capex) ⁽²⁾	(1,882)	(1,914)	(7,422)	(7,495)
Additional maintenance capex ⁽²⁾	(2,320)	(1,357)	(5,253)	(1,318)
Principal portion of government capital funding	1,300	1,232	5,200	4,928
Income support (retirement acquisitions)	—	—	—	66
Amounts offset through investments held for self-insured liabilities ⁽³⁾	163	(2,418)	850	(4,178)
AFFO	12,570	15,713	57,751	58,495

(1) Represents current income tax with respect to items that are excluded from the computation of AFFO, such as fair value adjustments, gains or losses on foreign exchange, and other expense.

(2) The aggregate of the items “depreciation for FFEC” and “additional maintenance capex” represents our total actual maintenance capex incurred in the period. An amount equivalent to our 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.

(3) Represents AFFO of the Captive that decreases/(increases) its investments held for self-insured liabilities not impacting the Company’s reported cash and short-term investments.

OTHER SIGNIFICANT DEVELOPMENTS

The discussion under the heading “Significant 2018 Events and Developments” summarizes our current activities related to the growth of our retirement living operations and convertible debenture activity. This section provides a summary of other developments that have impacted the financial results or operations of Extendicare for 2018 in comparison to 2017.

Impairment Charge

In the 2018 fourth quarter, the Company recorded an impairment charge of \$16.2 million (\$11.8 million after tax), in respect of certain of its retirement communities (\$15.9 million), and LTC centers (\$0.3 million). Further details are provided in *note 19* of the audited consolidated financial statements.

The impairment charge for the retirement living operations relates to the write down of the carrying value of the property and equipment of three Saskatchewan retirement communities that were acquired in late 2015 and early 2016, two of which were newly opened at that time and are still in lease up. These communities have not performed as expected, primarily due to competitive market conditions resulting in lower rates and occupancy and higher labour and benefit costs.

Expansion of Alberta Long-term Care Centre

In February 2018, the Company completed a 24-bed addition to its Extendicare Eaux Claires long-term care centre in Edmonton, Alberta, at a cost of \$3.6 million. The initial 180-bed centre was built in 2011 with a design allowing for expansion. This addition achieved stabilized occupancy in April 2018, and is anticipated to provide incremental net operating income of approximately \$0.6 million annually.

2015 U.S. Sale Transaction – Deferred Consideration

As part of the proceeds from the U.S. Sale Transaction, the Company was entitled to receive an ongoing cash stream for a period of 15 years relating to certain U.S. skilled nursing centres that were leased prior to the closing (the “Leased Centres”). The present value ascribed to these proceeds was reflected as deferred consideration and was recorded at amortized cost using the effective interest method. During the 2017 second quarter, the Company was notified of the potential for an event of default by the operator of the Leased Centres, and subsequently received notice that the operator of the Leased Centres had failed to make its required minimum lease payments. As a result of events and discussions that transpired during 2017, the remaining balance of the deferred consideration of \$37.5 million (US\$27.9 million) was written off in 2017.

Other Financing Activity

In August 2018, the Company renewed Canadian Mortgage and Housing Corporation mortgages in the amount of \$8.3 million for a term of four years to August 2022, at a fixed rate of 2.96%.

In September 2018, the Company secured financing of \$10.5 million on one of its Ontario retirement communities for a term of 10 years, with a variable rate of prime plus 0.5%. In conjunction therewith, the Company entered into an interest rate swap contract to lock in the interest rate at 5.04% for the full term of the financing.

In the 2018 third quarter, the Company secured construction financing of \$27.2 million for its retirement development project in Barrie, Ontario, with an additional letter of credit facility of \$1.0 million. Loan payments are interest-only based on a variable 30-day banker’s acceptance rate plus 2.25%, with no standby fee. The construction loan is repayable on demand and, in any event, is to be fully repaid by the earlier of September 2023 and three months following stabilized occupancy as defined by the agreement.

UPDATE OF REGULATORY AND FUNDING CHANGES AFFECTING RESULTS

In Canada, provincial legislation and regulations closely control all aspects of operation and funding of long-term care centres and publicly funded home health care services, including the fee structure, subsidies, the adequacy of physical centres, 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 portion to be paid by residents or clients. Each province has a different system for managing the services provided. In some provinces, the government has delegated responsibility for the funding and administration of long-term care programs to regional health authorities. As a result, there can be significant variability in the regulations governing the provision of and reimbursement for care from location to location. The Company is unable to predict whether governments will adopt changes in their funding or regulatory programs, and if adopted and implemented, the impact, if any, such changes will have on the Company's business, results of operations and financial condition.

In most provinces, a license must be obtained from the applicable provincial ministry of health in order to operate either a long-term care centre or a retirement centre. In general, the issuance of new licenses for LTC beds is infrequent because of the funding implications for the provincial governments, while the issuance of licenses for retirement centres is less restrictive as the funding for these services is generally private-pay. In addition to the license procedure, or in some provinces in place of, LTC operators in Alberta, Manitoba, Ontario and Saskatchewan are required to sign service contracts that incorporate service expectations with the applicable provincial health authority.

The People's Health Care Act, 2019 (Ontario) (Bill 74)

On February 26, 2019, the Ontario government tabled Bill 74, *The People's Health Care Act, 2019* (Ontario), which proposes to create an agency called Ontario Health to act as a central point of accountability and oversight for the province's public health care system. Organizations to be integrated into Ontario Health include Cancer Care Ontario, Health Quality Ontario, eHealth Ontario, Health Shared Services Ontario, and the Local Health Integrated Networks. The government has indicated that the transition will roll out in phases to ensure continuity of care.

The government also announced its intent to create local Ontario Health Teams to guide patients and families between providers and through transitions. These teams of local health care providers would implement a community-based health care delivery model that connects care and includes providers such as primary care and hospitals, home care and long-term care, and mental health and addictions supports. Working as a coordinated group, they would share responsibility for care plans, service provision and outcomes.

The details as to how these Ontario Health Teams will be constituted have yet to be released. Given that all the government funded ParaMed business in Ontario is contracted through the LHINs today, the ParaMed LHIN contracts will have to be assigned or reissued by Ontario Health or its assigns as the LHINs are integrated into the new agency.

Although this represents a significant change in the contracting mechanism for the home care business in Ontario, the underlying market demand is such that it is likely Extencare will be able to transition services into the new business model with minimal interruption. The Company is unable to predict the nature and extent such changes will have on the Company's business, results of operations and financial condition.

Fair Workplaces, Better Jobs Act, 2017 (Ontario) (Bill 148)

In November 2017, Bill 148, *Fair Workplaces, Better Jobs Act, 2017* (Ontario), received Royal Assent, and came into effect in 2018. The Act contains a number of amendments to both the *Employment Standards Act* (ESA) and the *Labour Relations Act* (LRA), as part of the Ontario government's efforts to overhaul workplace laws. These changes included, among other things: an increase in minimum wage to \$14 per hour that took effect on January 1, 2018, with a further increase to \$15 per hour that was to take effect on January 1, 2019; revisions to vacation, public holiday pay and personal leave entitlements that took effect on January 1, 2018; equal pay for equal work standards that took effect on April 1, 2018; amendments to schedule change notifications and minimum "on call" payments that were to take effect on January 1, 2019; and lower voting thresholds for unionization. In May 2018, the government filed Ontario Regulation 375/18, which prescribed a return to the method of determining public holiday pay using the formula that applied prior to Bill 148, effective July 1, 2018. In November 2018, legislation was enacted that amended or reversed many of the changes enforced by Bill 148, refer to the discussion under the heading "Making Ontario Open for Business Act, 2018 (Bill 47)".

Operationally, the Act necessitated changes in the manner in which the Company manages its workforce in a number of business areas and could result in increased unionization. Financially, the impact of Bill 148 on the Company's private-pay and long-term care businesses has not been significant.

With respect to the Company's government-funded home health care operations, the Company has recorded \$5.3 million of enhanced funding in 2018 to offset costs related to Bill 148, of which \$2.0 million was received in respect of quarter ended March 31, 2018. While the government has yet to announce continued funding post March 31, 2018, it has indicated its intentions to continue to engage with the Local Health Integration Networks (LHINs), contracted service provider organizations, and home care employer associations to evaluate the legislation and to assess the costs associated with Bill 148 for fiscal 2018/2019. The Company believes that the funding it has accrued for the period April 1, 2018 to December 31, 2018 is a reasonable estimation. There can, however, be no assurance that any such government funding will be received, or to the extent any funding is received that it will be commensurate with the Company's additional costs resulting from such legislative changes.

While the Company does not anticipate the increases to the minimum wage will have a significant impact on the financial results given the current pay rates of its workforce, there can be no assurance that these changes will not necessitate increased pay rates for those already above the minimum wage, in order for the Company to retain and attract employees.

As the Company's labour costs account for approximately 86% of its operating costs, increased labour costs could have a significant adverse effect on the Company's results from operations and cash flows, should such cost increases not be offset by commensurate increases in government funding. Management is unable to predict the nature and extent of any changes the government may make to its funding programs or the effect of any such changes on the Company, but it anticipates that the government will comply with its contractual obligations relating thereto.

Making Ontario Open for Business Act, 2018 (Bill 47)

In November 2018, Bill 47, *Making Ontario Open for Business Act, 2018* (Ontario), received Royal Assent and came into force the same day. The Act makes many changes to various pieces of legislation governing employment and labour relations in Ontario, principally the ESA and LRA, and reverses many of the changes to the ESA and LRA that were enacted by Bill 148. Bill 47, among other things: freezes the minimum wage at \$14 an hour until October 1, 2020, following which it will be adjusted annually by the rate of inflation; removes the entitlement to two paid personal leave days; cancels a range of scheduling change protections that were to come into force in 2019; eliminates changes to the equal pay for equal work standards impacting part-time, contract, and temporary workers; and repeals the new public holiday pay calculations. As a result, Bill 47 reduces some of the operational and financial impacts resulting from Bill 148 on the Company's financial results, as discussed above.

Strengthening Quality and Accountability for Patients Act, 2017 (Ontario)

Bill 160, *Strengthening Quality and Accountability for Patients Act, 2017* (Ontario), received Royal Assent in December 2017. The Act, which supports the Ontario government's Patients First: Action Plan for Health Care, includes new legislation as well as changes to a number of existing pieces of legislation. The Act, among other things, provides updates to the *Long-Term Care Homes Act, 2007* (LTCHA) to add new enforcement tools, including financial penalties, and new provincial offences to ensure operators are addressing concerns promptly. In December 2018, the government notified the sector that the in-force date of January 1, 2019 for the financial penalties associated with this Act had been delayed and that no new in-force date had been set. The legislation also includes a consent-based framework to protect residents who need to be secured in a LTC centre for safety reasons. In addition, the Act provides updates to the *Retirement Homes Act, 2010* that would strengthen the oversight powers of the Retirement Homes Regulatory Authority (RHRA) and increase transparency, accountability and governance of the RHRA. In addition, as part of a stated commitment to "improve the transparency of public information related to the Long-Term Care Home Quality Inspection Program in Ontario", the Ontario Ministry of Health and Long-term Care (MOHLTC) released information on the performance of every LTC centre in the province in April 2018.

Ontario LTC Redevelopment and Expansion

Extendicare continues to advance the redevelopment of its 21 Class C LTC centres (3,287 beds) in Ontario under the MOHLTC's enhanced redevelopment program.

In October 2018, the MOHLTC announced that it is moving forward with building 6,000 new LTC beds across the province following a call for applications (CFA) in February 2018, stating that these represented the first wave of more than 15,000 new LTC beds that the government has committed to build over the next five years. The MOHLTC indicated that applications for new beds that had not advanced in this first round will be considered in future CFAs.

Extendicare plans to participate in requests for new beds to enhance its redevelopment projects and in new developments where market opportunity exists as part of its approach to campus of care. In 2018, the Company was awarded 158 new beds in connection with three of its redevelopment projects. To date, the MOHLTC has approved the licensing applications for two of our LTC centres, one in Stittsville and one in Sudbury, and we have a further five applications that have advanced past the initial stage of the MOHLTC's review process. Each project is unique and the overall plan involves a combination of new construction and retrofits. While factors could arise that affect the timing or sequence of our redevelopment plans, we are working closely with the MOHLTC with a goal to accelerating redevelopment of these seven centres. As these redevelopment projects are completed, we expect to realize the benefit of improved performance and extended license terms. Other projects will move forward provided they meet our investment objectives.

Ontario Long-term Care Funding

Ontario is Extendicare's largest market for its senior care services. Funding for LTC centres in Ontario is based on reimbursement for the level of care assessed to be required by the residents, in accordance with scheduled rates. The MOHLTC allocates funds through "funding envelopes", specifically: nursing and personal care (NPC); programs and support services (PSS); and accommodation (which includes a sub-envelope for raw food). The funding for the NPC and PSS envelopes is generally adjusted annually based on the acuity of residents as determined by a classification assessment of resident care needs. The NPC, PSS and food envelopes are "flow-through" envelopes, whereby any deviation in actual costs from scheduled rates is either absorbed by the provider (if actual costs exceed funding allocations) or is returned to the MOHLTC (if actual costs are below funding allocations). With respect to the accommodation envelope, providers retain any excess funding received over costs incurred. The province sets the rates for standard accommodation, as well as the maximum amounts that a provider can charge for semi-private and private accommodation (preferred accommodation). The provider is permitted to bill and retain the premiums charged for preferred accommodation. The accommodation rates are substantially paid for by the resident; however, the province guarantees funding for standard accommodation through resident subsidies. 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 addition, under the MOHLTC's occupancy protection program, providers with occupancy levels equal to 90% and less than 94% receive funding based on their actual occupancy plus 1%, and those with occupancy levels equal to 94% and less than 97% receive funding based on their actual occupancy plus 2%. In 2018, all but two of Extendicare's LTC centres in Ontario achieved the 97% occupancy threshold.

On April 1st each year, the MOHLTC generally provides flow-through funding adjustments on the government funded portion of the fees. Funding for the NPC and PSS flow-through funding envelopes increased by 2% on April 1, 2018. Extendicare estimates that these funding enhancements, along with our case mix index and re-indexing adjustments, represent additional annual revenue of approximately \$2.7 million to offset additional costs for resident care and services within the NPC and PSS flow-through funding envelopes (April 2017 – \$3.4 million).

On July 1st each year, the MOHLTC generally implements annual accommodation funding increases to the per diem rates provided to long-term care providers. The July 1, 2018 funding enhancements increased the daily rates for the non flow-through component of the accommodation envelope by \$0.91 (1.6%) and by \$0.54 (6.0%) for the flow-through food component. Extendicare estimates that this enhanced funding represents additional annual revenue of approximately \$2.7 million in total, of which approximately \$1.0 million is flow-through funding (2017 – \$2.5 million in total, of which \$1.0 million was flow-through).

In addition, LTC operators in Ontario are permitted to designate up to 60% of the resident capacity of a centre as preferred accommodation and charge higher accommodation rates that vary according to the structural classification of the LTC centre. For beds that are not classified as "New" or "A" beds, the maximum preferred accommodation premiums increased on July 1, 2018, by \$0.13 to \$8.33 per day for a semi-private room and by \$0.29 to \$18.74 per day for a private room. For beds that are classified as "New" and "A" beds, the maximum preferred accommodation premiums increased on July 1, 2018, by \$0.19 to \$12.49 per day for a semi-private room and by \$0.41 to \$26.04 per day for a private room. Extendicare has 13 "New" LTC centres in Ontario with 1,847 beds, of which 1,106 are private beds, from which it will benefit from this premium increase as new residents are admitted.

Alberta Long-term Care Funding

Alberta is Extencicare's second largest market for its senior care services. Since April 2010, AHS has been using an activity-based funding system for continuing care centres that includes the measurement of a resident's acuity through the use of a resident assessment instrument – minimum data set, or RAI-MDS, to determine the resident's level of care and resources required. The Alberta Continuing Care Association is actively engaged in discussions with the Alberta Government and AHS to further enhance care funding to accommodate higher expenses within continuing care, and to revise the existing funding model used within continuing care. It was anticipated that a revised care funding model would have been implemented during 2016; however, following receipt of public input to inform new or revised legislation, the provincial government has yet to release its strategy related to continuing care and its approach to long-term care for the future.

The April 1, 2018 funding adjustments for long-term care and designated supportive living for fiscal 2018/2019 represent additional annual revenue of approximately \$1.2 million. Last year, the April 1, 2017 funding changes for fiscal 2017/2018 represented additional annual revenue of approximately \$0.9 million. In addition, in the 2017 first quarter, AHS provided retroactive funding adjustments for fiscal 2015/2016 and 2016/2017 in recognition of labour contract settlements of \$0.8 million and an ongoing annual revenue increase of approximately \$0.5 million.

On July 1, 2018, the annual accommodation charge adjustments (the portion paid directly by residents of long-term care and designated supportive living centres) increased by 2.2%, based on inflation as reflected by Alberta's CPI. Extencicare estimates that the 2.2% increase represents additional revenue of approximately \$0.7 million (July 2017 – \$0.6 million).

Ontario Home Health Care Funding

Extencicare's ParaMed Home Health Care division operates in six provinces across Canada, currently providing approximately 10.9 million hours of service annually, which we believe makes ParaMed the largest private-sector provider of publicly funded home health care in Canada, and the largest in Ontario. The Ontario market currently represents approximately 83% of ParaMed's service volumes, of which approximately 98% are received from government-funded contracts at specified rates, and the remainder from private-pay clients. The Company is unable to predict whether the government will adopt changes in its funding or budget priorities, and if adopted and implemented, the impact, if any, such changes will have on the Company's business, results of operations and financial condition.

In shaping the delivery of health care to Canadians, both the federal and provincial governments have stated that home health care is an area that merits further investment to ensure that more health care services are available in the home. Recent health accord agreements reached between the federal government and each of the provinces that began in fiscal 2017/2018, include targeted funding for home health care. For Ontario alone, targeted home health care funding has been reported to be an additional \$2.3 billion over the next decade. In addition, as part of its initiative to improve and make the health care system more efficient, the Ontario government has noted that insufficient capacity in the health care system, like home care, is contributing to the problem of hallway health care in the province (refer to the discussion under the heading "The People's Health Care Act, 2019 (Ontario) (Bill 74)"). As governments continue to recognize the benefits of this segment of the Canadian health care system, we believe that ParaMed is well-positioned to take advantage of the significant organic growth opportunity that exists today, and that steps we are taking to position ParaMed as the employer of choice for caregivers will further enhance our position. In addition, ParaMed continues to assess private-pay home health care opportunities that may enable it to further leverage its platform.

As part of the 2018 Ontario Budget, the government announced funding enhancements effective April 1, 2018, to provide contract rate increases of 2% for nursing and therapies contracts, 1% for harmonized personal support service contracts and 2% for other personal support contracts. These rate increases are estimated to provide additional revenue for ParaMed of approximately \$5.2 million annually based on volumes experienced since April 1, 2018. More generally under the 2018 Ontario Budget, the government announced plans to invest an additional \$650 million on home care over the next three years, that would include \$180 million in new funding for 2.8 million more personal support hours, 284,000 more nursing visits and 58,000 more therapy visits. Over the next three years, the Budget allocates \$45 million to improve working conditions and contract rates for PSWs, registered practical nurses, registered nurses and therapists; \$23 million to add an estimated 5,500 PSWs to the workforce; \$38 million in education and training for new and existing PSWs; and \$65 million for a pilot program to establish a tax-free savings account on behalf of eligible PSWs.

In August 2018, the MOHLTC announced that it was winding down the Self-Directed Personal Support Services Ontario agency, which was still in its set-up phase, in order to reduce the administrative burden of delivering home health care. The program, initially announced in October 2017, was intended to provide personal support services from a new provincial agency.

LIQUIDITY AND CAPITAL RESOURCES

Sources and Uses of Cash

The following summarizes the sources and uses of cash between our continuing and discontinued operations for 2018 and 2017.

<i>(thousands of dollars unless otherwise noted)</i>	2018			2017		
	Continuing	Discontinued	Total	Continuing	Discontinued	Total
Cash provided by operating activities, before working capital changes and interest and income taxes	94,668	–	94,668	99,333	–	99,333
Net change in operating assets and liabilities						
Accounts receivable	(8,172)	–	(8,172)	9,569	–	9,569
Other assets	(536)	–	(536)	4,283	–	4,283
Accounts payable and accrued liabilities	2,210	–	2,210	(6,144)	–	(6,144)
	(6,498)	–	(6,498)	7,708	–	7,708
Interest, taxes and claims payments						
Interest paid	(28,383)	–	(28,383)	(29,560)	–	(29,560)
Interest received	3,785	–	3,785	3,932	–	3,932
Income taxes paid	(8,862)	–	(8,862)	(10,093)	–	(10,093)
Payments for U.S. self-insured liabilities	–	(15,237)	(15,237)	–	(24,160)	(24,160)
	(33,460)	(15,237)	(48,697)	(35,721)	(24,160)	(59,881)
Net cash from operating activities	54,710	(15,237)	39,473	71,320	(24,160)	47,160
Net cash from investing activities	(70,289)	15,237	(55,052)	(18,564)	24,160	5,596
Net cash from financing activities	(48,763)	–	(48,763)	(23,612)	–	(23,612)
Net cash from discontinued operations	–	–	–	–	–	–
Foreign exchange gain (loss) on U.S. cash held	2,079	–	2,079	(2,570)	–	(2,570)
Increase (decrease) in cash and short-term investments	(62,263)	–	(62,263)	26,574	–	26,574
Cash and short-term investments at beginning of year	128,156	–	128,156	101,582	–	101,582
Cash and short-term investments at end of year	65,893	–	65,893	128,156	–	128,156
Average U.S./Canadian dollar exchange rate			1.2957			1.2986

As at December 31, 2018, Extencicare had cash and short-term investments on hand of \$65.9 million reflecting a decrease in cash of \$62.3 million from the beginning of the year, primarily related to the acquisition completed in the 2018 second quarter, growth capital expenditures and the purchase of Common Shares for cancellation. Cash flow generated from the operating activities of our continuing operations of \$54.7 million was in excess of cash dividends paid of \$37.4 million by \$17.3 million, and was used to support maintenance capex and principal debt repayments.

Discontinued operations reflect the payment of claims for U.S. self-insured liabilities as a component of net cash from operating activities, which payments are funded by the Captive's investments held for self-insured liabilities. Changes in the Captive's investments are reported as a component of net cash from investing activities, as those invested funds are not included in cash and short-term investments.

Net cash from operating activities of the continuing operations was a source of cash of \$54.7 million in 2018 compared to \$71.3 million in 2017, primarily due to a \$14.2 million net decline in the change in operating assets and liabilities between periods.

Net cash from investing activities of the continuing operations was a use of cash of \$70.3 million in 2018 compared to \$18.6 million in 2017. The 2018 activity included the Lynde Creek Acquisition of \$33.8 million and purchases of property, equipment and other intangible assets, as set out in the table below, partially offset by funds of \$9.7 million repatriated from the Captive, and the collection of other assets. The 2017 activity included the repatriation of funds from the Captive in the amount of \$21.1 million and the collection of other assets, offset by capital expenditures. Growth capex, excluding acquisitions, relates to the construction of new beds, building improvements or other capital costs, all of which are aimed at earnings growth. The increase in growth capex relates primarily to the development of retirement communities and redevelopment of LTC centres in Ontario. Maintenance capex relates to our actual capital expenditures incurred to sustain and upgrade existing property and equipment. 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 2019, we are

projecting to spend in the range of \$10 million to \$12 million in maintenance capex, and in the range of \$50 million to \$55 million in growth capex related primarily to the retirement development and LTC redevelopment projects.

<i>(thousands of dollars)</i>	2018	2017
Growth capex	39,291	33,521
Deduct: capitalized interest	(1,318)	(1,197)
Growth capex, excluding capitalized interest	37,973	32,324
Maintenance capex	12,675	8,813
	50,648	41,137

Net cash from financing activities of the continuing operations was a use of cash of \$48.8 million in 2018 compared to a use of cash of \$23.6 million in 2017. The 2018 activity included debt repayments of \$32.4 million, cash dividends paid of \$37.4 million, Common Shares acquired for cancellation under a normal course issuer bid at a cost of \$6.3 million, and financing costs primarily related to the issuance and redemption of convertible debentures, partially offset by draws on construction financing of \$23.0 million and mortgage financing of \$10.5 million secured on a retirement community. The 2017 activity included debt repayments of \$22.0 million, cash dividends paid of \$37.5 million, and Common Shares acquired for cancellation of \$6.5 million, partially offset by the refinancing of long-term debt for a net issuance of \$26.4 million, and draws on construction financing of \$17.3 million. For information on the change in long-term debt, refer to “Liquidity and Capital Resources – Long-term Debt”.

Capital Structure

SHAREHOLDERS’ EQUITY

The following summarizes our shareholders’ equity for 2018 and 2017.

<i>(thousands of dollars unless otherwise noted)</i>	2018	2017	
Shareholders’ Equity			
Common Shares	492,064	490,881	
Equity portion of convertible debentures	7,085	5,573	
Contributed surplus	2,706	2,437	
	501,855	498,891	
Accumulated deficit at beginning of year	(365,084)	(322,025)	
Adoption of new standard on financial instruments	4,334	–	
Net earnings for the period	31,738	2,132	
Dividends declared	(42,351)	(42,583)	
Equity portion of redeemed convertible debentures	5,573		
Purchase of Common Shares in excess of book value and other	(2,357)	(2,608)	
Accumulated deficit at end of period	(368,147)	(365,084)	
Accumulated other comprehensive loss	(7,717)	(4,851)	
Shareholders’ Equity	125,991	128,956	
U.S./Canadian dollar exchange rate at end of period	1.3637	1.2571	
Share Information <i>(thousands)</i>	February 27, 2019	December 31, 2018	December 31, 2017
Common Shares (TSX symbol: EXE) ⁽¹⁾	88,615.0	88,490.0	88,523.3

(1) Closing market value per the TSX on February 27, 2019, was \$7.56.

The retrospective adoption of the new standard on financial instruments resulted in the reclassification of \$4.3 million to the opening accumulated deficit in connection with unrealized gains on the investments held for self-insured liabilities that had been recorded as part of accumulated other comprehensive loss as at December 31, 2017. The net increase in the equity portion of convertible debentures reflects the classification of the equity portion of the 2025 Debentures issued this year, partially offset by the reclassification of the equity portion of the 2019 Debentures to the accumulated deficit upon their redemption.

DISTRIBUTIONS

The declaration and payment of distributions is at the discretion of our board of directors (the “Board”) as to the amount and timing of dividends to be declared and paid, after consideration of a number of factors including results of operations, requirements for capital expenditures and working capital, future financial prospects of Extencicare, debt covenants and obligations, and any other factors deemed relevant by the Board. If our Board determines that it would be in Extencicare’s best interests, it may modify the amount and frequency of dividends to be distributed to holders of Common Shares.

The Company declared cash dividends of \$0.48 per share in 2018 and 2017, for total dividends of \$42.3 million and \$42.6 million, respectively. The portion of dividends paid in cash in 2018 was \$37.4 million (2017 – \$37.5 million), and \$4.9 million (2017 – \$5.1 million) was by way of Common Shares issued under a dividend reinvestment plan (2018 – 650,361 shares and 2017 – 535,025 shares).

Net cash from operating activities was \$39.5 million in 2018 and \$47.2 million in 2017, and included payments of \$15.2 million and \$24.2 million, respectively, for U.S. self-insured liabilities that were funded by investments held by the Captive that are reported as a source of cash from investing activities. For further information on the sources and uses of cash between our continuing and discontinued operations, refer to the previous discussion under the heading “Liquidity and Capital Resources – Sources and Uses of Cash”.

Compared to our AFFO of \$57.8 million in 2018, dividends declared of \$42.3 million represented a payout ratio of approximately 73% (2017 – 73%). For further information on our AFFO, refer to the discussion under the heading “Adjusted Funds from Operations”.

NORMAL COURSE ISSUER BID

During 2018, under a normal course issuer bid that commenced on January 15, 2018 and ended on January 14, 2019, the Company acquired and cancelled 703,585 Common Shares at a weighted average price of \$8.89 per share, for a total cost of \$6.3 million. During 2017, under a previous normal course issuer bid, the Company acquired and cancelled 696,220 Common Shares at a weighted average price of \$9.27 per share, for a total cost of \$6.5 million.

In January 2019, Extencicare received the approval of the TSX to renew its normal course issuer bid (the “Bid”) to purchase for cancellation up to 8,830,000 Common Shares (approximately 10% of the public float) through the facilities of the TSX, and on alternative Canadian trading systems. The Bid commenced on January 15, 2019, and provides Extencicare with flexibility to purchase Common Shares for cancellation until January 14, 2020, or on such earlier date as the Bid is complete. Subject to the TSX’s block purchase exception, on any trading day, purchases under the Bid will not exceed 54,852 Common Shares. The price that Extencicare will pay for any Common Shares purchased under the Bid will be the prevailing market price at the time of purchase and any Common Shares purchased will be cancelled.

Long-term Debt

CONTINUITY OF LONG-TERM DEBT

Long-term debt totalled \$529.0 million as at December 31, 2018, compared with \$536.1 million as at December 31, 2017, representing a decrease of \$7.1 million, primarily due to debt repayments and a change in the equity component of the convertible debentures following the refinancing this year, partially offset by draws on construction loans and mortgage financing of \$10.5 million secured on a retirement community. The long-term debt activity for 2017 included a net \$26.4 million refinancing of \$3.6 million of mortgages on nine Alberta LTC centres with a \$30.0 million term loan with the Canadian Imperial Bank of Commerce (the “CIBC Term Loan”), draws on construction loans and an increase in finance lease obligations for customized cloud-based software, partially offset by scheduled debt repayments. Extencicare and its subsidiaries are in compliance with all of their respective financial covenants as at December 31, 2018. Details of the components, terms and conditions of long-term debt are provided in *note 12* of the audited consolidated financial statements.

The following summarizes the changes in the carrying amounts of long-term debt for 2018 and 2017.

<i>(millions of dollars)</i>	2018	2017
Long-term debt at beginning of year, prior to deferred financing costs	541.8	510.3
Issue of long-term debt		
2025 Debentures at face value	126.5	–
Construction loans	23.0	17.3
Mortgages	10.5	–
CIBC Term Loan	–	26.4
Finance lease obligations	–	8.9
Redemption of 2019 Debentures at face value	(126.5)	–
Repayment of long-term debt	(32.4)	(22.0)
Change in equity component of convertible debentures and other	(5.5)	0.9
	537.4	541.8
Deferred financing costs at end of year	(8.4)	(5.7)
Long-term debt at end of year	529.0	536.1
Less: current portion	(74.7)	(59.7)
	454.3	476.4

CREDIT FACILITIES

In November 2017, the Company arranged for a demand credit facility in the amount of \$65.0 million (the “ParaMed Credit Facility”) that is secured by the assets of our home health care business, and is available for general corporate purposes of the Company. The ParaMed Credit Facility has no financial covenants, but does contain normal and customary terms. The entire \$65.0 million was available and unutilized as at December 31, 2018.

Extendicare has a demand credit facility in the amount of \$47.3 million with the Royal Bank of Canada (the “RBC Credit Facility”) that is secured by 13 Class C LTC centres in Ontario and is guaranteed by certain Canadian subsidiaries of Extendicare. As at December 31, 2018, Extendicare had letters of credit totalling \$45.0 million issued under the RBC Credit Facility, of which \$38.0 million secure our defined benefit pension plan obligations and the balance were issued in connection with obligations relating to recently acquired centres and those centres under development. The letter of credit to secure the pension plan obligations renews annually in May based on an actuarial valuation. The RBC Credit Facility has no financial covenants, but does contain normal and customary terms including annual re-appraisals of the centres that could limit the maximum amount available.

LONG-TERM DEBT MATURITIES AND WEIGHTED AVERAGE INTEREST RATES

The table below presents the principal, or notional, amounts and related weighted average interest rates by year of maturity, of the Company’s long-term debt obligations as at December 31, 2018. The Company had an aggregate of \$52.9 million drawn on construction loans at year end, which are repayable on demand and, in any event, are to be fully repaid by the earlier of achieving stabilized occupancy as defined by the agreements and specified dates between late 2019 and 2023. Consequently, these loans are reflected as current and due in 2019 in the following table. Permanent financing will be sought for each upon maturity.

<i>(millions of dollars)</i>	2019	2020	2021	2022	2023	After 2023	Total	Fair Value
Convertible debentures (at face value)								
Fixed rate	–	–	–	–	–	126.5	126.5	125.6
Average interest rate	–	–	–	–	–	5.00%	5.00%	
Long-term debt								
Fixed rate (including fixed through swap)	15.4	60.1	15.1	58.7	45.7	88.8	283.8	286.0
Average interest rate	4.23%	4.08%	4.29%	3.98%	4.54%	5.59%	4.28%	
Variable rate	52.9	–	–	–	–	–	52.9	52.9
Average interest rate	4.71%	–	–	–	–	–	4.71%	
Finance lease obligations								
Fixed rate	7.7	9.1	9.6	8.6	9.2	36.8	81.0	92.3
Average interest rate	6.15%	6.19%	6.22%	7.00%	7.01%	6.98%	6.72%	

Management has limited the amount of debt that may be subject to changes in interest rates, with all of the debt currently at fixed rates, other than the construction loans of \$52.9 million. The Company's variable-rate mortgages on its retirement communities and the CIBC Term Loan, aggregating \$84.8 million at year end, have effectively been converted to fixed rate financing with interest rate swaps over the full term. As at December 31, 2018, the net carrying value of the interest rate swaps was an asset of \$2.0 million.

The following summarizes key metrics of our consolidated long-term debt as at December 31, 2018 and 2017.

	December 31, 2018	December 31, 2017
Weighted average interest rate of long-term debt outstanding	4.9%	5.0%
Weighted average term to maturity of long-term debt outstanding	7.4 yrs	7.1 yrs
Weighted average term to maturity of long-term debt outstanding, excluding finance lease obligations	7.3 yrs	6.7 yrs
Trailing twelve months consolidated net interest coverage ratio ⁽¹⁾	3.7 X	3.8 X
Trailing twelve months consolidated interest coverage ratio ⁽²⁾	3.2 X	3.3 X
Debt to Gross Book Value (GBV)		
Total assets (carrying value)	896,324	934,281
Accumulated depreciation on property and equipment	226,416	214,889
Accumulated amortization on other intangible assets	18,509	12,229
GBV	1,141,249	1,161,399
Debt ⁽³⁾	544,111	543,446
Debt to GBV	47.7%	46.8%

(1) Net interest coverage is defined as Adjusted EBITDA divided by net interest (interest expense before reduction of capitalized interest, net of interest revenue).

(2) Interest coverage is defined as Adjusted EBITDA divided by interest expense before reduction of capitalized interest.

(3) Debt includes convertible debentures at face value of \$126.5 million, and excludes deferred financing costs.

Future Liquidity and Capital Resources

Extendicare's consolidated cash and short-term investments on hand was \$65.9 million as at December 31, 2018, compared with \$128.2 million at the beginning of the year, and excluded restricted cash of \$2.3 million, and \$67.9 million (US\$49.8 million) of investments held by our Captive to support the accrual for U.S. self-insured liabilities of \$37.1 million (US\$27.2 million). In addition, the Company has \$65.0 million available to draw under its ParaMed Credit Facility.

The Company has three unencumbered retirement communities (Lynde Creek, West Park and Yorkton). In addition, construction financings in the aggregate of up to \$77.7 million have been secured on the three retirement communities that were under construction during 2018 (Douglas Crossing, Bolton and Barrie), of which \$43.9 million was drawn at year end. As at December 31, 2018, the Company had incurred approximately \$79.8 million of the estimated \$104.9 million of Adjusted Development Costs for these three retirement communities.

Management believes that cash from operating activities and future debt financings will be available and sufficient to support Extendicare's ongoing business operations, maintenance capex, and debt repayment obligations. Growth through redevelopment of our LTC centres over the next few years, strategic acquisitions and developments will necessitate the raising of funds through debt financings and the capital markets. Decisions will be made on a specific transaction basis and will depend on market and economic conditions at the time.

OTHER CONTRACTUAL OBLIGATIONS AND CONTINGENCIES

The table below provides summary information relating to the contractual obligations, other than long-term debt, as at December 31, 2018. Due to the uncertainty as to the timing of payments to be made with respect to certain obligations, the table excludes the accrual for U.S. self-insured liabilities of \$37.1 million and the decommissioning provisions of \$9.4 million. In addition, the table excludes our defined benefit pension plan obligations, which are described more fully below.

<i>(millions of dollars)</i>	2019	2020	2021	2022	2023	After 2023	Total
Operating lease obligations	3.5	1.7	1.4	1.0	0.3	–	7.9
Purchase obligations	16.0	–	–	–	–	–	16.0
	19.5	1.7	1.4	1.0	0.3	–	23.9

Defined Benefit Pension Plan Obligations

The contractual obligations table excludes our defined benefit pension plan obligations. The accrued benefit liability on our statement of financial position as at December 31, 2018 was \$36.1 million (2017 – \$36.6 million). We currently have defined benefit registered and supplementary plans covering certain executives, both of which have been closed to new entrants since 2000. The registered defined benefit plan was in an actuarial deficit of \$2.6 million with plan assets of \$5.1 million and accrued benefit obligations of \$7.7 million at year end (2017 – an actuarial deficit of \$2.5 million with plan assets of \$5.4 million and accrued benefit obligations of \$7.9 million). The accrued benefit obligations of the supplementary plan were \$33.5 million at year end (2017 – \$34.1 million). We do not set aside assets in connection with the supplementary plan and the benefit payments will be paid from cash from operations. The benefit obligations under the supplementary plan are secured by a letter of credit totalling \$38.0 million as at December 31, 2018 (2017 – \$39.9 million). This letter of credit renews annually in May based on an actuarial valuation of the pension obligations. The annual benefit payments under the supplementary pension plan to be funded from cash from operations over the next five years are expected to be in the range of \$2.0 million to \$2.2 million, and the annual contributions to the registered pension plan over the next five years are expected to be less than \$0.1 million. Since the majority of our accrued benefit obligations represent our obligation under our non-registered supplementary plan, which is not required to be funded, changes in future market conditions are not expected to have a material adverse effect on our cash flow requirements with respect to our pension obligations, or on our pension expense.

Accrual for U.S. Self-insured Liabilities

The obligation to settle any U.S. self-insured general and professional liability claims relating to the period prior to the closing of the U.S. Sale Transaction, including claims incurred but yet to be reported, remains with Extencicare, which it intends to continue to fund through the Captive. Consequently, the balance of the accrual for self-insured liabilities and the related investments held for self-insured liabilities remain on the consolidated statement of financial position. However, any expense incurred or release of reserves for U.S. self-insured liabilities are presented as discontinued operations; while the Captive's costs to administer and manage the settlement of the remaining claims are reported as continuing operations within the U.S. segment.

Management regularly evaluates and semi-annually engages an independent third-party actuary to provide a report to determine the appropriateness of the carrying value of this liability. The most recent independent actuarial review was conducted at the end of 2018, which confirmed the adequacy of our reserves.

As at December 31, 2018, the accrual for U.S. self-insured general and professional liabilities was \$37.1 million (US\$27.2 million) compared to \$61.1 million (US\$48.6 million) at the beginning of the year. The decline of US\$21.4 million reflected claim payments of US\$11.8 million, a release of reserves of \$13.0 million (US\$9.9 million) and an adjustment to the discount factor of US\$0.9 million, partially offset by accretion of the discounted liability. Since the sale of the U.S. operations in 2015, US\$29.6 million of the Captive's reserves have been released and reflected in discontinued operations.

During 2017, payments for self-insured liabilities were \$24.2 million (US\$18.6 million) and \$5.7 million (US\$4.4 million) in reserves were released and reflected in discontinued operations.

Most of the risks that Extencicare self-insures are long-term in nature, and accordingly, claim payments for any particular policy year occur over a long period of time. However, management estimates and allocates a current portion of the accrual for self-insured liabilities on the statement of financial position. As at December 31, 2018, management estimated that approximately \$12.3 million of the accrual for self-insured general and professional liabilities will be paid within the next year. The timing of payments is not directly within management's control; therefore, estimates could change in the future.

The Captive holds investments sufficient to support the accrual for self-insured liabilities and to meet required statutory solvency and liquidity ratios. These invested funds are reported in other assets and totalled \$67.9 million (US\$49.8 million) as at December 31, 2018, compared to \$86.3 million (US\$68.6 million) at the beginning of the year. Since the sale of the U.S. operations in 2015, the Captive has transferred US\$28.5 million of its funds previously held for investment to the Company for general corporate use, of which US\$7.5 million was transferred in 2018 (2017 – US\$16.0 million). Management believes there are sufficient invested funds held to meet estimated current claims payment obligations.

Legal Proceedings, Claims and Regulatory Actions

Extendicare and its consolidated subsidiaries are defendants in various actions and proceedings that are brought against them from time to time in connection with their operations.

As previously disclosed, in April 2018, the Company was served with a statement of claim alleging negligence by the Company in the operation of its long-term care centres and its provision of care to residents and seeking \$150 million in damages. The claim sought an order certifying the claim as a class action pursuant to the *Class Proceedings Act* (Ontario). By order of the Ontario Superior Court of Justice the class proceeding was discontinued on October 25, 2018. Following the discontinuance, the plaintiff who commenced the class proceeding still has the option to pursue a claim on her own behalf while others may also do so separately on their own behalf. The Company intends to defend itself against any and all such individual claims and does not believe the outcome on any or all such claims would have a material adverse impact on its business, results of operations or financial condition and in any event believes that any potential liability would be resolved within the limits of its insurance coverage.

On September 19, 2018, the Company was served with a statement of claim that seeks an order certifying the claim as a class action pursuant to the *Class Proceedings Act* (Ontario). The claim alleges that the Company failed to properly apply certain required medical equipment sterilization protocols at one or more of its home health care clinics and seeks \$20 million in damages. The Company does not believe that the lawsuit or the damages sought have merit. The Company intends to vigorously defend itself against the claim and does not believe the outcome will have a material adverse impact on its business, results of operations or financial condition and in any event believes that any potential liability would be resolved within the limits of its insurance coverage.

The provision of health care services is subject to complex government regulations. Every effort is made by the Company to prevent deficiencies in the quality of patient care through quality assurance strategies and to remedy any such deficiencies cited by government inspections within the applicable prescribed period of time. Extendicare accrues for costs that may result from investigations, or any possible related litigation, to the extent that an outflow of funds is probable and a reliable estimate of the amount of the associated costs can be made.

RELATED PARTY TRANSACTIONS

As previously announced, Extendicare's former President and Chief Executive Officer, Tim Lukenda stepped down from his position on October 22, 2018. In connection with his separation agreement, Mr. Lukenda was entitled to receive a cash payment in the amount of \$2.9 million, and was required to forfeit, for no consideration, all of the performance share units (PSUs) credited to his account under the Company's long-term incentive plan. The terms of Mr. Lukenda's departure from the Company took into account the payments that Mr. Lukenda would have been entitled to receive upon a termination of his employment by the Company without cause or by the employee for good reason and a deduction based on the full amount of the \$2.0 million cash retention bonus that was paid to Mr. Lukenda in September 2017. The Company reflected a charge in the 2018 third quarter for the cash payment of \$2.9 million, partially offset by the reversal of \$1.2 million in connection with the forfeiture of the PSUs.

During Mr. Lukenda's employment with Extendicare, the Company provided management services to a long-term care centre and group purchasing services to retirement centre owned by Mr. Lukenda and members of his family through a company in which Mr. Lukenda had an approximate 7.1% direct and indirect ownership interest. Mr. Lukenda's employment contract provided a mechanism and process that effectively removed him from the decision-making process in situations where a conflict of interest may have arisen on any matter between the two companies.

RISKS AND UNCERTAINTIES

The risks and uncertainties described below could adversely affect the business, results of operations and financial condition of Extendicare, cause the trading price of the Company's securities to decline and cause the actual outcome of matters to differ materially from the expectations of the Company regarding future results, performance or achievements reflected in information in this MD&A and other information provided by Extendicare from time to time. The risks and uncertainties described below, which is not an exhaustive description of the risks and uncertainties faced by Extendicare, should be carefully considered by investors.

General Business Risks

Extencicare is subject to general business risks inherent in the senior care industry, including: changes in government regulation and oversight; changing consumer preferences; fluctuations in occupancy levels and business volumes; changes in government funding and reimbursement programs, including the inability to achieve adequate government funding increases; increases in labour costs and other operating costs; changes in labour relations; competition from other senior care providers, including from, or the oversupply of, other similar centres; changes in neighbourhood or location conditions and general economic conditions; health related risks; disease outbreaks and control risks; changes in accounting principles and policies; the imposition of increased taxes or new taxes; capital expenditure requirements; changes in interest rates; and changes in the availability and cost of long-term financing, which may render refinancing of long-term debt difficult or unattractive. Any one of, or a combination of, these factors may adversely affect the business, results of operations and financial condition of the Company.

In addition, there are inherent legal, reputational and other risks involved in providing accommodation and health care services to seniors. The vulnerability and limited mobility of some seniors enhances such risks. Such risks include fires or other catastrophic events at a Company location which may result in injury or death, negligent or inappropriate acts by employees or others who come into contact with our residents and clients, and unforeseen events at locations at which the Company operates that result in damage to the Company's brand or reputation or to the industry as a whole.

Risks Related to Growth and Redevelopment Activities

The Company expects that it will continue to have opportunities to acquire businesses and properties, develop properties, redevelop or expand existing centres, and grow its home health care, private-pay retirement, management/consulting and group purchasing businesses, but there can be no assurance that this will be the case.

The number of licensed LTC beds are restricted by the provinces and any new licenses are awarded through a request for proposal process. The provinces also regulate the manner in which LTC centres are developed and redeveloped. If regulatory approvals are required in order to expand operations (via development or otherwise) or redevelop operations of the Company, the inability of the Company to obtain the necessary approvals, changes in standards applicable to such approvals and possible delays and expenses associated with obtaining such approvals could adversely affect the ability of the Company to expand or redevelop and, accordingly, to maintain or increase its revenue and earnings.

Approximately 40% of Extencicare's owned LTC beds are in older Ontario centres that are subject to redevelopment. Licenses for LTC centres in Ontario are issued for a fixed term of not more than 30 years, after which the license may or may not be renewed. LTC operators are to be notified of license renewals at least three years prior to the maturity date. Under the LTCHA, license terms for Class B and C LTC centres are set to expire in 2025 unless the centres are redeveloped to the government's new design standards. The significant backlog in demand for long-term care and the lack of alternative care environments makes it likely that licenses will be extended until redevelopment can be completed. The Company has 21 Class C LTC centres with 3,287 beds that it plans to redevelop under the government's enhanced redevelopment program (see "Ontario LTC Redevelopment Program" under the heading "Update of Regulatory and Funding Changes Affecting Results"). The extent to which such redevelopment plans are not implemented or proceed on significantly different timing or terms, including levels of expected government subsidy funding, could have an adverse effect on the business, results of operations and financial condition of the Company.

The success of the business acquisition and development activities of the Company, including the expansion of its private-pay retirement operations, will be determined by numerous factors, including the ability of the Company to identify suitable acquisition targets, competition for acquisition and development opportunities, purchase price, ability to obtain external sources of funding or adequate financing on reasonable terms, the financial performance of the businesses or centres after acquisition or development, and the ability of the Company to effectively integrate and operate the acquired businesses or centres. Acquired businesses or centres, and development projects, may not meet financial or operational expectations due to the possibility that the Company has insufficient management expertise to engage in such activities profitably or without incurring inappropriate amounts of risk, unexpected costs or delays associated with their acquisition or development, as well as the general investment risks inherent in any real estate investment or business acquisition. Moreover, new acquisitions may require significant management attention, place additional demands on the Company's resources, systems, procedures and controls, and capital expenditures that would otherwise be allocated by the Company in a different manner to existing businesses. Any failure by the Company to identify suitable candidates for acquisition, successfully complete development projects, secure financing, or operate the acquired and developed businesses effectively may have an adverse effect on the future growth, results of operations and financial condition of the Company.

The success of the Company's ability to grow its management/consulting, group purchasing and home health care businesses, including the private-pay home health care segment, will be determined by numerous factors, including the ability of the Company to retain, renew and secure new contracts, identify suitable markets, develop competitive services and marketing and pricing strategies, attract and retain residents and clients, and hire, retain and motivate key personnel. Changes in government funding policies and regulatory changes, the risks related to which are described below under "Risks Related to Government Funding and Regulatory Changes", in addition to the financial performance of these businesses, also impact Extencare's growth potential. Any failure by the Company to grow or operate its businesses effectively may have an adverse effect on the business, results of operations and financial condition of the Company.

Risks Related to Occupancy and Business Volumes

Senior care providers compete primarily on a local and regional basis with many other health care, long-term care and retirement living providers, including large publicly held companies, privately held companies, not-for-profit organizations, hospital-based LTC units, rehabilitation hospitals, home health care agencies, and rehabilitative therapy providers. Our ability to compete successfully varies from location to location and depends on a number of factors, including the number of competitors in the local market, the types of services available, our local reputation for quality care, the commitment and expertise of our staff, our local service offerings, the cost of care in each locality, and the physical appearance, location, age and condition of our centres. Increased competition could limit our ability to attract and retain residents and clients, maintain or increase occupancy levels and business volumes, and expand our business. An inability to continue to attract residents and clients could have an adverse effect on the business, results of operations and financial condition of the Company.

Risks Related to Government Funding and Regulatory Changes

Extencare's earnings are highly reliant on government funding and reimbursement programs, and the effective management of staffing and other costs of operations, which are strictly monitored by government regulatory authorities. See "Update of Regulatory and Funding Changes Affecting Results". Given that the Company operates in a labour-intensive industry, where labour costs account for a significant portion of the Company's operating costs (approximately 86% in 2018), government funding constraints, or funding enhancements that are not commensurate with increased costs, could have a significant adverse effect on the Company's results from operations and cash flows. The Company is unable to predict whether governments will adopt changes in their funding and regulatory programs, and if adopted and implemented, the impact, if any, such changes will have on the Company's business, results of operations and financial condition and the Company's ability to grow.

Health care providers are subject to surveys, inspections, audits and investigations by government authorities to ensure compliance with applicable laws and licensure requirements of the various government funding programs. Long-term care operators and publicly funded home health care providers must comply with applicable regulations that, depending on the jurisdiction in which they operate, may relate to such matters as staffing levels, client care related operating standards, occupational health and safety, client confidentiality, billing and reimbursement, along with environmental and other standards. Retirement communities are also subject to extensive government regulation and oversight, licensure requirements and the potential for regulatory change. The government review process is intended to determine compliance with survey and certification requirements, and other applicable laws. Remedies for survey deficiencies can be levied based upon the scope and severity of the cited deficiencies.

The revocation of a license by authorities or the cancellation of a service contract due to inadequate performance by the operator has been historically infrequent and is usually preceded by a series of warnings, notices and other sanctions. The Company has never had such a license or service contract revoked in Canada.

Non-compliance with applicable laws and licensure requirements governing health care providers could result in adverse consequences, including severe penalties, which may include criminal sanctions and fines, civil monetary penalties and fines, administrative and other sanctions, including reimbursement of government funding, or exclusion from participation in government funded programs, or one or more third-party payor networks, and damage to our reputation. These penalties could have a material adverse effect on the business, results of operations and financial condition of the Company.

Every effort is made by the Company to prevent deficiencies in the quality of patient care through quality assurance strategies and to remedy any such deficiencies cited by government inspections within the applicable prescribed period of time. Extencare accrues for costs that may result from investigations, or any possible related litigation, to the extent that an outflow of funds is probable and a reliable estimate of the amount of associated costs can be made; however, there can be no assurance that such accruals are accurate or sufficient.

With respect to home health care services, 98% of ParaMed's revenue is from contracts tendered by locally administered provincial agencies, at specified billing rates and, among other things, quality operating and performance standards. Home health care service providers must ensure their key performance indicators are meeting or exceeding provincial targets in order to continue to receive their allocated funding volumes and/or retain their contracts. Contracts with qualified service providers are generally awarded through a competitive bidding model. In Ontario, where 83% of ParaMed's business volumes were generated in 2018, the government implemented new open-ended contracts in 2012 that are evergreen contracts provided that the service provider remains in good standing. New contracts in Ontario are awarded under a bidding process to prequalified service providers. Under this new regime, all of ParaMed's government contracts in Ontario have remained in effect. In British Columbia and Alberta, where 11% and 4% of ParaMed's business volumes were generated in 2018, respectively, government contracts have specified termination dates and or/renewal periods, following which they are put out to tender. Any failure by ParaMed to retain its government contracts, including in connection with any regulatory or other funding changes, may have an adverse effect on the business, results of operations and financial condition of the Company.

Risks Related to Dependence on Key Personnel

The success of the Company depends, to a significant extent, on the efforts and abilities of its executive officers and other members of management, as well as its ability to attract and retain qualified personnel to manage existing operations and future growth. Although the Company has entered into employment agreements with certain of its key employees, it cannot be certain that any of these individuals will not voluntarily terminate his or her employment with the Company. The loss of an executive officer or other key employee could negatively affect the Company's ability to develop and pursue its business strategy, which could have a material adverse effect on the business, results of operations and financial condition of the Company.

CONFLICTS OF INTEREST

Extendicare's Board of Directors may, from time to time, in their individual capacities deal with parties with whom Extendicare may be dealing, or may be seeking investments similar to those desired by Extendicare. The relevant constating documents of the Company contain conflict of interest provisions requiring the Directors to disclose material interests in material contracts and transactions and to refrain from voting thereon.

Risks Related to Labour Intensive Business

PERSONNEL COSTS

The senior care industry is labour intensive, with approximately 86% of the Company's operating costs represented by labour costs. The Company competes with other health care providers in attracting and retaining qualified and skilled personnel to manage and operate the day-to-day operations of each of its centres and home health care services. The health care industry continues to face shortages of qualified personnel, such as nurses, certified nurse's assistants, nurse's aides, and therapists. This shortage along with general inflationary pressures may require the Company to enhance its pay and benefits package to compete effectively for qualified personnel. The Company may not be able to recover such added costs through increased government funding and reimbursement programs, or through increased rates charged to residents and clients. The inability to retain and/or attract qualified personnel and meet minimum staffing levels may result in: a reduction in occupancy levels and volume of services provided; the use of staffing agencies at added costs; an increased risk in the inability to provide continuity of care between the Company's staff and its residents and clients; and an increased risk of the Company being subject to fines and penalties. An increase in personnel costs or a failure to attract, train and retain qualified and skilled personnel could adversely affect the business, results of operations and financial condition of the Company.

The Company has contracted out selected dietary and housekeeping services provided in some of its centres. Should the Company become dissatisfied with the quality or cost of such contracted services, it may have to terminate the related contracts and recruit replacement staff at an incremental cost.

WORKPLACE HEALTH AND SAFETY

The Company recognizes that ensuring a healthy and safe workplace minimizes injuries and other risks its employees may face in carrying out their duties, improves productivity and helps to minimize any liability or penalties which could be incurred in connection with workplace injuries. The Company has health and workplace safety programs in place and has established policies and procedures aimed at ensuring compliance with applicable legislative requirements. Failure to comply with appropriate and established workplace health and safety policies and procedures or applicable legislative requirements could result in increased workplace injury-related liability and penalties, which in turn could adversely affect the reputation of the Company and have a material adverse effect on the business, results of operations and financial condition of the Company.

LABOUR RELATIONS

The Company employs approximately 23,000 persons, of whom approximately 68% are represented by labour unions. Labour relations with the unions are governed by numerous collective bargaining agreements with different unions. Upon expiration of the collective bargaining agreements, the Company may not be able to negotiate collective agreements on satisfactory terms. There can be no assurance that the Company will not at any time, whether in connection with the renegotiation of a collective bargaining agreement or otherwise, experience strikes, labour stoppages or any other type of conflict with unions or employees which could have a material adverse effect on the Company's business, operating results and financial condition. The centres that Extendicare operates are generally subject to legislation that prohibits both strikes and lock-outs, and requires compulsory arbitration to settle labour disputes. In jurisdictions where strikes and lockouts are permitted, certain essential services regulations apply which provide for the continuation of resident care and most services.

Non-unionized employees of the Company may become unionized if they are targeted for certification by a trade union. There can be no assurance that employees who are not currently unionized will not, in the future, be subject to unionization efforts, the result of which could increase the Company's labour costs, which could have a material adverse effect on the business, results of operations and financial condition of the Company.

Risks Related to Liability and Insurance

Operating in the senior care industry exposes Extendicare to an inherent risk of wrongful death, personal injury, professional malpractice and other potential claims brought by the Company's residents, clients, and employees. From time to time, Extendicare is subject to lawsuits alleging, among other claims, that the Company did not properly treat or care for a client or resident, that the Company failed to follow internal or external procedures that resulted in harm to a client or resident, or that the Company's employees mistreated the Company's residents or clients resulting in harm. In addition, attempts to advance class action lawsuits have become prevalent in the Canadian marketplace, including senior care. There can be no assurance that Extendicare will not face risks of this nature. Refer to the "Legal Proceedings, Claims and Regulatory Actions" heading under the "Other Contractual Obligations and Contingencies" section of this MD&A for further details.

Extendicare maintains business and property insurance policies in amounts and with such coverage and deductibles as deemed appropriate, based on the nature and risks of the business, historical experience and industry standards.

There can be no assurance, however, that claims in excess of the insurance coverage, or in excess of the Company's reserves, or claims not covered by the insurance coverage will not arise or that the liability coverage will continue to be available on acceptable terms. Furthermore, there are certain types of risks, generally of a catastrophic nature, such as war, non-certified acts of terrorism, or environmental contamination, which are either uninsurable or are not insurable on an economically viable basis. A successful claim against the Company not covered by, or in excess of, such insurance, or in excess of the Company's reserves for self-insured retention levels, could have a material adverse effect on the business, results of operations and financial condition of the Company. Claims against the Company, regardless of their merit or eventual outcome, may also have a material adverse effect on the ability of the Company to attract residents and clients, expand the business of the Company or maintain favourable standings with regulatory authorities.

Prior to the U.S. Sale Transaction, Extendicare self-insured certain risks related to general and professional liability of its disposed U.S. business through the Captive, its Bermuda-based captive insurance company. The obligation to settle any such claims relating to the period prior to the closing of the U.S. Sale Transaction, including claims incurred but yet to be reported, remains with Extendicare, which it intends to continue to fund through the Captive.

Risks Related to Privacy of Client Information and Cyber Security

As a custodian of a large amount of personal information, including health information, relating to its residents, clients and employees, Extendicare is exposed to the potential loss, misuse or theft of any such information. If the Company were found to be in violation of the federal and provincial laws protecting the confidentiality of patient health information, it could be subject to sanctions and civil or criminal penalties, which could increase its liabilities, harm its reputation and have a material adverse effect on the business, results of operations and financial condition of the Company. In addition, cyber attacks against large organization are increasing in sophistication and are often focused on financial fraud, compromising sensitive data for inappropriate use or disrupting business operations. Extendicare mitigates this risk by deploying appropriate information technology systems, including controls around logical access, physical access and data management, and training its employees relating to safeguarding of sensitive information.

Extendicare has deployed operational technology solutions enabling process automation, electronic health record data collection and automated business intelligence. Technology deployments also present security and privacy risks that must be managed proactively and effectively to prevent breaches that can have an adverse impact on Extendicare's reputation and results of operations. To counter internet-based and internal security threats, Extendicare also deploys leading edge solutions to identify risks to its network, software and hardware systems. Extendicare partners with leading technology security firms to mitigate identified risks and develop contingency plans. As security threats to Extendicare's financial, client and employee data increase and evolve, the Company adjusts and adopts new counter-measures in an effort to ensure it maintains high privacy and security standards.

Although to date the Company has not experienced any material losses relating to cyber attacks or other information security breaches, there can be no assurance that the Company will not incur such losses in the future. The Company's risk and exposure to these matters cannot be fully mitigated because of, among other things, the evolving nature of these threats. As cyber threats continue to evolve, the Company may be required to expend additional resources to continue to modify or enhance protective measures or to investigate and remediate any security vulnerabilities.

Risks Related to Tax Rules and Regulations

Extendicare is subject to audits from federal, state and provincial tax jurisdictions and is therefore subject to risk in the interpretation of tax legislation and regulations. Tax rules and regulations are complex and require careful review by the Company's tax management and its external tax consultants. Differences in interpretation of tax rules and regulations could result in tax assessments and penalties for the untimely payment of the determined tax liability, which could have a material adverse effect on the business, results of operations and financial condition of the Company.

Risks Related to Financing

DEBT FINANCING

Due to the level of real property ownership by the Company, a significant portion of the consolidated cash flow of the Company is devoted to servicing debt, and there can be no assurance that the Company will continue to generate sufficient cash flow from operations to meet required interest and principal payments. If the Company were unable to meet its required interest or principal payments, it could be required to seek renegotiation of such payments or obtain additional equity, debt or other financing.

Extendicare's RBC Credit Facility is a demand facility in the amount of \$47.3 million that is secured by 13 Class C graded LTC centres in Ontario and is guaranteed by certain Canadian subsidiaries of the Company. As at December 31, 2018, Extendicare had letters of credit totalling \$45.0 million issued under the RBC Credit Facility, of which \$38.0 million secured our defined benefit pension plan obligations. The RBC Credit Facility has no financial covenants but contains normal and customary terms including annual re-appraisals of the centres that could limit the maximum level of the line of credit and other restrictions on Extendicare's subsidiaries making certain payments, investments, loans and guarantees. A demand for repayment of amounts drawn on the line of credit could inhibit the flow of cash dividends by Extendicare on a temporary basis until alternative financing is obtained.

The Company cannot predict whether future financing will be available, what the terms of such future financing will be (including, whether it will result in a higher cost of borrowing) or whether its existing debt agreements will allow for the timely arrangement and implementation of such future financing. If the Company were unable to obtain additional financing or refinancing when needed or on satisfactory terms, it could have a material adverse effect on the business, results of operations and financial condition of the Company.

DEBT COVENANTS

The Company is in compliance with all of its financial covenants as at December 31, 2018. However, there can be no assurance that future covenant requirements will be met. The Company's bank lines and other debt may be affected by its ability to remain in compliance. If the Company does not remain in compliance with its financial covenants, its ability to amend the covenants or refinance its debt may be affected.

INTEREST RATES

The Company has limited the amount of debt that may be subject to changes in interest rates. All of the Company's long-term debt is at fixed rates, other than its construction loans that had an aggregate balance of \$52.9 million drawn as at December 31, 2018. The Company primarily finances its senior care and living centres through fixed-rate mortgages and considers securing interest rate swap agreements for any variable-rate debt. The Company's variable-rate mortgages on its retirement communities and the CIBC Term Loan, aggregating \$84.8 million as at December 31, 2018, have effectively been converted to fixed rate financings with interest rate swaps over the full term. The Company maintains risk management control systems to monitor interest rate risk attributable to its outstanding or forecasted debt obligations as well as any offsetting hedge positions. The Company does not enter into financial instruments for trading or speculative purposes.

Risks Related to Real Property Ownership

REAL PROPERTY OWNERSHIP

All real property investments are subject to a degree of risk. They are affected by various factors, including geographic concentration, changes in general economic conditions (such as the availability of long-term mortgage funds) and in local conditions (such as an oversupply of space or a reduction in demand for real estate in the area), the attractiveness of the properties to residents, competition from other available space and various other factors. In addition, fluctuations in interest rates could have a material adverse effect on the business, results of operations and financial condition of the Company.

Extencicare owns, or operates under finance lease arrangements whereby ownership transfers at the end of the lease term, 100% of its senior care and living centres, excluding those centres operated under management contracts. Senior care and living centres are limited in terms of alternative uses; therefore, their values are directly driven by the cash flow from operations. All but nine of the Company's sixty-seven centres owned by it at December 31, 2018, are government-funded senior care centres. The value of the real property depends, in part, on government funding, license terms, and reimbursement programs. In addition, overbuilding in any of the market areas in which the Company owns or operates senior care and living centres could cause these centres to experience decreased occupancy or depressed margins, which could have a material adverse effect on the business, results of operations and financial condition of the Company. Moreover, certain significant expenditures relating to real property ownership, such as real estate taxes, maintenance costs and mortgage payments, represent liabilities that must be met regardless of whether the property is producing any income.

Real property investments are relatively illiquid, thereby limiting the ability of the Company to vary its portfolio in a timely manner in response to changed economic or investment conditions. By specializing in long-term care and retirement living centres, the Company is exposed to adverse effects on these segments of the real estate market. There is a risk that the Company would not be able to sell its real property investments or that it may realize sale proceeds below their current carrying value.

CAPITAL INTENSIVE INDUSTRY

The Company must commit a substantial portion of its funds to maintain and enhance its senior care and living centres and equipment to meet regulatory standards, operate efficiently and remain competitive in its markets. During 2018, the company incurred \$12.7 million in maintenance capex, and expects to spend in the range of \$10 million to \$12 million in 2019 to sustain and upgrade its existing centres. In addition to recurring maintenance capex, the Company invests in enhancements of existing centres aimed at earnings growth and improved profitability, including redevelopment of centres under provincial programs. See "Risks and Uncertainties – Risks Related to Growth and Redevelopment Activities". These, as well as other future capital requirements, could adversely impact the amount of cash available to the Company and have a material adverse effect on the business, results of operations and financial condition of the Company.

Risks Related to Environmental, Health and Safety Laws

The Company is subject to various environmental, health and safety laws and regulations, both as an owner of real property and as a provider of health care services, governing the storage, handling, use, and disposal of equipment, materials and waste products. The Company may become liable for the costs of removal or remediation of certain hazardous, toxic, or regulated substances present at, released on or disposed of from its properties or other service locations, regardless of whether or not the Company knew of, or was responsible for, their presence, release or disposal. The failure to remove, remediate, or otherwise address such substances, if any, may adversely affect operations or the ability to sell such properties or to borrow using such properties as collateral, and could potentially result in claims by public or private parties, including by way of civil action.

With respect to the Company's pre-1980 properties, management has determined that future costs could be incurred for possible asbestos remediation at these sites. Appropriate remediation procedures may be required to remove potential asbestos-containing materials, consisting primarily of floor and ceiling tiles, in connection with any major renovation or demolition. Based upon current assumptions, the estimated fair value of the decommissioning provision related to the asbestos remediation was approximately \$11 million undiscounted, or \$9.4 million discounted, as at December 31, 2018, refer to *note 11* of the audited consolidated financial statements.

Environmental, health and safety laws may change and the Company may become subject to more stringent laws in the future. Compliance with more stringent environmental, health and safety laws, which may be more rigorously enforced, could have a material adverse effect on the business, results of operations and financial condition of the Company.

ACCOUNTING POLICIES AND ESTIMATES

Critical Accounting Policies and Estimates

A full discussion of Extencicare's critical accounting policies and estimates is provided in *note 3* of the audited consolidated financial statements for the year ended December 31, 2018, and under the heading "Future Changes in Accounting Policies" that follows this section.

Management considers an understanding of Extencicare's accounting policies to be essential to an understanding of its financial statements because their application requires significant judgement and reliance on estimations of matters that are inherently uncertain, which affect the application of the accounting policies and reported amounts. Estimates and underlying assumptions are reviewed on an ongoing basis giving consideration to past experience and other factors that management believes are reasonable under the circumstances. Accordingly, actual results could differ from those estimated. The estimates and assumptions, which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities, are discussed below.

VALUATION OF PURCHASE PRICE ALLOCATION FOR ACQUISITIONS

Fair value is the price that would be received when selling an asset, or paid when transferring a liability in an orderly transaction (that is other than in a forced or liquidation sale) between market participants at the measurement date under current market conditions. The fair value measurement is based on the presumption that the transaction takes place either: in the principal market for the asset or liability; or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability assuming that market participants act in their economic best interests. The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. The techniques used to estimate future cash flows will vary from one situation to another depending on the circumstances surrounding the asset or liability in question. Management assesses fair value based on estimated discounted cash flow projections and available market information (including the historical operating results and anticipated trends, local markets and economic conditions).

As discussed below under the heading "Valuation of Cash Generating Units and Impairment", an impairment loss is recognized when the carrying amount of an asset is not recoverable. The impairment loss is determined as the excess of the carrying value over its estimated recoverable amount.

Intangible assets with indefinite lives are also required to be assessed at a minimum annually, comparing the estimated recoverable amount to the carrying value to determine if an impairment loss is required to be recognized.

VALUATION OF CASH GENERATING UNITS AND IMPAIRMENT

Non-financial assets consist of property and equipment, intangible assets with finite lives, intangible assets with indefinite lives and goodwill. Property and equipment represents approximately 57% of the Company's total assets as at December 31, 2018, and goodwill and other intangibles represent approximately 11%. A CGU is defined to be the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets. The Company has identified the home health care segment and each individual LTC centre and retirement community as a CGU.

Goodwill and indefinite-life intangibles are tested annually, except in the year of acquisition, and other assets are assessed for impairment when indicators of impairment exist. If any such indication exists, then the asset's recoverable amount is reassessed. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated annually at the same time or more frequently if warranted. An impairment loss is recognized in net earnings if the carrying amount of an asset or its related CGU, or group of assets on the same basis as evaluated by management, exceeds its estimated recoverable amount. The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell.

The determination of recoverable amounts can be significantly impacted by estimates related to current market valuations, current and future economic conditions in the geographical markets of each CGU, and management's strategic plans within each of its markets. Estimates and assumptions used in the determination of any impairment loss are based upon information that is known at the time, along with future outlook. When impairment tests are performed, the estimated useful lives of the assets are reassessed, with any change accounted for prospectively. Actual results can differ from these estimates, and can have either a positive or negative impact on the estimate, and impact whether an impairment situation exists.

In 2018, the Company performed the impairment assessment of its operations and recognized a pre-tax impairment charge of property and equipment in the amount of \$16.2 million in respect of certain of its Saskatchewan retirement communities (\$15.9 million) and of its LTC centres (\$0.3 million). In 2017, the Company performed the impairment assessment of its operations and determined there was no impairment.

VALUATION OF INDEMNIFICATION PROVISIONS

As a result of the U.S. Sale Transaction, the Company has indemnified certain obligations of its former U.S. operations related to tax, a corporate integrity agreement, and other items. As at December 31, 2018, the remaining provisions totalled \$13.7 million or US\$10.1 million (2017 – \$22.7 million or US\$18.0 million) and an indemnification receivable of \$2.0 million (2017 – \$2.8 million). The estimates of these items are assessed every reporting period based on management's best estimate of the ultimate costs or recovery of such items, and any changes to the estimates are reflected as part of other expense in the results of discontinued operations. During 2018, favourable changes to the indemnifications totalled \$3.8 million (2017 – unfavourable changes of \$4.8 million), refer to *note 22* of the audited consolidated financial statements. Actual results can differ materially from the estimates made due to a number of factors including the assumptions used by management and other market forces.

SELF-INSURED LIABILITIES OF DISCONTINUED OPERATIONS

The obligation to settle any U.S. self-insured general and professional liability claims relating to the period prior to the July 2015 closing of the U.S. Sale Transaction, including claims incurred but yet to be reported, remains with Extencicare, which it intends to continue to fund through the Captive. The accrual for U.S. self-insured liabilities of our former U.S. operations is based on management's best estimate of the ultimate cost to resolve general and professional liability claims. The Company estimates the value of losses that may occur within its self-insured retention levels, based upon individual assessment of the settlement, using historical information and industry data, supported by actuarial projections, advice from legal counsel, consultants and external risk management. Actual results can differ materially from the estimates made due to a number of factors including the assumptions used by management and other market forces.

Management regularly evaluates and periodically engages an independent third-party actuary to provide a report to determine the appropriateness of the carrying value of this liability. Assumptions underlying the determination of the liability are limited by the uncertainty of predicting future events and assessments regarding expectations of several factors. Such factors include, but are not limited to: the frequency and severity of claims, which can differ materially by jurisdiction; trends in claims along with unique and identifiable settlements; the effectiveness of the claims management process; and the outcome of litigation. Therefore, management's estimate of the accrual for general and professional liability claims is significantly influenced by assumptions that are subject to judgement by management and the actuary, which may cause the expense to fluctuate significantly from one reporting period to another. Differences between the

ultimate claims costs and our historical expense for loss and actuarial assumptions and estimates could have a material adverse effect on our business, results of operations and financial condition.

As at December 31, 2018, the accrual for self-insured general and professional liabilities was \$37.1 million or US\$27.2 million (2017 – \$61.1 million or US\$48.6 million) supported by investments held by the Captive of \$67.9 million or US\$49.8 million (2017 – \$86.3 million or US\$68.6 million). Changes in the level of retained risk and other significant assumptions that underlie management’s estimates could have a material effect on the future carrying value of the self-insured liabilities. For example, a 1% variance in the accrual for U.S. self-insured liabilities at December 31, 2018, would have impacted our net earnings from discontinued operations by approximately \$0.4 million (US\$0.3 million). For further information refer to the discussion under the heading “Other Contractual Obligations and Contingencies – Accrual for U.S. Self-Insured Liabilities”.

TAX UNCERTAINTIES

Tax uncertainties are evaluated on the basis of whether it is more likely than not that a tax position will ultimately be sustained upon examination by the relevant taxing authorities. Tax uncertainties are measured using a probability adjusted or expected value model whereby amounts are recorded if there is any uncertainty about a filing position, determined by multiplying the amount of the exposure by the probability that the entity’s filing position will not be sustained. The assessment of tax uncertainties relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Company to change its judgement regarding the adequacy of existing tax liabilities. Such changes to tax liabilities will impact tax expense in the period that such a determination is made.

DEFERRED TAX ASSETS AND LIABILITIES

The Company uses the asset and liability method of accounting for deferred income taxes, which takes into account the differences between financial statement treatment and tax treatment of certain transactions, assets and liabilities. Deferred tax assets and liabilities are recognized to reflect the expected future tax consequences attributed to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax values as well as available tax loss carryforwards. Deferred tax assets and liabilities are measured using the substantively enacted tax rates anticipated to apply in the periods that the temporary differences are expected to be recovered or settled. In assessing whether the deferred tax assets are realizable, management considers whether it is probable (which the Company has defined as “more likely than not”) that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. As at December 31, 2018, the Company had recognized deferred tax assets totalling \$9.7 million (2017 – \$13.9 million). Management believes that it is more likely than not that the Company will realize the benefits of these deductible differences. In addition, as at December 31, 2018, there were capital losses available for Canadian income tax purposes of \$42.1 million (2017 – \$16.5 million) that have not been tax benefited and are available indefinitely to apply against future capital gains.

New Accounting Policies Adopted

The following new standards were adopted effective January 1, 2018, and have been applied in preparing the financial results for the year ended December 31, 2018. These accounting standards are summarized below, and are more fully described in *note 4* of the audited consolidated financial statements.

REVENUE RECOGNITION

IFRS 15 “Revenue from Contracts with Customers” provides a single model and two approaches to recognizing revenue: at a point in time or over time. IFRS 15 also includes additional disclosure requirements for revenue accounted for under the standard. The standard applies to contracts with customers, excluding contracts within the scope of the standard on leases. Under IFRS 15, revenue is recognized when a customer obtains control of the goods or services. The Company adopted IFRS 15 using the cumulative effect method, which does not require restatement of comparative information. Adoption of the standard did not result in material changes to the timing or measurement of revenue recognition, and therefore, there was no cumulative effect adjustment recorded to accumulated deficit on January 1, 2018. However, under the new standard, accommodation revenue recognized under IAS 17 “Leases” is disclosed separately from services revenue recognized under IFRS 15 (refer to *note 29* of the audited consolidated financial statements).

FINANCIAL INSTRUMENTS

IFRS 9 “Financial Instruments” (IFRS 9) addresses the recognition, classification and measurement (including impairment) of financial assets and financial liabilities. This standard replaces IAS 39 “Financial Instruments: Recognition and Measurement”.

Under IFRS 9, financial assets are classified based on the business model in which they are managed and the characteristics of their contractual cash flows. Financial assets are classified as measured at fair value through profit or loss (FVTPL), fair value through other comprehensive income (FVOCI), or amortized cost. The new standard eliminates the previous categories for financial assets held to maturity, loans and receivables and available for sale. There are no changes in the measurement basis of financial assets and liabilities upon adoption of IFRS 9, and therefore, there are no differences in carrying amounts.

In addition, IFRS 9 replaces the current “incurred loss” impairment model with a new “expected credit loss” model, which requires timely recognition of expected credit losses. The Company has elected to use the simplified approach and calculates impairment loss on accounts and notes receivable as lifetime expected credit loss.

The Company adopted this standard retrospectively with no restatement of prior periods. There was no material impact on adoption of the standard with the exception of a reclassification of \$4.3 million from opening accumulated other comprehensive income to opening accumulated deficit, as investments held for U.S. self-insured liabilities were classified as FVTPL under IFRS 9. These investments include equity securities as well as money market funds that do not have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding; therefore, they are classified as measured at FVTPL under IFRS 9.

Future Changes in Accounting Policies

The following new standard and interpretation are effective for future annual periods, and have not been applied in preparing the financial results for the year ended December 31, 2018. These are summarized below, and are more fully described in *note 5* of the audited consolidated financial statements.

LEASES

In January 2016, the IASB published IFRS 16 “Leases”. The new standard requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value, using a single model, thereby eliminating the distinction between operating and finance leases. As a lessee, the Company will recognize new assets and liabilities for its operating leases. In addition, the nature and timing of expenses related to those leases will change as IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. IFRS 16 is effective for periods beginning on or after January 1, 2019, with earlier adoption permitted if IFRS 15 “Revenue from Contracts with Customers” has also been applied. The Company has assessed the impact of this new standard and its adoption is not expected to have a material impact on the consolidated financial statements. A retrospective adjustment to opening retained earnings is not expected. Based on the operating leases as at January 1, 2019, the Company will recognize a right-of-use asset and lease liability ranging between \$7 million and \$9 million, using a simplified approach where the asset and liability would be identical.

INCOME TAXES

On June 7, 2017, the IASB issued IFRIC Interpretation 23 “Uncertainty over Income Tax Treatments”. The Interpretation provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The interpretation is applicable for annual periods beginning on or after January 1, 2019. The Company intends to adopt the Interpretation in its financial statements for the annual period beginning on January 1, 2019. The adoption of the IFRIC Interpretation 23 is not expected to have a material impact on the consolidated financial statements.

Disclosure Controls and Procedures

Management is responsible for establishing and maintaining a system of disclosure controls and procedures (DC&P) to provide reasonable assurance that all material information relating to the Company is gathered and reported to senior management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), on a timely basis so that appropriate decisions can be made regarding public disclosure.

An evaluation of the effectiveness of the DC&P was conducted as at December 31, 2018, by management under the supervision of the Company's CEO and CFO. Based on this evaluation, the CEO and CFO have concluded that the Company's disclosure controls and procedures, as defined by National Instrument 52-109, *Certification of Disclosures in Issuers' Annual and Interim Filings*, were effective as at December 31, 2018.

Internal Control over Financial Reporting

Management is also responsible for establishing and maintaining adequate internal controls over financial reporting (ICFR) to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial reports for external purposes in accordance with IFRS.

Management, under the supervision of the Company's CEO and CFO, has evaluated the effectiveness of our ICFR using the 2013 Integrated Control framework as published by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management has concluded that our ICFR were effective and that there were no material weaknesses in the Company's ICFR as at December 31, 2018.

In designing such controls, it should be recognized that due to inherent limitations, any controls, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and may not prevent or detect misstatements. Additionally, management is required to use judgement in evaluating controls and procedures.



CONSOLIDATED FINANCIAL STATEMENTS AND NOTES

Year Ended December 31, 2018

Extendicare Inc.
Dated: February 28, 2019



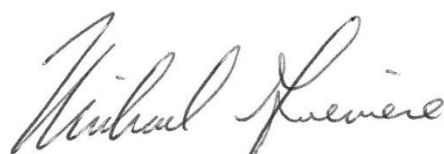
Management’s Responsibility for Consolidated Financial Statements

The accompanying consolidated financial statements of Extendicare Inc. (“Extendicare” or the “Company”) and other financial information contained in this Annual Report are the responsibility of management. The consolidated financial statements have been prepared in conformity with International Financial Reporting Standards, using management’s best estimates and judgements, where appropriate. In the opinion of management, these consolidated financial statements reflect fairly the financial position, results of operations and cash flows of Extendicare within reasonable limits of materiality. The financial information contained elsewhere in this Annual Report has been reviewed to ensure consistency with that in the consolidated financial statements.

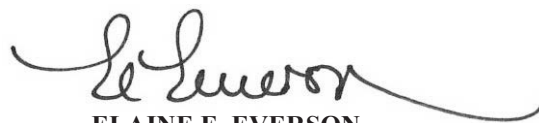
A system of internal accounting and administrative controls is maintained by management to provide reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition and that financial records are properly maintained to provide accurate and reliable consolidated financial statements.

The board of directors of Extendicare (the “Board of Directors”) is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Board of Directors carries out this responsibility principally through its independent Audit Committee comprised of unrelated and outside directors. The Audit Committee meets regularly during the year to review significant accounting and auditing matters with management and the independent auditors and to review and approve the interim and annual consolidated financial statements of Extendicare.

The consolidated financial statements have been audited by KPMG LLP, which has full and unrestricted access to the Audit Committee. KPMG’s report on the consolidated financial statements follows.



MICHAEL GUERRIÈRE
President and Chief Executive Officer



ELAINE E. EVERSON
Vice President and
Chief Financial Officer

February 28, 2019



KPMG LLP
100 New Park Place, Suite 1400
Vaughan, ON L4K 0J3
Tel 905-265 5900
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www.kpmg.ca

Independent Auditors' Report

To the Shareholders of Extendicare Inc.

Opinion

We have audited the consolidated financial statements of Extendicare Inc. (the Entity), which comprise:

- the consolidated statements of financial position as at December 31, 2018 and December 31, 2017
- the consolidated statements of profit or loss and other comprehensive income for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2018 and December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "**Auditors' Responsibilities for the Audit of the Financial Statements**" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "Annual Report".

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

The information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "Annual Report" is expected to be made available to us after the date of this auditors' report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.



Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

The engagement partner on the audit resulting in this auditors' report is Paola Cipolla

Vaughan, Canada

February 28, 2019

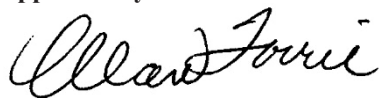
Extendicare Inc.
Consolidated Statements of Financial Position
As at December 31

<i>(in thousands of Canadian dollars)</i>	<i>notes</i>	2018	2017
Assets			
Current assets			
Cash and short-term investments		65,893	128,156
Restricted cash		2,290	2,300
Accounts receivable	7	50,570	42,491
Income taxes recoverable		17,316	7,194
Other assets	10	21,465	20,634
Total current assets		157,534	200,775
Non-current assets			
Property and equipment	8	514,849	479,968
Goodwill and other intangible assets	9	95,200	95,901
Other assets	10	118,996	143,746
Deferred tax assets	23	9,745	13,891
Total non-current assets		738,790	733,506
Total assets		896,324	934,281
Liabilities and Equity			
Current liabilities			
Accounts payable and accrued liabilities		133,654	123,420
Income taxes payable		1,073	3,500
Long-term debt	12	74,626	59,664
Provisions	11	17,621	29,937
Total current liabilities		226,974	216,521
Non-current liabilities			
Long-term debt	12	454,344	476,404
Provisions	11	42,595	63,062
Other long-term liabilities	13	35,077	35,022
Deferred tax liabilities	23	11,343	14,316
Total non-current liabilities		543,359	588,804
Total liabilities		770,333	805,325
Share capital	15	492,064	490,881
Equity portion of convertible debentures	12	7,085	5,573
Contributed surplus	14	2,706	2,437
Accumulated deficit		(368,147)	(365,084)
Accumulated other comprehensive loss		(7,717)	(4,851)
Shareholders' equity		125,991	128,956
Total liabilities and equity		896,324	934,281

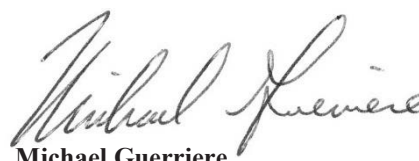
See accompanying notes to consolidated financial statements.

Commitments and contingencies (note 24).

Approved by the Board



Alan D. Torrie
Chairman



Michael Guerriere
President and Chief Executive Officer

Extendicare Inc.
Consolidated Statements of Earnings
Years ended December 31

<i>(in thousands of Canadian dollars except for per share amounts)</i>	<i>notes</i>	2018	2017
CONTINUING OPERATIONS			
Revenue			
Long-term care		632,533	616,887
Retirement living		33,412	20,673
Home health care		431,343	435,718
Management, consulting and other		22,719	24,053
Total revenue	<i>17, 29</i>	1,120,007	1,097,331
Operating expenses		986,023	961,509
Administrative costs		33,004	31,467
Lease costs		6,742	6,758
Total expenses	<i>18</i>	1,025,769	999,734
Earnings before depreciation, amortization, and other expense		94,238	97,597
Depreciation and amortization		35,270	31,379
Other expense	<i>19</i>	20,195	–
Earnings before net finance costs and income taxes		38,773	66,218
Interest expense		27,584	28,082
Accretion		2,878	2,812
Gains on foreign exchange and investments	<i>20</i>	(1,203)	(864)
Interest revenue		(3,761)	(3,902)
Fair value adjustments	<i>20</i>	956	(2,474)
Net finance costs		26,454	23,654
Earnings before income taxes		12,319	42,564
Income tax expense			
Current		8,129	10,149
Deferred		(3,894)	703
Total income tax expense	<i>23</i>	4,235	10,852
Earnings from continuing operations		8,084	31,712
DISCONTINUED OPERATIONS			
Earnings (loss) from discontinued operations, net of income taxes	<i>22</i>	23,654	(29,580)
Net earnings		31,738	2,132
Basic and Diluted Earnings per Share			
Earnings from continuing operations	<i>21</i>	0.09	0.36
Net earnings	<i>21</i>	0.36	0.02

See accompanying notes to consolidated financial statements.

Extendicare Inc.

Consolidated Statements of Comprehensive Income (Loss)

Years ended December 31

<i>(in thousands of Canadian dollars)</i>	<i>notes</i>	2018	2017
Net earnings		31,738	2,132
Other comprehensive income (loss), net of income taxes			
Items that will not be reclassified to profit or loss:			
Defined benefit plan actuarial losses, net of taxes	23, 25	(373)	(311)
Items that are or may be reclassified subsequently to profit or loss:			
Unrealized gain on available-for-sale securities, net of tax		–	4,955
Reclassification of realized gains on available-for-sale securities to earnings, net of tax		–	(7,012)
Net change in foreign currency translation adjustment		1,841	(3,097)
Total items that are or may be reclassified subsequently to profit or loss	16	1,841	(5,154)
Other comprehensive income (loss), net of tax	23	1,468	(5,465)
Total comprehensive income (loss)		33,206	(3,333)

See accompanying notes to consolidated financial statements.

Extendicare Inc.

Consolidated Statements of Changes in Equity

Years ended December 31

<i>(in thousands of Canadian dollars)</i>	2018		2017	
	<i>Number of Shares</i>	<i>Amount</i>	<i>Number of Shares</i>	<i>Amount</i>
Share Capital (note 15)				
Balance at January 1	88,523,290	490,881	88,684,485	489,656
DRIP	650,361	4,928	535,025	5,081
Purchase of shares for cancellation	(703,585)	(3,903)	(696,220)	(3,856)
Share-based compensation (note 14)	19,918	158	–	–
Balance at end of period	88,489,984	492,064	88,523,290	490,881
Equity Portion of Convertible Debentures				
Balance at January 1		5,573		5,573
Redemption of convertible debentures (note 12)		(5,573)		–
Issuance of convertible debentures (note 12)		7,085		–
Balance at end of year		7,085		5,573
Contributed Surplus				
Balance at January 1		2,437		941
Share-based compensation		269		1,496
Balance at end of year		2,706		2,437
Accumulated Deficit				
Balance at January 1, previously reported		(365,084)		(322,025)
Adoption of new standard on financial instruments (note 4)		4,334		–
Balance at January 1		(360,750)		(322,025)
Net earnings		31,738		2,132
Dividends declared		(42,351)		(42,583)
Purchase of shares for cancellation in excess of book value (note 15)		(2,357)		(2,608)
Equity portion of redeemed convertible debentures (note 12)		5,573		–
Balance at end of year		(368,147)		(365,084)
Accumulated Other Comprehensive Income (Loss)				
Foreign currency translation on investments and accrual for self-insured liabilities				
Balance at January 1		678		3,775
Change in the year		1,841		(3,097)
Balance at end of year		2,519		678
Net change in fair value of available-for-sale financial assets, net of tax				
Balance at January 1, previously reported		4,334		6,391
Adoption of new standard on financial instruments (note 4)		(4,334)		–
Balance at January 1		–		6,391
Unrealized change in the year		–		4,955
Net change reclassified to profit or loss		–		(7,012)
Balance at end of period		–		4,334
Defined benefit plan actuarial losses, net of tax				
Balance at January 1		(9,863)		(9,552)
Change in the year		(373)		(311)
Balance at end of year		(10,236)		(9,863)
Accumulated other comprehensive loss		(7,717)		(4,851)
Shareholders' equity		125,991		128,956

See accompanying notes to consolidated financial statements.

Extendicare Inc.
Consolidated Statements of Cash Flows
Years ended December 31

<i>(in thousands of Canadian dollars)</i>	2018	2017
Operating Activities		
Net earnings	31,738	2,132
Adjustments for:		
Depreciation and amortization	35,270	31,379
Share-based compensation	430	1,496
Deferred taxes	1,936	(5,063)
Current taxes	(3,600)	8,919
Net finance costs	26,701	26,992
Other expense	2,440	36,816
Gain on foreign exchange, investments and fair value adjustments	(247)	(3,338)
	94,668	99,333
Net change in operating assets and liabilities		
Accounts receivable	(8,172)	9,569
Other assets	(536)	4,283
Accounts payable and accrued liabilities	2,210	(6,144)
	88,170	107,041
Payments for self-insured liabilities	(15,237)	(24,160)
Interest paid	(28,383)	(29,560)
Interest received	3,785	3,932
Income taxes paid	(8,862)	(10,093)
Net cash from operating activities	39,473	47,160
Investing Activities		
Purchase of property, equipment and other intangible assets	(50,648)	(41,137)
Acquisitions <i>(note 6)</i>	(33,767)	–
Decrease in investments held for self-insured liabilities	24,163	41,142
Decrease in other assets	5,200	5,591
Net cash from (used in) investing activities	(55,052)	5,596
Financing Activities		
Issue of long-term debt	159,998	43,654
Repayment of long-term debt	(158,858)	(22,029)
Decrease (increase) in restricted cash	10	(73)
Purchase of securities for cancellation	(6,258)	(6,455)
Dividends paid	(37,424)	(37,507)
Financing costs	(5,886)	(577)
Other	(345)	(625)
Net cash used in financing activities	(48,763)	(23,612)
Increase (decrease) in cash and short-term investments	(64,342)	29,144
Cash and short-term investments at beginning of year	128,156	101,582
Foreign exchange gain (loss) on cash held in foreign currency	2,079	(2,570)
Cash and short-term investments at end of year	65,893	128,156

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

YEARS ENDED DECEMBER 31, 2018 AND 2017

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

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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”. Extencicare and its predecessors have been operating since 1968, providing care and services to seniors throughout Canada. Following the sale of its U.S. business in 2015 and the repositioning of the Company as a pure-play Canadian services provider to the expanding senior care sector, management has successfully deployed the sale proceeds to expand and grow the Company’s operations across the continuum of seniors’ care.

References to “Extencicare”, the “Company”, “we”, “us” and “our” or similar terms refer to Extencicare Inc., either alone, or together with its subsidiaries. The registered office of Extencicare is located at 3000 Steeles Avenue East, Suite 700, Markham, Ontario, Canada, L3R 9W2.

2. BASIS OF PREPARATION

a) Statement of Compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). These consolidated financial statements were approved by the board of directors of Extencicare Inc. (the “Board”) on February 28, 2019.

b) Basis of Measurement

The consolidated financial statements have been prepared on the historical cost basis except for financial assets and liabilities classified or designated as fair value through profit or loss (FVTPL) or designated as available for sale (AFS) that have been measured at fair value in 2017. Refer to *note 3* for the classification of financial assets and liabilities.

Extencicare’s 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) Use of Estimates and Judgement

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Estimates and underlying assumptions are reviewed on an ongoing basis.

Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The more subjective of such estimates are:

- valuation of purchase price allocation for acquisition (*note 6*);
- valuation of indemnification provisions (*note 11*);
- valuation of self-insured liabilities (*note 11*);
- valuation of equity portion of convertible debentures (*note 12*);
- valuation of financial assets and liabilities (*note 26(b)*);
- valuation of share-based compensation (*note 14*);
- determination of the recoverable amount of cash generating units (CGUs) subject to an impairment test (*note 19*); and
- accounting for tax uncertainties and the tax rates used for valuation of deferred taxes (*note 23*).

In addition, the assessment of contingencies (*note 24*) is subject to judgement. The recorded amounts for such items are based on management’s best available information and are subject to assumptions and judgement, which may change as time progresses; accordingly, actual results could differ from estimates.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, except for those detailed in *note 4*.

a) Basis of Consolidation

The consolidated financial statements include the accounts of Extencicare and its wholly owned subsidiaries. All material intercompany transactions and balances have been eliminated. The financial statements of Extencicare's subsidiaries are included within the Company's consolidated financial statements from the date that control commences until the date that control ceases, and are prepared for the same reporting period as Extencicare, using consistent accounting policies.

The acquisition method of accounting is used to account for the acquisition of businesses. Consideration transferred on the acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed on the date of the acquisition and transaction costs are expensed as incurred. Identified assets acquired and liabilities assumed are measured at their fair value on the acquisition date. In determining the fair value of identifiable intangible assets acquired, values are assigned to in-place leases as described in *note 3(d)*. The excess of fair value of consideration given over the fair value of the identifiable net assets acquired is recorded as goodwill, with any gain on a bargain purchase being recognized in net earnings on the acquisition date.

b) Foreign Currency

The assets and liabilities of foreign operations are translated at exchange rates at the reporting date. The income and expenses of foreign operations are translated at average rates of exchange for the period. The resulting translation adjustments are included in accumulated other comprehensive income (AOCI) in shareholders' equity. When a foreign operation is disposed of, the relevant amount in the cumulative amount of foreign currency translation differences is transferred to net earnings as part of the profit or loss on disposal. Foreign exchange gains and losses related to intercompany loans that are, in substance, part of the net investment in a foreign operation are included in AOCI. Foreign exchange gains and losses on intercompany loans with planned or foreseeable settlement are included in net finance costs within net earnings.

Transactions in foreign currencies are translated at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognized in net earnings, except for differences arising on the retranslation of available-for-sale equity instruments, which were recognized in other comprehensive income (OCI) prior to 2018. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign exchange gains and losses are included in net finance costs within net earnings.

c) Cash and Short-term Investments

Cash and short-term investments include unrestricted cash and short-term investments less bank overdraft and outstanding cheques. Short-term investments, comprised of money market instruments, have a maturity of 90 days or less from their date of purchase.

d) Property and Equipment

Property and equipment is stated at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition or development of the asset. Property and equipment acquired as a result of a business combination are valued as outlined in *note 3(a)*. Centres that are constructed or under construction include all incurred expenditures for the development and other direct costs related to the acquisition of land, development and construction of the centres, including borrowing costs of assets meeting certain criteria that are capitalized until the centre is completed for its intended use.

Refer to *note 3(h)* for the accounting policy for the determination of impairment losses.

Property and equipment are classified into components when parts of an item have different useful lives. The cost of replacing a component of an item is recognized in the carrying amount of the item if there is a future economic benefit and its cost can be measured reliably. Any undepreciated carrying value of the assets being replaced will be derecognized and

charged to net earnings upon replacement. The costs of the day-to-day maintenance of property and equipment are recognized in net earnings as incurred.

Depreciation and amortization are computed on a straight-line basis based on the useful lives of each component of property and equipment. Depreciation of long-term care (LTC) centres or retirement communities under construction commences in the month after the centre is available for its intended use based upon the useful life of the asset, as outlined in the following table. The depreciation methods, useful lives and residual values are reviewed at least annually, and adjusted if appropriate.

The Company acquires in-place leases in connection with the acquisitions of operating retirement communities. These assets are stated at the amounts determined upon acquisition and are amortized on a straight-line basis, based upon a review of the residents' average length of stay. In-place leases are a component of building, and are generally depreciated over a three-year period.

Land improvements	10 to 25 years
Buildings:	
Building components:	
Structure and sprinklers systems	50 years
Roof, windows and elevators	25 years
HVAC and building systems	15 to 25 years
Flooring and interior upgrades	5 to 15 years
In-place leases	1 to 3 years
Building improvements and extensions	5 to 30 years
Furniture and equipment:	
Furniture and equipment	5 to 15 years
Computer equipment	3 to 5 years
Leasehold improvements	Term of the lease and renewal that is reasonably certain to be exercised

e) Government Grants

Government grants are recognized depending on the purpose and form of the payment from the government.

Forgivable loans issued by the government are accounted for as government grants if there is reasonable assurance the Company will meet the terms for forgiveness of the loan. Forgivable loans granted by a provincial or health authority body for the construction of a senior care centre, where the grants are received throughout the duration of the construction project, are netted with the cost of property and equipment to which they relate when such payments are received.

Capital funding payments for the development of a senior care centre that are received from a provincial body subsequent to construction over extended periods of time are present valued and are recorded as notes, mortgages and amounts receivable included in other assets, with an offset to the cost of property and equipment upon inception; as these grants are received over time, the accretion of the receivable is recognized in interest revenue as part of net finance costs within net earnings.

f) Leases

Leases are classified as either finance or operating leases. Leases that transfer substantially all of the benefits and risks of ownership of property to the lessee, or otherwise meet the criteria for capitalizing a lease under IFRS, are accounted for as a finance lease; all other leases are classified as operating leases.

WHEN THE COMPANY IS THE LESSEE

Leased assets that are classified as finance leases are presented according to their nature and are measured at amounts equal to the lower of their fair value and the present value of the minimum lease payments. The corresponding liability due to the lessor is presented as a finance lease obligation as part of the long-term debt. Property and equipment recognized as finance leases are depreciated on a consistent basis with owned property and equipment.

Rental payments under operating leases are expensed as incurred. Operating leases with defined scheduled rent increases are recognized on a straight-line basis over the lease term. Lease incentives received as an inducement to enter into operating leases are initially recognized as a liability, and are recorded as a reduction of rental expense on a straight-line basis over the term of the lease.

WHEN THE COMPANY IS THE LESSOR

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Company's net investment in the leases. The interest element of the lease payment is recognized over the term of the lease based on the effective interest method and is included in financing costs. The Company is not currently the lessor under any finance leases.

g) Goodwill and Other Intangible Assets

GOODWILL

Goodwill represents the excess amount of consideration given over the fair value of the underlying net assets acquired in a business combination, and is measured at cost less accumulated impairment losses. Goodwill is not amortized, but is tested for impairment on an annual basis or more frequently if there are indicators that goodwill may be impaired, see *note 3(h)*.

OTHER INTANGIBLE ASSETS

Other intangible assets that are acquired are recorded at fair value determined upon acquisition, and if the assets have finite useful lives are measured at cost less accumulated amortization and accumulated impairment losses (refer to *note 3(h)*).

Intangible assets with finite lives are amortized based on cost. Subsequent expenditures are capitalized only if a future benefit exists. All other expenditures, including expenditures on internally generated goodwill, are recognized in net earnings as incurred.

Intangible assets with indefinite useful lives are measured at cost without amortization, and are subject to impairment tests (refer to *note 3(h)*).

Customer relationships acquired in connection with the purchase of a Canadian home health care business represent the intangible asset underlying the various contracts in the business. These assets are being amortized over the estimated useful lives over 15 years.

Non-compete agreements acquired through acquisitions are amortized on a straight-line basis over the period until the agreement expires.

Computer software is amortized over five to seven years and internally developed software over a three-year period.

Amortization methods and useful lives are reviewed at least annually, and are adjusted when appropriate.

h) Impairment

Impairment of financial and non-financial assets is assessed on a regular basis. All impairment losses are charged to other expense as part of earnings before net finance costs and income taxes.

NON-FINANCIAL ASSETS

Non-financial assets consist of property and equipment, intangible assets with finite lives, intangible assets with indefinite lives and goodwill.

The carrying amounts of non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated to determine the extent of the impairment, if any. For goodwill, and intangible assets that have indefinite useful lives or those that are not yet available for use, the recoverable amount is estimated annually at the same time or more frequently if warranted. An impairment loss is recognized in net earnings if the carrying amount of an asset or its related CGU, or group of assets on the same basis as evaluated by management, exceeds its estimated recoverable amount. A CGU is defined to be the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets. The Company has identified the home health care segment and each individual LTC centre and retirement community as a CGU.

The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. Goodwill and indefinite life intangible assets are allocated to their respective CGUs for the purpose of impairment testing. Indefinite life intangible assets and corporate assets that do not generate separate cash flows and are utilized by more than one CGU, are allocated to each CGU for the purpose of impairment testing and are not tested for impairment separately.

Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amounts of the assets in the CGU on a pro rata basis. Impairment losses on goodwill cannot be reversed. In respect of other non-financial assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized (*note 3(m)*).

FINANCIAL ASSETS

A financial asset is any asset that consists of: cash; a contractual right to receive cash or another financial asset, or exchange financial assets or financial liabilities under potentially favourable conditions; an equity instrument of another entity; or certain contracts that will or may be settled in the Company's own equity instruments.

Financial assets are reviewed at each reporting date and are deemed to be impaired when objective evidence resulting from one or more events subsequent to the initial recognition of the asset indicates the estimated future cash flows of the asset has been negatively impacted. Impairment loss is measured based on an expected credit loss (ECL) impairment model (*note 3(m)*).

i) Employee Benefits

DEFINED BENEFIT PLANS

Defined benefit plans are post-employment plans with a defined obligation to employees in return for the services rendered during the term of their employment with the Company. The net obligation of these plans is calculated separately for each plan by estimating the present value of future benefit that employees have earned in return for their service in the current and prior periods. Past service costs are recognized during the period in which they are incurred, and the fair value of any plan assets are deducted. The discount rate used in deriving the present value is the yield at the reporting date on AA credit-rated corporate bonds that have maturity dates approximating the Company's obligations and are denominated in the same currency in which the benefits are expected to be paid.

The calculation of the future benefit of the plan is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the plan, the recognized asset is limited to the present value of economic benefits available in the form of reductions in future contributions to the plan.

All actuarial gains and losses arising from defined benefit plans are recognized in OCI during the period in which they are incurred.

DEFINED CONTRIBUTION PLANS

The Company has corporate specific and multi-employer defined benefit pension plans, as well as deferred compensation plans. Multi-employer defined benefit pension plans are accounted for as defined contribution plans as the liability per employer is not available. Deferred compensation plans are also accounted for as defined contribution plans. Defined contribution plans are post-employment plans where the costs are fixed and there are no legal or constructive obligations to pay further amounts. Obligations for such contributions are recognized as employee benefit expense in net earnings during the periods in which services are rendered by employees.

SHORT-TERM EMPLOYEE BENEFITS

The Company has vacation, paid sick leave and short-term disability plans along with other health, drug and welfare plans for its employees. These employee benefit obligations are measured on an undiscounted basis and are expensed as the related services are rendered.

j) Share-Based Compensation

CASH-SETTLED SHARE APPRECIATION RIGHTS PLAN

Prior to 2016, the Company awarded share appreciation rights (SARs) with a three-year vesting period, the last of which was settled in cash in 2018. The Company reported any liability on a pro rata basis at fair value at each reporting date, determined by using an option pricing model based on the remaining vesting term and the amount by which the "Fair Market Value" of a Common Share of Extencicare exceeded the grant price, plus "Accrued Distributions". "Fair Market Value" of a Common Share, on any particular date, meant the volume-weighted average trading price of the Common Share on the TSX for the 10 trading days immediately preceding such date. "Accrued Distributions" meant the product of

the aggregate amount of cash distributions per Common Share declared payable to holders of record during the term of the SAR and the probability of the award being in the money at the end of the vesting period. Changes in fair value were recognized in net earnings in the period during which they were incurred.

EQUITY-SETTLED LONG-TERM INCENTIVE PLANS

Awards for deferred share units (DSUs) and performance share units (PSUs) are a share-based component of executive and director compensation, which are accounted for based on the intended form of settlement. Under a long-term incentive plan (LTIP) (*note 14*), the Board has the discretion to settle the DSU and PSU awards in cash, market-purchased Common Shares, or Common Shares issued from treasury. Based on the Board's intention to settle the awards in Common Shares issued from treasury, the PSU and DSU awards are accounted for as equity-settled awards. Settlement of the DSUs and PSUs are net of any applicable taxes and other source deductions required to be withheld by the Company, which amounts are anticipated to approximate 50% of the fair value of the award on the redemption date. The compensation expense for these equity-settled awards is prorated over the vesting or performance period, with a corresponding increase to contributed surplus. The fair value of each award is measured at the grant date. Forfeitures are estimated at the grant date and are revised to reflect changes in expected or actual forfeitures. In addition, PSU and DSU participants are credited with dividend equivalents in the form of additional units when dividends are paid on Common Shares in the ordinary course of business.

k) Provisions

A provision is recognized when there is a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and that obligation can be measured reliably. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as accretion and recognized as part of net finance costs. Provisions are reviewed on a regular basis and adjusted to reflect management's best current estimates. Due to the judgemental nature of these items, future settlements may differ from amounts recognized. Provisions comprise estimated self-insured liabilities, decommissioning provisions and other legal claims and obligations.

SELF-INSURED LIABILITIES

Prior to the U.S. Sale Transaction, Extencicare self-insured certain risks related to general and professional liability. As a result of the U.S. Sale Transaction (*note 22*), the Company no longer self-insures, but retained the associated obligation relating to the self-insured liabilities. The accrual for self-insured liabilities includes the estimated costs of both reported claims and claims incurred but not yet reported. The provision for self-insured liabilities is based on estimates of loss based upon assumptions made by management supported by actuarial projections and the advice of external risk management and legal counsel. The accrual for self-insured liabilities is discounted based on the projected timing of future payment obligations.

DECOMMISSIONING PROVISIONS

Management has determined that future costs could be incurred for possible asbestos remediation of the Company's pre-1980 constructed centres. Although asbestos is currently not a health hazard in any of these centres, appropriate remediation procedures may be required to remove potential asbestos-containing materials, consisting primarily of floor and ceiling tiles, in connection with any major renovation or demolition.

The fair value of the decommissioning provision related to asbestos remediation is estimated by computing the present value of the estimated future costs of remediation based on estimated expected dates of remediation. The computation is based on a number of assumptions, which may vary in the future depending upon the availability of new information, changes in technology and in costs of remediation, and other factors.

INDEMNIFICATION PROVISIONS

Indemnification provisions include management's best estimate of amounts required to indemnify for obligations related to tax, a corporate integrity agreement (CIA), and other items, resulting from the U.S. Sale Transaction.

OTHER PROVISIONS

Other provisions include legal claims that meet the above definition of a provision, along with employee termination payments. Provisions are not recognized for future operating losses.

l) Fair Value Measurement

Extendicare measures certain financial instruments at fair value at each balance sheet date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either: in the principal market for the asset or liability; or in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability assuming that market participants act in their economic best interests.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the following fair value hierarchy:

Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted market prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); or

Level 3 – unobservable inputs such as inputs for the asset or liability that are not based on observable market data.

Each type of fair value is categorized based on the lowest level input that is significant to the fair value measurement in its entirety, categorization of which is re-assessed at the end of each reporting period. For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

m) Financial Instruments

FINANCIAL ASSETS AND LIABILITIES

Prior to January 1, 2018, Extendicare classified financial assets and liabilities according to their characteristics and the related management's intention for use on an ongoing basis. Financial assets and liabilities were classified into one of the following five classifications: held-to-maturity financial assets, loans and receivables, financial assets at fair value through profit and loss (FVTPL), assets held for sale (AFS) and financial liabilities that are designated as FVTPL and other financial liabilities.

Effective January 1, 2018, the Company adopted IFRS 9 "Financial Instruments" where financial assets are classified as measured at fair value through profit and loss (FVTPL), fair value through other comprehensive income (FVOCI), or amortized cost. The classification depends on the Company's business model for managing its financial instruments and the characteristics of the contractual cash flows associated with the instruments. The new standard eliminates the previous categories for financial assets of held to maturity, loans and receivables and available for sale.

Financial assets and liabilities classified as measured at amortized cost are initially recognized at fair value (net of any transaction costs) and are subsequently measured at amortized cost using the effective interest method less allowance for credit losses for financial assets (*note 4*).

Financial assets classified as measured at FVOCI are initially recognized at fair value and transaction costs are recognized in net earnings. Subsequently, unrealized gains and losses are recognized in other comprehensive income. Upon derecognition, realized gains and losses are reclassified from other comprehensive income and are recognized in net earnings for debt instruments and remain in other comprehensive income for equity investments. Interest income, foreign exchange gains/losses and impairments from debt instruments as well as dividends from equity investments are recognized in net earnings.

Financial assets and liabilities classified as measured at FVTPL are initially recognized at fair value and transaction costs are recognized in net earnings, along with gains and losses arising from changes in fair value.

A financial asset is classified as amortized cost if it is not designated as at FVTPL, is held within a business model with the purpose of holding assets to collect contractual cash flows; and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is classified as FVOCI if it is not designated as at FVTPL, is held within a business model with the purpose of holding assets to collect contractual cash flows and selling prior to maturity; and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets not classified as amortized cost or FVOCI, as described above, are measured at FVTPL, including derivative financial assets.

Financial liabilities are measured as FVTPL if they are classified as held for trading or are designated as such. Other non-derivative financial liabilities are classified as amortized cost. Derivative financial liabilities are classified as FVTPL.

The ECL impairment model applies to all financial assets except for investments in equity securities, and to contract assets, lease receivables, loan commitments and financial guarantee contracts.

Loss allowances are measured on either a 12-month ECL basis where ECLs represent possible default events within the 12 months after the reporting date, or a lifetime ECL basis where ECLs represents all possible default events over the expected life of the instrument.

The Company has elected to use the simplified approach and calculates impairment loss on accounts and notes receivable as lifetime ECL. The other ECL models applied to other financial assets also require judgement, assumptions and estimations on changes in credit risks, forecasts of future economic conditions and historical information on the credit quality of the financial asset.

Impairment losses are recorded in operating expenses in the consolidated statement of earnings with the carrying amount of the financial asset reduced through the use of impairment allowance accounts.

Summary of Financial Instruments and Classification

Below is a classification summary of the Company's financial instruments upon adoption of IFRS 9:

	Classification prior to January 1, 2018	Measurement prior to January 1, 2018	Classification and measurement under IFRS 9
Cash and short-term investments	Loans and receivables	Amortized cost	Amortized cost
Restricted cash	Loans and receivables	Amortized cost	Amortized cost
Amounts receivable and other assets	Loans and receivables	Amortized cost	Amortized cost
Investments held for self-insured liabilities	Available for sale	FVOCI	FVTPL
Interest rate swaps	FVTPL	FVTPL	FVTPL
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost	Amortized cost
Long-term debt	Other financial liabilities	Amortized cost	Amortized cost

DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are used to manage risks from fluctuations in exchange rates and interest rates. All derivative instruments, including embedded derivatives that must be separately accounted for, are valued at their respective fair values in the consolidated financial statements.

On the date a derivative contract is entered into, it must be assessed whether to designate the derivative (or non-derivative) as either a hedge of the fair value of a recognized asset or liability (a "fair-value hedge") or a hedge of the variability of cash flows to be received or paid related to a recognized asset or liability or a forecasted transaction (a "cash-flow hedge") or as a hedge of a net investment in a foreign operation. At the inception of any hedge and on an ongoing basis, we assess whether the derivatives that are used in the hedging transactions are highly effective in offsetting changes in fair values or cash flows of the hedged items. We currently do not have any fair-value, cash-flow or net investment hedges.

n) Revenue

Extencicare recognizes revenue for the transfer of goods or services to customers at an amount that reflects the consideration expected to be received for those goods or services. The Company generates revenue primarily from the provision of services to residents, rental income, home health care services, and management and consulting services.

i. Long-term Care

Services provided to residents include the provision of accommodation and meals, assistance with activities of daily living and continuing care. Programs and services are offered to all residents and specialty programs are offered for those with behavioural needs. Revenue from our LTC segment is regulated by provincial authorities and provincial programs fund a substantial portion of these fees with a co-payment for accommodation being paid by the residents. Accommodation and services are delivered as a bundle and revenue is recognized over time, typically on a monthly basis, which reflects when the services are provided. The frequency that funding is received depends on the jurisdiction in which the LTC centre operates and it varies between a monthly or more frequent basis; and payments from residents are typically due at the beginning of each month.

In some cases, Extencicare's funding is based on occupancy levels achieved or certain policy conditions being met such as spending or staffing hour requirements. In these cases, the Company estimates the amount of funding that it expects to be entitled to for the services provided.

ii. Home Health Care

Home health care services provided include complex nursing care, occupational, physical and speech therapy, and assistance with daily activities to accommodate clients living at home. Revenue from the home health care segment is also regulated by provincial authorities. Revenue is derived from both government and private-pay clients. Performance obligations are satisfied as services are delivered and revenue is therefore recognized over time, typically as the services provided to the customer. Private-pay services provided are invoiced at the end of each month based on the services provided, and the billing frequency of government-funded services varies between monthly and bi-weekly depending on the jurisdiction in which we operate.

iii. Retirement Living

Retirement living revenue is primarily derived from private-pay residents. Residents are charged monthly fixed fees based on the type of accommodation, level of care and services chosen by the resident, and the location of the retirement community. These fixed fees are allocated to the lease and the service components. Payments are due at the beginning of each month.

Accommodation revenue is recognized on a straight-line basis over the lease term, beginning when a resident has the right to use the retirement community. Revenue allocated to the services is recognized over time, typically on a monthly basis, as this corresponds to the period in which services are provided. Extencicare may also provide additional services to residents on an as-requested basis, at rates established by the Company based upon market conditions. Revenue for such services is recognized as the services are provided to the residents.

iv. Other Services

Extencicare also offers management, consulting, group purchasing, accounting and administrative services to third parties. Rates are set by the contracts, and these contracts are typically accounted for as a single performance obligation because goods or services are delivered concurrently. Revenue is recognized over time, typically on a monthly basis, which reflects when the services are provided.

o) Finance Costs and Finance Income

Finance costs include: interest expense on long-term debt; accretion of the discount on provisions, decommissioning provisions and convertible debentures; losses on the change in fair value of financial assets and liabilities designated as FVTPL (refer to *note 3(m)*); and losses in foreign exchange on non-Canadian based financial assets.

Finance income includes interest income on funds invested, gains on the change in fair value of financial assets and liabilities designated as FVTPL, accretion on deferred consideration and gains/losses in foreign exchange on non-Canadian based financial assets.

p) Income Taxes

Extencicare and its subsidiaries are subject to income taxes as imposed by the jurisdictions in which they operate, in accordance with the relevant tax laws of such jurisdictions. The provision for income taxes for the period comprises current and deferred income tax.

Current income tax is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the jurisdictions in which we operate. Deferred income tax is calculated using tax rates anticipated to apply in the periods that the temporary differences are expected to reverse.

The income tax rates used to measure deferred tax assets and liabilities are those rates enacted or substantially enacted at the reporting date, and are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Current and deferred income tax assets and liabilities are offset when there is a legally enforceable right of offset; and the income taxes are levied by the same taxation authority on either the same taxable entity or different taxable entities, which intend either to settle current tax liabilities and assets on a net basis or to realize the assets and settle the liabilities simultaneously, for each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

In assessing whether the deferred tax assets are realizable, management considers whether it is probable (which the Company has defined as “more likely than not”) that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment.

Tax uncertainties are evaluated on the basis of whether it is more likely than not that a tax position will ultimately be sustained upon examination by the relevant taxing authorities. Tax uncertainties are measured using a probability adjusted or expected value model whereby amounts are recorded if there is any uncertainty about a filing position, determined by multiplying the amount of the exposure by the probability that the entity’s filing position will not be sustained. The assessment of tax uncertainties relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Company to change its judgement regarding the adequacy of existing tax liabilities. Such changes to tax liabilities will impact tax expense in the period that such a determination is made.

q) Discontinued Operations

A discontinued operation is a component of the Company’s business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale. Classification as a discontinued operation occurs upon disposal or earlier, if the operation meets the criteria to be classified as held for sale. When an operation is classified as a discontinued operation, the comparative statements of earnings and cash flow information is re-presented as if the operation had been discontinued from the start of the comparative period.

4. NEW ACCOUNTING POLICIES ADOPTED

Effective January 1, 2018, Extencicare adopted the following new standards and amendments to standards issued by the IASB: IFRS 15 “Revenue from Contracts with Customers”, and IFRS 9 “Financial Instruments” (IFRS 9), both of which are discussed below.

Revenue Recognition

IFRS 15 “Revenue from Contracts with Customers” provides a single model and two approaches to recognizing revenue: at a point in time or over time. IFRS 15 also includes additional disclosure requirements for revenue accounted for under the standard. The standard applies to contracts with customers, excluding contracts within the scope of the standard on leases.

Extencicare adopted IFRS 15 using the cumulative effect method, which does not require restatement of comparative information. Adoption of the standard did not result in material changes to the timing or measurement of revenue recognition, and therefore, there was no cumulative effect adjustment recorded to accumulated deficit on January 1, 2018. However, under the new standard, accommodation revenue recognized under IAS 17 “Leases” is disclosed separately from services revenue recognized under IFRS 15 (*note 29*).

The Company’s revised revenue recognition policy is detailed in *note 3(n)*.

Financial Instruments

IFRS 9 “Financial Instruments” (IFRS 9) addresses the recognition, classification and measurement (including impairment) of financial assets and financial liabilities. This standard replaces IAS 39 “Financial Instruments: Recognition and Measurement”.

In addition, IFRS 9 replaces the current “incurred loss” impairment model with a new ECL model, which requires timely recognition of expected credit losses.

The standard largely retains the existing accounting requirements for financial liabilities. However, fair value changes attributable to changes in an entity’s own credit risk are required to be presented in other comprehensive income for financial liabilities that are designated as FVTPL. IFRS 9 also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management.

The Company adopted this standard retrospectively with no restatement of prior periods. There was no material impact on adoption of the standard with the exception of a reclassification of \$4.3 million from opening accumulated other comprehensive income to opening accumulated deficit, as investments held for self-insured liabilities were classified as FVTPL under IFRS 9. These investments include equity securities as well as money market funds that do not have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding; therefore, they are classified as measured at FVTPL under IFRS 9 (*see note 3(m)*).

5. FUTURE CHANGES IN ACCOUNTING POLICIES

The following new standard and interpretation are effective for future annual periods, and have not been applied in preparing the financial results for the year ended December 31, 2018.

Leases

On January 13, 2016, the IASB published IFRS 16 “Leases”. The new standard requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value, using a single model, thereby eliminating the distinction between operating and finance leases. As a lessee, the Company will recognize new assets and liabilities for its operating leases. In addition, the nature and timing of expenses related to those leases will change as IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. Lessor accounting, however, remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 supersedes IAS 17 “Leases” and related interpretations and is effective for periods beginning on or after January 1, 2019, with earlier adoption permitted if IFRS 15 “Revenue from Contracts with Customers” has also been applied. The Company has assessed the impact of this new standard and its adoption is not expected to have a material impact on the consolidated financial statements. A retrospective adjustment to opening retained earnings is not expected. Based on the operating leases as at January 1, 2019, the Company will recognize a right-of-use asset and lease liability ranging between \$7 million and \$9 million, using a simplified approach where the asset and liability would be identical.

Income Taxes

On June 7, 2017, the IASB issued IFRIC Interpretation 23 “Uncertainty over Income Tax Treatments”. The interpretation provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The Interpretation is applicable for annual periods beginning on or after January 1, 2019. Earlier application is permitted. The Company intends to adopt the Interpretation in its financial statements for the annual period beginning on January 1, 2019. The adoption of the IFRIC Interpretation 23 is not expected to have a material impact on the consolidated financial statements.

6. ACQUISITIONS

On April 11, 2018, the Company completed the acquisition of the Lynde Creek Retirement Community for \$33.8 million, which included an adjustment for working capital. The acquired community, located in Whitby, Ontario, consists of Lynde Creek Manor, a retirement residence offering 93 independent and assisted living suites; Lynde Creek Village, a life lease seniors community of 113 townhomes; and 3.7 acres of adjacent land for expansion. This acquisition was funded by cash on hand, and is accounted for as a business combination.

The final purchase price allocation outlined below is based on management's best estimate of fair values.

	Manor <i>93 suites</i>	Village <i>113 townhomes</i>	Excess Land	Total
Net assets acquired:				
Property and equipment	29.2	–	2.0	31.2
Intangible assets	–	2.9	–	2.9
Trade payables and accrued liabilities	(0.3)	–	–	(0.3)
Total net assets acquired	28.9	2.9	2.0	33.8
Consideration:				
Consideration	29.2	2.9	2.0	34.1
Working capital adjustment	(0.3)	–	–	(0.3)
Cash paid	28.9	2.9	2.0	33.8

The allocation of property and equipment was based on the fair value considering the nature and age of these assets.

The fair value estimate of \$2.9 million allocated to identifiable intangible assets acquired, primarily consisted of life lease contracts. The Company has estimated the fair value of life lease contracts based upon expected discounted cash flows generated from these assets; the estimated useful lives for these assets are between 10 to 15 years.

The acquired operations would have contributed revenue of \$5.1 million and nominal net loss if the acquisition had taken place on January 1, 2018. For the eight and a half months of ownership ending December 31, 2018, the acquisition contributed revenue of \$3.8 million and net loss of \$0.1 million.

7. ACCOUNTS RECEIVABLE

	2018	2017
Trade receivables	39,894	33,466
Other receivables	10,676	9,025
Accounts receivable - net of allowance (note 26(a))	50,570	42,491

8. PROPERTY AND EQUIPMENT

	Land & Land Improvements	Buildings	Furniture & Equipment	Leasehold Improvements	Construction in Progress (CIP)	Total
Cost or Deemed Cost						
January 1, 2017	48,575	518,972	63,631	2,395	29,336	662,909
Additions	185	3,228	3,654	108	34,634	41,809
Disposals	–	–	–	–	(236)	(236)
Write-off of fully-depreciated assets	(180)	(4,487)	(4,834)	(124)	–	(9,625)
Transfer from CIP	2,548	26,797	2,637	(42)	(31,940)	–
December 31, 2017	51,128	544,510	65,088	2,337	31,794	694,857
Additions	58	7,579	5,628	32	35,376	48,673
Acquisitions (note 6)	4,401	26,309	490	–	–	31,200
Write-off of fully-depreciated assets	(70)	(7,828)	(8,966)	(442)	–	(17,306)
Impairment loss (note 19)	(1,123)	(14,566)	(469)	–	–	(16,158)
Transfer from CIP	3,886	31,157	1,276	–	(36,319)	–
December 31, 2018	58,280	587,161	63,047	1,927	30,851	741,266

	Land & Land Improvements	Buildings	Furniture & Equipment	Leasehold Improvements	Construction in Progress (CIP)	Total
Accumulated Depreciation						
January 1, 2017	3,733	162,579	29,728	1,436	–	197,476
Additions	543	19,836	6,119	540	–	27,038
Write-off of fully-depreciated assets	(180)	(4,487)	(4,834)	(124)	–	(9,625)
December 31, 2017	4,096	177,928	31,013	1,852	–	214,889
Additions	554	21,680	6,204	396	–	28,834
Write-off of fully-depreciated assets	(70)	(7,828)	(8,966)	(442)	–	(17,306)
December 31, 2018	4,580	191,780	28,251	1,806	–	226,417
Carrying amounts						
At December 31, 2017	47,032	366,582	34,075	485	31,794	479,968
At December 31, 2018	53,700	395,381	34,796	121	30,851	514,849

The cost of assets included in property and equipment under finance leases was \$81.0 million (2017 – \$81.5 million) with accumulated depreciation of \$32.2 million (2017 – \$30.3 million) (*note 12*).

During 2018, the Company capitalized \$1.5 million of borrowing costs related to development projects under construction at an average capitalization rate of 4.9% (2017 – \$1.2 million at 5.3%).

9. GOODWILL AND OTHER INTANGIBLE ASSETS

	2018	2017
Goodwill		
Balance at beginning of year	51,675	51,675
Balance at end of year	51,675	51,675
Other Intangible Assets		
Gross carrying value at beginning of year	56,455	46,000
Additions	3,292	10,490
Acquisitions (<i>note 6</i>)	2,925	–
Disposal	(484)	–
Write-off of fully amortized assets	(154)	(35)
Gross carrying value at end of year	62,034	56,455
Accumulated amortization at beginning of year	12,229	7,905
Amortization	6,434	4,359
Write-off of fully amortized assets	(154)	(35)
Accumulated amortization at end of year	18,509	12,229
Net carrying value	43,525	44,226
Goodwill and other intangible assets	95,200	95,901

10. OTHER ASSETS

	2018	2017
Investments held for self-insured liabilities	67,938	86,296
Amounts receivable and other assets	69,967	74,625
Interest rate swaps	2,556	3,459
	140,461	164,380
less: current portion	21,465	20,634
	118,996	143,746

Investments Held for Self-insured Liabilities

After the sale of our U.S. business in 2015 (the “U.S. Sale Transaction”) (*note 22*), as part of its continuing operations, Extencicare retained its wholly owned Bermuda-based captive insurance company, Laurier Indemnity Company, Ltd. (the

“Captive”), which, along with third-party insurers, insured Extendicare’s U.S. general and professional liability risks up to the date of the U.S. Sale Transaction.

Extendicare holds investments within the Captive for settlements of the self-insured liabilities that are subject to insurance regulatory requirements (*note 11*).

As at December 31, 2018, the investment portfolio comprises U.S. dollar-denominated cash of \$2.2 million (2017 – \$0.7 million), money market funds of \$57.4 million (2017 – \$74.4 million), and investment-grade corporate securities of \$8.3 million (2017 – \$11.2 million). Certain of these investments in the amount of \$35.1 million (US\$25.7 million) (2017 – \$45.4 million or US\$36.1 million), have been pledged as collateral for letters of credit issued by the banker of the Captive in favour of ceding companies. As at December 31, 2018, all investments were carried at fair value, with changes in fair value reflected in earnings. (2017 – unrealized changes in fair value were reflected in OCI (*note 4*)).

Amounts Receivable and Other Assets

Amounts receivable and other assets include discounted amounts receivable due from the government of Ontario with respect to construction funding subsidies for long-term care centres, totalling \$53.3 million (2017 – \$58.5 million) of which \$5.5 million (2017 – \$5.2 million) is current. These subsidies represent funding for a portion of long-term care centre construction costs over a 20-year or 25-year period. The weighted average remaining term of this funding is 15 years.

Also included in amounts receivable and other assets is a \$2.0 million receivable as at December 31, 2018 (2017 – \$2.8 million), resulting from the U.S. Sale Transaction (*note 22*), as well as prepaid expenses and deposits.

The Company uses the simplified approach and calculates impairment loss on accounts and notes receivable as lifetime ECL.

Interest Rate Swaps

The interest rate swaps include swap contracts relating to mortgages, totalling \$84.8 million, to lock in the rates between 3.11% and 5.04% for the full term of the loans being five to ten years (*note 12*).

All interest rate swap contracts are measured at fair value through profit or loss, and hedge accounting has not been applied. Changes in fair value are recorded in the statements of earnings (*note 20*). As at December 31, 2018, the interest rate swaps were valued as a net asset of \$2.0 million, including a liability of \$0.5 million (*notes 12 and 13*) (2017 – asset of \$3.5 million).

11. PROVISIONS

	Accrual for Self-insured Liabilities	Indemnification Provisions	Decommissioning Provisions	Total
January 1, 2017	94,841	28,447	8,137	131,425
Provisions recorded (released)	(5,718)	4,885	699	(134)
Provisions used	(24,160)	(8,817)	–	(32,977)
Accretion	1,283	–	349	1,632
Effect of movements in exchange rates	(5,111)	(1,836)	–	(6,947)
December 31, 2017	61,135	22,679	9,185	92,999
Less: current portion	22,659	7,278	–	29,937
	38,476	15,401	9,185	63,062
January 1, 2018	61,135	22,679	9,185	92,999
Provisions recorded (released)	(14,132)	(3,832)	–	(17,964)
Provisions used	(15,237)	(6,587)	(15)	(21,839)
Accretion	1,631	–	195	1,826
Effect of movements in exchange rates	3,741	1,453	–	5,194
December 31, 2018	37,138	13,713	9,365	60,216
Less: current portion	12,286	5,335	–	17,621
	24,852	8,378	9,365	42,595

Accrual for Self-Insured Liabilities

The obligation to settle any U.S. self-insured general and professional liability claims relating to the period prior to the closing of the U.S. Sale Transaction, including claims incurred but yet to be reported, remains with Extencicare, which it intends to fund through the Captive. Consequently, the balance of the accrual for self-insured liabilities and the related investments held for self-insured liabilities (*note 10*) remain on the consolidated statement of financial position. However, any expense incurred or release of reserves for U.S. self-insured liabilities are presented as discontinued operations; while the Captive's costs to administer and manage the settlement of the remaining claims are reported as continuing operations within the U.S. segment.

The accrual for self-insured liabilities is based on management's best estimate of the ultimate cost to resolve general and professional liability claims. Actual results can differ materially from the estimates made due to a number of factors including the assumptions used by management and other market forces.

As at December 31, 2018, the accrual for self-insured general and professional liabilities was \$37.1 million (US\$27.2 million) compared to \$61.1 million (US\$48.6 million) at the beginning of the year. The decline of \$24.0 million represented claim payments of \$15.2 million (US\$11.8 million) (2017 – \$24.2 million or US\$18.6 million), the release of reserves of \$13.0 million (US\$9.9 million) (2017 – \$5.7 million or US\$4.4 million), and an adjustment totalling \$1.1 million (US\$0.9 million) for discounting resulting from a change in discount rate (2017 – nil), reflected as other expense (income) in discontinued operations (*note 22*), partially offset by foreign exchange of \$3.7 million (2017 – \$5.1 million), and accretion of \$1.6 million (US\$1.2 million) (2017 – \$1.3 million or US\$1.0 million).

Indemnification Provisions

As a result of the U.S. Sale Transaction (*note 22*), the Company agreed to indemnify certain obligations of the U.S. operations related to tax, a corporate integrity agreement (the "CIA"), and other items. Any revisions to these estimates are reflected as part of other expense in discontinued operations (*note 22*). As at December 31, 2018, the remaining provisions totalled \$13.7 million (US\$10.1 million) (2017 – \$22.7 million or US\$18.0 million). Actual results can differ materially from the estimates made due to a number of factors including the assumptions used by management and other market forces.

Decommissioning Provisions

The decommissioning provisions relate to possible asbestos remediation of Extencicare's pre-1980 constructed centres. An estimated undiscounted cash flow amount of approximately \$11 million was discounted using a rate of 1.98% over an estimated time to settle of 7 years. This represents management's best estimate and actual amounts may differ.

12. LONG-TERM DEBT

	Interest Rate	Year of Maturity	2018	2017
Convertible unsecured subordinated debentures	5.0%	2025	119,775	–
Convertible unsecured subordinated debentures	6.0%	2019	–	124,800
CMHC mortgages	2.93% - 7.7%	2020 - 2037	114,083	123,911
Non-CMHC mortgages	3.11% - 5.637%	2020 - 2038	169,670	172,844
Construction loans	variable	on demand	52,866	29,868
Finance lease obligations	2.28% - 7.19%	2022 - 2028	80,992	90,323
			537,386	541,746
Deferred financing costs			(8,416)	(5,678)
Total debt, net of deferred financing costs			528,970	536,068
Less: current portion			74,626	59,664
Long-term debt, net of deferred financing costs			454,344	476,404

Convertible Unsecured Subordinated Debentures

In 2012, Extencicare issued \$126.5 million of aggregate principal amount of 6.00% convertible unsecured subordinated debentures due September 30, 2019, convertible at \$11.25 per Common Share (the "2019 Debentures"), with interest payable semi-annually in March and September. These debentures were redeemable 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. On March 26, 2018, the Company issued a notice of intention to redeem the 2019 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 “Offering”). 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. The 2025 Debentures may not be redeemed by the Company prior to April 30, 2021, except in the event of the satisfaction of certain conditions after a change of control has occurred. 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 debentureholders do so, the Company has the right, but not the obligation, to redeem all the remaining outstanding 2025 Debentures.

The net proceeds from the Offering of \$120.9 million, together with cash on hand, was used by the Company to finance the redemption of its 2019 Debentures on April 30, 2018. The redemption price of the 2019 Debentures was equal to the sum of the outstanding aggregate principal amount of \$126.5 million and all accrued and unpaid interest thereon for a total of \$127.1 million. As a result of the early redemption of the 2019 Debentures, the unaccreted liability of \$1.4 million was expensed (*note 19*), and the related equity portion of \$5.6 million was classified as part of accumulated deficit.

CMHC Mortgages

The Company has subsidiaries have 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 2.93% to 7.7% with maturity dates through to 2037.

During the 2017 first quarter, one of the mortgages in the amount of \$5.8 million, originally scheduled to mature in October 2016, was renewed at 3.04% to mature in November 2026. In addition, two mortgages totalling \$16.5 million, which matured in February 2017, were renewed under the existing CMHC certificate at a rate of 3.35% to mature in February 2032.

In August 2018, the Company renewed maturing mortgages of \$8.3 million. These renewed mortgages bear an interest rate of 2.96% for a term of four years to August 2022.

Non-CMHC Mortgages

The Company has a number of conventional mortgages on certain long-term care centres, at rates ranging from 3.27% to 5.637%. Some of these mortgages have a requirement to maintain a minimum debt service coverage ratio. In May 2017, the Company secured a \$30.0 million term loan with the Canadian Imperial Bank of Commerce (the “CIBC Term Loan”) upon maturity of \$3.6 million of existing mortgages on nine Alberta long-term care centres. The CIBC Term Loan bears an interest rate based on a variable 30-day banker’s acceptance rate plus 1.8% for a term of five years to May 2022, with principal and interest payable in monthly installments based on a 20-year amortization. The maximum borrowing base under the CIBC Term Loan will be determined annually based upon the aggregate of the updated lending value established for each property. The Company entered into an interest rate swap contract to lock in the rate at 3.27% for the full term.

In September 2018, the Company secured financing of \$10.5 million on a retirement community in Ontario. This financing has a 10-year term. In conjunction with securing this financing, the Company entered into an interest rate swap contract to

lock in the interest rate at 5.04% for the full term of this financing. Also, during the 2018 third quarter, the Company reduced the balances on mortgages of three communities by a total of \$8.6 million.

All interest rate swap contracts are measured at fair value through profit or loss, and hedge accounting has not been applied. Changes in fair value are recorded in the statements of earnings (*note 20*). As at December 31, 2018, the interest rate swaps were valued as an asset of \$2.6 million, which is included as part of other assets (*note 10*), and a liability of \$0.5 million, which is included as part of long-term liability (*note 13*).

Construction Loans

Construction financings totalling \$51.4 million for three retirement development projects in Simcoe, Bolton, and Uxbridge, were secured in 2016 and provide for additional letter of credit facilities of \$500,000, \$750,000, and \$750,000, respectively, at a rate of 2.5% if utilized. In the 2017 fourth quarter, an additional \$9.0 million of construction financing was secured for the Uxbridge expansion. Loan payments are interest-only based on a variable rate of 30-day banker's acceptance (BA) plus 2.5%, with no standby fee. The construction loans are repayable on demand and, in any event, are to be fully repaid by the earlier of achieving stabilized occupancy as defined by the agreements and specified dates between late 2019 and 2022.

Construction financing of \$27.2 million was secured in the 2018 third quarter for a retirement community in Barrie with an additional letter of credit facility of \$1.0 million. Loan payments are interest-only based on a variable rate of 30-day BA plus 2.25%, with no standby fee. The construction loan is repayable on demand and, in any event, is to be fully repaid by the earlier of September 2023 and three months following stabilized occupancy as defined by the agreement.

All these financings have been reflected as current. Permanent financing for each of the communities will be sought upon maturity of the construction financing.

As at December 31, 2018, an aggregate of \$52.9 million was drawn on the construction loans, and letters of credit totalling \$1.2 million were issued under credit facilities.

Finance Lease Obligations

The finance lease obligations outstanding at December 31, 2018 represent finance leases on long-term care centres and the present value of a subscription to customized cloud-based software to be used in the home health care operations. The Company operates nine Ontario long-term care centres, which were built between 2001 and 2003, under 25-year finance lease arrangements. The software balance will be accreted through interest expense, and amortized over the contract term of five years.

Finance lease obligations are payable as follows:

	2018			2017		
	Future Minimum Lease Payments	Interest	Present Value of Minimum Lease Payments	Future Minimum Lease Payments	Interest	Present Value of Minimum Lease Payments
	Less than one year	12,904	5,182	7,722	14,256	5,741
Between one and five years	51,648	15,095	36,553	53,353	17,489	35,864
More than five years	41,386	4,669	36,717	53,488	7,544	45,944
	105,938	24,946	80,992	121,097	30,774	90,323

Credit Facilities

Extencicare has a demand credit facility in the amount of \$47.3 million with the Royal Bank of Canada (the "RBC Credit Facility") that is secured by 13 Class C long-term care centres in Ontario and is guaranteed by certain of its subsidiaries of Extencicare. As at December 31, 2018, Extencicare had letters of credit totalling approximately \$45.0 million issued under the RBC Credit Facility, of which \$38.0 million secure our defined benefit pension plan obligations and the balance were issued in connection with obligations relating to recently acquired centres and those centres under development. The unutilized portion of the credit facility was \$2.3 million as at December 31, 2018. The RBC Credit Facility has no financial covenants, but does contain normal and customary terms including annual re-appraisals of the centres that could limit the maximum amount available.

In the fourth quarter of 2017, the Company arranged for a demand credit facility in the amount of \$65.0 million (the “ParaMed Credit Facility”) that is secured by the assets of our home health care business, and it is available for general corporate purposes of the Company. The ParaMed Credit Facility has no financial covenants, but it does contain normal and customary terms. The entire amount of the credit facility was unutilized as at December 31, 2018.

Restricted Cash

In connection with certain financing, funds totalling \$2.3 million as at December 31, 2018 (2017 – \$2.3 million), included in restricted cash are designated for future capital expenditures.

Deferred Financing Costs

Deferred financing costs are deducted against long-term debt and are amortized using the effective interest rate method over the term of the debt. The net increase of \$2.7 million in 2018 related primarily to the costs associated with the issuance of the 2025 Debentures, partially offset by the write-off of the unamortized finance costs of \$1.1 million upon the early redemption of the 2019 Debentures (*note 19*) and the amortization of finance costs.

Below is a summary of the deferred financing costs:

	2018	2017
Convertible unsecured subordinated debentures	4,774	1,387
CMHC mortgages	2,017	2,465
Non-CMHC mortgages	1,419	1,595
Finance lease obligations	206	231
Total deferred financing costs	8,416	5,678
Less: current portion	1,404	1,463
	7,012	4,215

Principal Repayments

Principal repayments on long-term debt, exclusive of finance lease obligations, are as follows:

Year	Amount
2019	68,308
2020	60,077
2021	15,108
2022	58,643
2023	45,656
2024 and beyond	215,327
	463,119

Interest Rates

The weighted average interest rate of all long-term debt at December 31, 2018, was approximately 4.9% (2017 – 5.0%). At December 31, 2018, 90.2% of the long-term debt, including interest rate swaps, was at fixed rates (2017 – 94.5%).

13. OTHER LONG-TERM LIABILITIES

	2018	2017
Accrued pension plan obligation (<i>note 25</i>)	33,486	34,072
Interest rate swaps (<i>note 12</i>)	523	–
Other	1,068	950
	35,077	35,022

14. SHARE-BASED COMPENSATION

The Company's share-based compensation, which includes SARs, DSUs and PSUs, was an expense of \$0.2 million for 2018 (2017 – expense of \$2.0 million), and includes the reversal of \$1.2 million in connection with the forfeiture of PSUs upon the departure of the former CEO in October 2018 (*note 28*).

The carrying amounts of the Company's share-based compensation arrangements are recorded in the consolidated statements of financial position as follows:

	2018	2017
Accounts payable and accrued liabilities – SARs	–	1,146
Contributed surplus – DSUs	1,914	1,220
Contributed surplus – PSUs	792	1,217

Cash-settled Share Appreciation Rights Plan

Prior to 2016, the Company awarded SARs to eligible employees and directors of Extendicare. No further awards will be granted under the SARs plan, and as of December 31, 2018, all SARs have vested or been forfeited.

A summary of the Company's SARs activity is as follows:

	2018		2017	
	Share Appreciation Rights	Weighted Average Vesting Price	Share Appreciation Rights	Weighted Average Vesting Price
Outstanding, beginning of year	372,000	\$7.14	597,000	\$7.05
Vested	(354,000)	7.11	(216,000)	6.88
Forfeited	(18,000)	7.69	(9,000)	7.69
Outstanding, end of year	–		372,000	\$7.14
Average remaining contractual life	–		0.2 years	

The SARs were fair valued using the Black-Scholes model based on the following inputs:

	2017
Share price	\$9.11
Volatility	14.00%
Risk-free interest rate	1.00% – 1.21%
Strike price	\$6.55 – \$7.69
Expected remaining life	0.1 years – 0.4 years

Equity-settled Long-term Incentive Plan

The Board implemented a LTIP in 2016 to provide for a share-based component of executive and director compensation designed to encourage a greater alignment of the interests of our executives and directors with our shareholders, in the form of PSUs for our employees and DSUs for our non-employee directors.

PSUs and DSUs granted under the LTIP do not carry any voting rights. DSUs vest immediately upon grant and PSUs vest three years from the date of grant. During 2018, the Company settled 14,886 DSUs and 5,032 PSUs, resulting in the issuance from treasury of 19,918 Common Shares. An aggregate of 4,387,974 Common Shares are reserved and available for issuance pursuant to the LTIP.

A summary of the Company's DSU and PSU activity is as follows:

	Deferred Share Units		Performance Share Units	
	2018	2017	2018	2017
Units outstanding, beginning of period	134,369	61,124	342,944	173,550
Granted	109,744	72,742	192,116	173,329
Reinvested dividend equivalents	10,498	4,137	26,007	10,616
Forfeited	—	—	(367,126)	(14,551)
Settled	(14,886)	(3,634)	(5,032)	—
Units outstanding, end of period	239,725	134,369	188,909	342,944
Weighted average fair value of units granted during the period at grant date	\$7.36	\$9.68	\$9.33	\$11.63

The grant date values of PSUs awarded were based on the fair values of one award with 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.

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

	Twelve months ended		
	December 31, 2018	Twelve months ended December 31, 2017	
Grant date	March 15, 2018	March 15, 2017	May 25, 2017
Vesting date	March 15, 2021	March 15, 2020	May 25, 2020
PSUs granted	192,116	160,689	12,640
Fair value of AFFO component	\$4.36	\$5.24	\$5.11
Fair value of TSR component	4.97	6.42	6.12
Grant date fair value	\$9.33	\$11.66	\$11.23
Expected volatility of Extencicare's Common Shares	23.66%	23.09%	24.90%
Expected volatility of the Index	12.20%	13.41%	13.60%
Risk-free rate	1.84%	0.92%	0.75%
Dividend yield	nil	nil	nil

15. SHARE CAPITAL

	2018		2017	
	Shares	Amount	Shares	Amount
Balance at beginning of year	88,523,290	490,881	88,684,485	489,656
Transactions with shareholders				
DRIP	650,361	4,928	535,025	5,081
Purchase of shares for cancellation	(703,585)	(3,903)	(696,220)	(3,856)
Share-based compensation	19,918	158	—	—
Balance at end of year	88,489,984	492,064	88,523,290	490,881

Authorized Capital

Extencicare is authorized to issue an unlimited number of Common Shares and that number of preferred shares of Extencicare (the "Preferred Shares"), issuable in series, equal to 50% of the number of Common Shares that are issued and outstanding at the time of the issuance of any series of Preferred Shares, for consideration and on terms and conditions that the Board may determine without the approval of shareholders.

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 2018 and 2017, the Company declared cash dividends of \$0.48 per share.

PREFERRED SHARES

Preferred Shares may at any time and from time to time be issued in one or more series. There are currently no Preferred Shares issued.

Distribution Reinvestment Plan

The Company has a Distribution Reinvestment Plan (DRIP) pursuant to which shareholders who are residents in Canada may elect to reinvest their cash distributions in additional Common Shares on the date of the distribution, at a price equal to 97% of the volume-weighted average trading price of the Common Shares on the TSX for the five trading days immediately preceding the corresponding date of distribution. During 2018, the Company issued 0.7 million Common Shares at a value of \$4.9 million in connection with the DRIP (2017 – \$0.5 million Common Shares at a value of \$5.1 million).

Normal Course Issuer Bid

During 2018, under a normal course issuer bid that commenced on January 15, 2018 and ended on January 14, 2019, the Company acquired and cancelled 703,585 Common Shares at an average price of \$8.89 per share, for a total cost of \$6.3 million. During 2017, under a previous normal course issuer bid, the Company acquired and cancelled 696,220 Common Shares at a weighted average price of \$9.27 per share, for a total cost of \$6.5 million.

In January, 2019, Extencicare received the approval of the TSX to renew its normal course issuer bid (the “Bid”) to purchase for cancellation up to 8,830,000 Common Shares (approximately 10% of the public float) through the facilities of the TSX, and on alternative Canadian trading platforms. The Bid commenced on January 15, 2019, and provides Extencicare with flexibility to purchase Common Shares for cancellation until January 14, 2020, or on such earlier date as the Bid is complete. Subject to the TSX’s block purchase exception, on any trading day, purchases under the Bid will not exceed 54,852 Common Shares. The price that Extencicare will pay for any Common Shares purchased under the Bid will be the prevailing market price at the time of purchase and any Common Shares purchased will be cancelled.

16. EQUITY RESERVES

Equity reserves are included in AOCI and comprise fair value, and translation reserves, as follows:

	Unrealized Gains/Losses on AFS Securities	Realized Gains/Losses on AFS Securities Transferred to Net Earnings	Total Fair Value Reserve	Translation Reserve	Total Equity Reserves
Balance, January 1, 2017	13,494	(7,103)	6,391	3,775	10,166
Recognized during the year	4,955	(7,012)	(2,057)	(3,097)	(5,154)
Balance, December 31, 2017	18,449	(14,115)	4,334	678	5,012
Adoption of new standard on financial instruments (note 4)	(18,449)	14,115	(4,334)	–	(4,334)
Recognized during the year	–	–	–	1,841	1,841
Balance, December 31, 2018	–	–	–	2,519	2,519

Fair Value Reserve

Prior to 2018, the fair value reserve comprised the cumulative net change in the fair value of available-for-sale financial assets until the investments are derecognized, at which time, the cumulative change in fair value was recognized in net earnings. Upon the adoption of IFRS 9 in 2018, the fair value reserve balances accumulated as at January 1, 2018, was reclassified to opening accumulated deficit, and any change in the fair value of these securities going forward is recognized in net earnings in the period as incurred (note 4).

Translation Reserve

The translation reserve comprises all foreign currency differences arising from the translation of the investments and accrual for self-insured liabilities that are held in a foreign operation. When funds are repatriated, the cumulative change in foreign currency differences are recognized in net earnings (notes 10 and 11).

17. REVENUE

	2018	2017
Long-term care	632,533	616,887
Retirement living	33,412	20,673
Home health care	431,343	435,718
Management, consulting and other	22,719	24,053
Total revenue	1,120,007	1,097,331

Funding received by Extendicare for its long-term care centres and home health care services is regulated by provincial authorities. Revenue from provincial programs represented approximately 70% of Extendicare's long-term care revenue (2017 – 70%), and approximately 98% of Extendicare's home health care revenue for both 2018 and 2017.

Retirement living includes accommodation revenue of approximately \$13.5 million and services revenue of approximately \$19.9 million for 2018. Service revenue represents a combination of monthly service fees paid by the residents, including proceeds retained by Extendicare upon the sale of homes in the life lease community.

18. EXPENSES BY NATURE

	2018	2017
Employee wages and benefits	868,089	851,318
Food, drugs, supplies and other variable costs	52,181	48,566
Property based and other costs	98,757	93,092
Total operating expenses and administrative costs	1,019,027	992,976
Lease costs	6,742	6,758
Total expenses	1,025,769	999,734

19. OTHER EXPENSE

	2018	2017
Acquisition costs	1,042	–
Loss on early redemption of convertible debt	2,511	–
Impairment	16,158	–
Other	484	–
Other expense	20,195	–

Impairment

In the 2018 fourth quarter, the Company recorded a pre-tax impairment charge of \$16.2 million (\$11.8 million after tax), in respect of certain of its retirement communities (\$15.9 million), and LTC centres (\$0.3 million).

The impairment charge for the retirement living operations relates to the write down of the carrying value of the property and equipment of three Saskatchewan retirement communities that were acquired in late 2015 and early 2016; two of which were newly opened at that time and are still in lease up. These communities have not performed as expected, primarily due to competitive market conditions, impacting rates, occupancy and labour and benefit costs.

The determination of recoverable amounts can be significantly impacted by estimates related to current market valuations, current and future economic conditions in the geographical markets of each CGU, and management's strategic plans within each of its markets. Estimates and assumptions used in the determination of the impairment loss for both the retirement communities and LTC centres were based upon information that was known at the time, along with the future outlook. The Company completes the assessment of the impairment amount of each of these properties (each being a CGU), by comparing the recoverable amount (in this case the value in use) of each CGU, determined using the direct capitalization method, to their carrying values. The direct capitalization method divides the estimated stabilized net operating income, after adjusting for management fee and capital maintenance, by appropriate market capitalization rates, ranging from 5.5% and 7.25%, derived from a combination of third-party information and industry trends. The fair value is a Level 3 valuation (*note 26(b)*).

Other

In April 2018, the Company acquired the Lynde Creek Retirement Community (*note 6*), and incurred transaction costs of \$1.0 million, most of which were incurred during the 2018 second quarter.

Upon the early redemption of the 2019 Debentures on April 30, 2018 (*note 12*), the unaccreted liability of \$1.4 million and the associated unamortized finance costs of \$1.1 million were expensed.

20. FOREIGN EXCHANGE AND INVESTMENT GAIN AND FAIR VALUE ADJUSTMENTS

Gain on Foreign Exchange and Investments

Gains on foreign exchange and investments was \$1.2 million for 2018 (2017 – \$0.9 million). These include: gain (loss) related to deferred consideration and other balances in connection with the U.S. Sale Transaction that are denominated in U.S. dollars (*note 22*); gain (loss) on fair value adjustments on investments held for self-insured liabilities (*notes 4 and 10*); and a foreign exchange gain recognized upon repatriation of funds from the Captive.

Fair Value Adjustments

Fair value adjustments relate to interest rate swap contracts that lock in the interest rates for certain mortgages. The fair value of these contracts as at December 31, 2018, resulted in a loss of \$1.0 million 2018 (2017 – gain of \$2.5 million) (*notes 10*).

21. EARNINGS PER SHARE

Basic earnings (loss) per share (EPS) is calculated by dividing the net earnings (loss) 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 (loss) 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 convertible debentures and equity-settled compensation arrangements would be antidilutive and as such, these are not included in the calculation of diluted EPS.

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

	2018	2017
Numerator for Basic and Diluted Earnings (Loss) per Share		
<i>Earnings from continuing operations</i>		
Net earnings for basic earnings per share	31,738	2,132
Less: earnings (loss) from discontinued operations, net of tax	23,654	(29,580)
Earnings from continuing operations for basic earnings per share	8,084	31,712
Add: after-tax interest on convertible debt	6,681	7,342
Earnings from continuing operations for diluted earnings per share	14,765	39,054
<i>Net earnings</i>		
Net earnings for basic earnings per share	31,738	2,132
Add: after-tax interest on convertible debt	6,681	7,342
Net earnings for diluted earnings per share	38,419	9,474
Denominator for Basic and Diluted Earnings per Share		
Actual weighted average number of shares	88,233,092	88,720,572
Vested equity-settled compensation	170,363	84,786
Weighted average number of shares for basic earnings per share	88,403,455	88,805,358
Shares issued if all convertible debt was converted	10,326,531	11,244,444
Dilutive effect of equity-settled compensation	22,844	38,121
Total for diluted earnings per share	98,752,830	100,087,923
Basic and Diluted Earnings (Loss) per Share (in dollars)		
Earnings from continuing operations	0.09	0.36
Gain (loss) from discontinued operations	0.27	(0.34)
Net earnings	0.36	0.02

22. DISCONTINUED OPERATIONS

	2018	2017
Earnings (Loss) from Discontinued Operations		
Earnings (loss) before income taxes	17,755	(36,576)
Income tax recovery	(5,899)	(6,996)
Earnings (loss) from discontinued operations	23,654	(29,580)
Cash Flows from Discontinued Operations		
Net cash from operating activities	(15,237)	(24,160)
Net cash from investing activities	15,237	24,160
Net cash from financing activities	–	–
Effect on cash flows	–	–

In connection with the U.S. Sale Transaction, the Company agreed to indemnify certain obligations of the U.S. operations related to tax, a CIA, and other items. In connection with these items, as at December 31, 2018, the Company had remaining provisions totalling \$13.7 million (US\$10.1 million) (*note 11*), and a receivable of \$2.0 million (US\$1.4 million) (*note 10*) (December 31, 2017 – provisions of \$22.7 million and receivable of \$2.8 million). Favourable changes to indemnification provisions totalled \$3.8 million for 2018. The change in 2017 included a \$5.1 million charge related to the increase of estimated costs in connection with the CIA. In addition, the proceeds from the U.S. Sale Transaction included an element of deferred consideration; the remaining balance of \$37.5 million was written off in 2017.

Earnings (loss) from discontinued operations in 2018 also includes the release of accrual for self-insured liabilities, including adjustments to discount rate applied, totalling \$14.1 million (US\$10.8 million) (*note 11*). The release of accrual for self-insured liabilities in 2017 was \$5.7 million (US\$4.4 million).

In October 2014, EHSI completed and executed a settlement agreement with the U.S. Department of Justice (DOJ), the Office of the Inspector General (OIG) of the U.S. Department of Health and Human Services and multiple states. As is standard practice in settlements of OIG and DOJ investigations, EHSI entered into the CIA, with the OIG for a five-year period effective October 3, 2014. Under the terms of the U.S. Sale Transaction, Extencicare has agreed to share in the costs incurred in order to implement and comply with the requirements of the CIA. Though the actual costs for the Purchaser to comply with the CIA are difficult to estimate, the Company has included a provision for such costs in its provision for indemnification obligations (*note 11*).

In December 2018, the Company sold one of the remaining U.S. legal entities and realized a capital loss for U.S. tax purposes of approximately US\$20 million available to carryback against a 2015 capital gain, resulting in a tax recovery of \$9.7 million (US\$7.1 million).

23. INCOME TAXES**Tax Recognized in Net Earnings**

	2018	2017
Current Tax Expense (Recovery)		
Current year	8,921	10,191
Items related to discontinued operations (<i>note 22</i>)	(11,729)	(1,230)
Utilization of losses	(924)	(87)
Other adjustments	132	45
	(3,600)	8,919
Deferred Tax Expense (Recovery)		
Origination and reversal of temporary difference	(4,406)	1,079
Items related to discontinued operations (<i>note 22</i>)	5,830	(5,766)
Utilization of losses	629	–
Other adjustments	(117)	(376)
	1,936	(5,063)
Total tax expense	(1,664)	3,856
Tax expense from continuing operations	4,235	10,852
Tax recovery from discontinued operations	(5,899)	(6,996)
	(1,664)	3,856

Tax Recognized in Other Comprehensive Income

	2018			2017		
	Before Tax	Tax Recovery	Net of Tax	Before Tax	Tax Recovery	Net of Tax
Foreign currency translation difference for	1,841	–	1,841	(3,097)	–	(3,097)
Available-for-sale financial assets	–	–	–	(2,057)	–	(2,057)
Defined benefit plan actuarial gains	(507)	134	(373)	(423)	112	(311)
	1,334	134	1,468	(5,577)	112	(5,465)

Investments held for self-insured liabilities, included in other assets, were previously classified as available for sale and measured at FVOCI, with unrealized changes in fair value recognized in AOCI. On adoption of IFRS 9 effective January 1, 2018, these investments are classified and measured as FVTPL with changes in fair value recognized in net earnings (*note 4*).

Effective Tax Rate

The major factors that caused variations from the expected combined Canadian federal and provincial statutory income tax rates were as follows:

	2018	2017
Earnings from continuing operations before income taxes	12,319	42,564
Income taxes at statutory rates of 26.5%	3,265	11,279
Income tax effect relating to the following items:		
Tax rate variance of foreign subsidiaries	610	(1,173)
Non-deductible items	517	1,033
Non-taxable income	(107)	(17)
Prior year adjustment	42	(331)
Other items	(92)	61
	4,235	10,852

Summary of Operating and Capital Loss Carryforwards

Extencicare's Canadian corporate subsidiaries have recorded a tax benefit of \$5.7 million for available net operating loss carryforwards as at December 31, 2018 (2017 – \$7.2 million), which expire in the years 2035 through 2038, and capital loss carryforwards of \$42.1 million (2017 – \$16.5 million) which have not been tax benefited and are available indefinitely to apply against future capital gains.

Deferred tax assets recognized as at December 31, 2018, were \$9.7 million (2017 – \$13.9 million). Net deferred tax liabilities increased in 2018 to \$1.6 million from \$0.4 million at December 31, 2017.

Recognized Deferred Tax Assets and Liabilities

Net deferred tax liabilities comprise the following:

	2018			2017		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Property and equipment	6,410	20,339	13,929	981	21,031	20,050
Intangible assets	73	5,933	5,860	73	5,505	5,432
Other assets	–	683	683	–	963	963
Deferred financing costs	67	1,379	1,312	1,833	1,553	(280)
Financial assets at fair value	–	545	545	–	908	908
Self-insurance reserves	254	–	(254)	276	–	(276)
Indemnification provisions	2,357	–	(2,357)	7,939	–	(7,939)
Employee benefit accruals	9,599	–	(9,599)	10,013	–	(10,013)
Operating loss carryforwards	1,519	–	(1,519)	1,922	–	(1,922)
Deferred revenue	3,348	48	(3,300)	4,380	42	(4,338)
Decommissioning provision	2,482	–	(2,482)	2,248	–	(2,248)
Other	1,335	115	(1,220)	248	336	88
Set-off of tax	(17,699)	(17,699)	–	(16,022)	(16,022)	–
Deferred tax liabilities, net	9,745	11,343	1,598	13,891	14,316	425

Certain comparative information in the table above have been restated to conform to the current year presentation.

Deferred income taxes are provided for temporary differences between the carrying values of assets and liabilities and their respective tax values as well as available tax loss carryforwards. Management believes it is more likely than not that Extencicare's corporate subsidiaries will realize the benefits of these deductible differences.

The significant components of deferred income tax assets and liabilities and the movement in these balances during the year were as follows:

	Balance January 1, 2018	Recognized in			Change in Foreign Exchange	Balance December 31, 2018
		Recognized in Net Earnings	Other Comprehensive Income/Other	Recognized in Discontinued Operations		
Property and equipment	20,050	(6,121)	–	–	–	13,929
Other assets	963	(217)	–	–	(63)	683
Deferred financing costs	(280)	1,678	(86)	–	–	1,312
Financial assets at fair value	908	(363)	–	–	–	545
Self-insurance reserves	(276)	22	–	–	–	(254)
Indemnification provisions	(7,939)	232	–	5,830	(480)	(2,357)
Intangible assets	5,432	428	–	–	–	5,860
Employee benefit accruals	(10,013)	548	(134)	–	–	(9,599)
Operating loss carryforwards	(1,922)	403	–	–	–	(1,519)
Deferred revenue	(4,338)	1,038	–	–	–	(3,300)
Decommissioning provision	(2,248)	(234)	–	–	–	(2,482)
Other	88	(1,308)	–	–	–	(1,220)
Deferred tax liabilities, net	425	(3,894)	(220)	5,830	(543)	1,598

Certain comparative information in the table above have been restated to conform to the current year presentation.

	Balance	Recognized in			Change in	Balance
	January 1,	Recognized in	Other	Recognized in	Foreign	December 31,
	2017	Net Earnings	Income/Other	Discontinued	Exchange	2017
				Operations		
Property and equipment	21,773	(1,723)	–	–	–	20,050
Other assets	8,271	95	–	(7,120)	(283)	963
Deferred financing costs	1,840	(2,120)	–	–	–	(280)
Accounts receivable reserves	520	(520)	–	–	–	–
Financial assets at fair value	264	644	–	–	–	908
Self-insurance reserves	(256)	(20)	–	–	–	(276)
Indemnification provisions	(9,957)	–	–	1,354	664	(7,939)
Intangible assets	1,815	3,617	–	–	–	5,432
Employee benefit accruals	(10,405)	504	(112)	–	–	(10,013)
Operating loss carryforwards	(1,964)	42	–	–	–	(1,922)
Deferred revenue	(4,437)	99	–	–	–	(4,338)
Decommissioning provision	(2,157)	(91)	–	–	–	(2,248)
Other	(88)	176	–	–	–	88
Deferred tax liabilities, net	5,219	703	(112)	(5,766)	381	425

Certain comparative information in the table above have been restated to conform to the current year presentation.

24. COMMITMENTS AND CONTINGENCIES

Operating Lease Commitments

At December 31, 2018, the Company was committed under non-cancellable leases requiring future minimum rentals as follows:

	Operating Leases
2019	3,507
2020	1,665
2021	1,389
2022	1,014
2023	296
2024 and beyond	3
Total minimum payments	7,874

Property and Equipment Commitments

Extendicare has outstanding commitments of \$16.0 million at December 31, 2018, in connection with private-pay retirement communities under development in Ontario, which will be substantially financed with a combination of construction financing and cash on hand. These are expected to be incurred over the next year.

Legal Proceedings and Regulatory Actions

Extendicare and its consolidated subsidiaries are defendants in various actions and proceedings that are brought against them from time to time in connection with their operations.

As previously disclosed, in April 2018, the Company was served with a statement of claim alleging negligence by the Company in the operation of its long-term care centres and its provision of care to residents and seeking \$150 million in damages. The claim sought an order certifying the claim as a class action pursuant to the *Class Proceedings Act* (Ontario). By order of the Ontario Superior Court of Justice, a request from the plaintiff for discontinuance of the class proceeding was approved on October 25, 2018. Following the discontinuance, the plaintiff who commenced the class proceeding still has the option to pursue a claim on her own behalf while others may also do so separately on their own behalf. The Company intends to defend itself against any and all such individual claims and does not believe the outcome on any or all such claims would have a material adverse impact on its business, results of operations or financial condition and in any event believes that any potential liability would be resolved within the limits of its insurance coverage.

On September 19, 2018, the Company was served with a statement of claim that seeks an order certifying the claim as a class action pursuant to the *Class Proceedings Act* (Ontario). The claim alleges that the Company failed to properly apply certain required medical equipment sterilization protocols at one or more of its home health care clinics and seeks \$20 million in damages. The Company does not believe that the lawsuit or the damages sought have merit. The Company intends to vigorously defend itself against the claim and does not believe the outcome will have a material adverse impact on its business, results of operations or financial condition and in any event believes that any potential liability would be resolved within the limits of its insurance coverage.

The provision of health care services is subject to complex government regulations. Every effort is made by the Company to prevent deficiencies in the quality of patient care through quality assurance strategies and to remedy any such deficiencies cited by government inspections within any applicable prescribed time period. Extencare accrues for costs that may result from investigations (or any possible related litigation) to the extent that an outflow of funds is probable and a reliable estimate of the amount of the associated costs can be made.

25. EMPLOYEE BENEFITS

Retirement compensation arrangements are maintained for certain employee groups as described below.

Defined Benefit Plans

Extencare has pension arrangements for certain of its executives, which include a registered defined benefit pension plan, as well as a supplementary plan that provide pension benefits in excess of statutory limits. Both of these plans have been closed to new entrants for several years. The plans are exposed to various risks, including longevity risk, currency risk, interest rate risk and market risks.

The different types of defined benefit plans of the Company are listed below.

	Funded Defined Benefit Plan		Unfunded Supplementary Defined Benefit Plan		Total	
	2018	2017	2018	2017	2018	2017
Fair value of plan assets	5,066	5,443	–	–	5,066	5,443
Present value of obligations	7,666	7,913	33,523	34,168	41,189	42,081
Deficit	(2,600)	(2,470)	(33,523)	(34,168)	(36,123)	(36,638)

FUNDING

As required by law, the registered defined benefit pension plan benefits are funded through a trust, and the Company is responsible for meeting the statutory obligations for funding this plan. The funding requirement for past service is determined based on separate actuarial valuations for funding purposes, which are completed every three years. The next actuarial review will be performed effective October 1, 2018, for completion in early 2019.

The supplementary plan is unfunded and pension benefits are secured through a letter of credit that is renewed annually. We do not set aside assets for this plan and the benefit payments are funded from our cash from operations.

DEFINED BENEFIT OBLIGATIONS

	2018	2017
Present Value of Defined Benefit Obligations		
Accrued benefit obligations		
Balance at beginning of year	42,081	42,430
Current service cost	104	225
Benefits paid	(2,680)	(2,603)
Interest costs	1,330	1,447
Actuarial losses	354	582
Balance at end of year	41,189	42,081
Plan assets		
Fair value at beginning of year	5,443	5,416
Employer contributions	88	83
Actual return on plan assets	(241)	160
Interest income on plan assets	172	184
Benefits paid	(396)	(400)
Fair value at end of year	5,066	5,443
Defined benefit obligations	36,123	36,638

The expected contribution to the supplementary plan for the coming year is approximately \$2.2 million.

	2018	2017
Current accrued liabilities	2,637	2,566
Other long-term liabilities (<i>note 13</i>)	33,486	34,072
Accrued benefit liability at end of year	36,123	36,638

EFFECT OF CHANGES TO DEFINED BENEFIT OBLIGATIONS

	2018	2017
Expense Recognized in Net Earnings		
Annual benefit plan expense		
Current service cost	104	225
Interest costs	1,158	1,263
Plan benefit expense recognized in the year - included in operating expenses and administrative costs	1,262	1,488
Actuarial Losses Recognized in Other Comprehensive Income		
Amount accumulated in accumulated deficit at January 1	(9,863)	(9,552)
Actuarial loss arising from changes in liability experience and assumption changes	(266)	(583)
Return on assets	(241)	160
Income tax recovery on actuarial losses	134	112
Amount recognized in accumulated deficit at December 31	(10,236)	(9,863)

PLAN ASSETS

	2018	2017
Equities	42%	45%
Fixed income securities	38%	37%
Real estate / commercial mortgage	20%	18%
	100%	100%

ACTUARIAL ASSUMPTIONS

	2018	2017
Discount rate for year-end accrued obligation	3.50%	3.25%
Discount rate for period expense	3.25%	3.50%
Rate of compensation increase	2.0%	2.0%
Income Tax Act limit increase	3.0%	3.0%
Average remaining service years of active employees	2	2

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

Extencicare determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Company considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and those that have terms to maturity approximating the terms of the related pension liability.

Changes to the following actuarial assumptions, while holding the other assumptions constant, would have affected the defined benefit obligation and related expense for 2018 by the amounts shown below.

	Increase (Decrease) in Benefit Obligation	Increase (Decrease) in Net Earnings
Discount rate		
1% increase	(3,829)	(166)
1% decrease	4,534	221
Rate of compensation increase		
1% increase	31	(2)
1% decrease	(31)	2
Income Tax Act limit increase		
1% increase	–	–
1% decrease	–	–
Mortality rate		
10% increase	(946)	35
10% decrease	1,039	(39)

Defined Contribution Plans

Canada maintains registered savings and defined contribution plans and matches up to 120% of the employees' contributions according to seniority, subject to a maximum based on the salary of the plan participants. Contributions expensed by Canada in 2018 and 2017 were \$16.7 million and \$16.5 million, respectively.

26. 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. We manage our 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. We ensure that there are sufficient funds for declared and payable distributions and any other future commitments at any point in time. 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, we attempt to appropriately structure the timing of contractual long-term debt renewal obligations and exposures. In April 2018, the Company successfully refinanced the 2019 Debentures by issuing a new series of debentures which mature in 2025 (*note 12*).

The following are the contractual maturities of financial liabilities, including estimated interest payments:

As at December 31, 2018	Carrying Amount	Contractual Cash Flows	Less than 1 Year	1-2 Years	2-5 Years	More than 5 Years
Convertible debentures	119,775	166,558	6,325	6,325	18,975	134,933
CMHC mortgages	114,083	140,639	14,935	37,596	50,060	38,048
Non-CMHC mortgages	169,670	227,155	12,521	33,439	92,069	89,126
Construction loans	52,866	54,735	54,735	–	–	–
Finance lease obligations	80,992	105,938	12,904	13,720	37,928	41,386
Accounts payable and accrued liabilities	133,654	133,654	133,654	–	–	–
Income taxes payable	1,073	1,073	1,073	–	–	–
Operating lease obligations	–	7,874	3,507	1,665	2,699	3
	672,113	837,626	239,654	92,745	201,731	303,496

The gross outflows presented above represent the contractual undiscounted cash flows.

In addition to cash generated from its operations, the Company has available undrawn credit facilities totalling \$69.1 million (*note 12*).

CREDIT RISK

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the Company by failing to discharge its obligation. The nature and maximum exposure to credit risk as at December 31 was:

	Carrying Amount	
	2018	2017
Cash and short-term investments	65,893	128,156
Restricted cash	2,290	2,300
Accounts receivables, net of allowance (<i>note 7</i>)	50,570	42,491
Investments held for self-insured liabilities (<i>notes 10 and 22</i>)	67,938	86,296
Amounts receivable and other assets (<i>note 10</i>)	53,341	58,541
	240,032	317,784

Cash and Short-term Investments

The majority of our cash and short-term investments are held with highly rated financial institutions in Canada.

Restricted Cash

The restricted cash is cash held mainly on account of lender capital reserves with no credit risk.

Accounts Receivables, Net of Allowance

Extencicare periodically evaluates the adequacy of its provision for receivable impairment by conducting a specific account review of amounts in excess of predefined target amounts and aging thresholds. Allowances for uncollectibility are considered based upon the evaluation of the circumstances for each of these specific accounts. In addition, the Company has established percentages for provision for receivable impairment that are based upon historical collection trends for each payor type and age of the receivables. Accounts receivable that are specifically estimated to be uncollectible, based upon the above process, are fully reserved for in the provision for receivable impairment until they are written off or collected.

Receivables from government agencies represent the only concentrated group of accounts receivable for Extencicare. The Company has receivables primarily from provincial government agencies. Management does not believe there is any credit risk associated with these government agencies other than possible funding delays. Accounts receivable other than from government agencies consist of private individuals that are subject to different economic conditions, none of which represents any concentrated credit risk to the Company.

The maximum exposure to credit risk for accounts receivable at the reporting date is the carrying value of each class of receivable, denominated in the following currencies.

	2018			2017		
	Carrying Amount			Carrying Amount		
	U.S. Dollar	Canadian Dollar	Total	U.S. Dollar	Canadian Dollar	Total
Trade receivables	–	39,894	39,894	–	33,466	33,466
Other receivables	–	10,676	10,676	1,544	7,481	9,025
	–	50,570	50,570	1,544	40,947	42,491

As at December 31, 2018, receivables from government agencies represented approximately 85% of the total receivables (2017 – 91%). Management does not believe that there is significant credit risk associated with these government agencies other than possible funding delays. Management continuously monitors reports from trade associations or notes from provincial or federal agencies that announce possible delays that are rare to occur and usually associated with changes of fiscal intermediaries or changes in information technology or forms.

Receivables, other than those from government agencies, consist of receivables from various payors and do not represent any concentrated credit risks to the Company. There is no significant exposure to any single party.

As at December 31, 2018, the Company had trade receivables of \$39.9 million (2017 – \$33.5 million). All the receivables were fully performing and collectible in the amounts outlined above. The Company estimates the ECL based on historical experience of collectability and aging of accounts by payor type and on an individual basis. Receivables that are considered uncollectible are written off as a charge to net earnings, and any subsequent recoveries of previously written off amounts are recognized in net earnings when they occur.

The aging analysis of these trade receivables is as follows:

	2018	2017
Current	28,889	22,800
Between 30 and 90 days	10,122	6,846
Between 90 and 365 days	1,767	1,779
Over 365 days	712	3,638
Less: provision for receivable impairment	(1,596)	(1,597)
	39,894	33,466

Movements on the Company's provision for receivable impairment are as follows:

	2018	2017
At January 1	1,597	1,818
Increase in provision for receivable impairment	2,910	1,710
Receivables written off as uncollectible	(2,911)	(1,931)
At December 31	1,596	1,597

Any change in provision for receivables impairment has been included in operating expenses in net earnings. In general, amounts charged to the provision for impairment of trade receivables are written off when there is no expectation of recovering additional cash.

Investments Held for Self-insured Liabilities

The Company's investments held for self-insured liabilities include investments in corporate or government fixed-rate bonds with ratings above a rating of AAA- along with U.S. treasuries. The majority of these investments are investment grade. Cash held for self-insured liabilities are with high-quality financial institutions. The Company limits the amount of exposure to any one institution.

Notes, Mortgages and Amounts Receivable

Included in notes, mortgages and amounts receivable were \$53.3 million (2017 – \$58.5 million) of discounted amounts receivable due from government agencies. These represent amounts funded by the Ontario government for a portion of LTC centre construction costs over a 20-year or 25-year period (*note 10*). The Company does not believe there is any credit exposure for these amounts due from government agencies.

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 losses as and when payments are made.

As a result of the U.S. Sale Transaction, our exposure to foreign currency risk has been significantly reduced. The following table outlines the net asset exposure to both the U.S. continuing operations and other items retained from the U.S. Sale Transaction as at December 31, 2018 (*note 22*).

<i>(in thousands of US\$)</i>	2018
Assets	
Current assets	16,644
Investments held for self-insured liabilities	49,818
Liabilities	
Current liabilities	10,262
Indemnification provisions	10,053
Non-current liabilities	18,276
Net asset exposure	27,871

Net Earnings Sensitivity Analysis

Prior to the U.S. Sale Transaction, the majority of the Company's operations were conducted in the United States. As at December 31, 2018, U.S. operations accounted for less than 1% of its revenue from continuing operations (2017 – less than 1%).

Every one cent strengthening of the Canadian dollar against the U.S. dollar in 2018 would favourably impact net earnings by \$0.1 million and OCI by \$0.2 million. This analysis assumes that all other variables, in particular the interest rates, remain constant.

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 debt portfolio includes fixed-rate debt and variable-rate debt with interest rate swaps in place. At December 31, 2018, construction loans of \$52.9 million are variable-rate debt, which do not have interest rate swaps in place. The Company's credit facility, and future borrowings, may be at variable rates which would expose the Company to the risk of interest rate volatility (*note 12*).

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 (*notes 10*):

	Carrying Amount	
	2018	2017
Fixed-rate instruments:		
Long-term debt ⁽¹⁾	484,520	511,878
Total liability in fixed-rate instruments	484,520	511,878
Variable-rate instruments:		
Long-term debt ⁽¹⁾	52,866	29,868
	52,866	29,868

⁽¹⁾ Includes current portion and excludes netting of deferred financing costs.

Fair Value Sensitivity Analysis for Variable-rate Instruments

All long-term debt with variable rates are classified as other financial liabilities, which are measured at amortized cost using the effective interest method of amortization; therefore, changes in interest rates would not affect OCI or net earnings with respect to variable-rate debt. As at December 31, 2018, long-term debt with variable rates represented 9.8% of total debt. 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 (*notes 10 and 20*).

Cash Flow Sensitivity Analysis for Variable-rate Instruments

An increase of 100 basis points in interest rates would have decreased net earnings by \$0.4 million and a decrease of 100 basis points in interest rates would have increased net earnings by \$0.4 million. This analysis assumes that all other variables, in particular foreign currency rates, remains constant, and excludes variable interest rate debt that is locked in through interest rate swaps.

(b) Fair values of Financial Instruments

As at December 31, 2018	Amortized Cost	Fair Value through Profit and Loss	Total Carrying Amount	Fair Value
Financial assets:				
Cash and short-term investments	65,893	–	65,893	65,907
Restricted cash	2,290	–	2,290	2,290
Invested assets ⁽¹⁾	442	–	442	442
Accounts receivable	50,570	–	50,570	50,570
Interest rate swaps	–	2,556	2,556	2,556
Amounts receivable and other assets ⁽²⁾⁽³⁾	53,341	–	53,341	55,142
Investments held for self-insured liabilities	2,242	65,696	67,938	67,938
	174,778	68,252	243,030	244,845
Financial liabilities:				
Accounts payable	6,239	–	6,239	6,239
Interest rate swaps	–	523	523	523
Long-term debt excluding convertible debentures ⁽³⁾⁽⁴⁾	417,611	–	417,611	444,092
Convertible debentures	119,775	–	119,775	125,551
	543,625	523	544,148	576,405

As at December 31, 2017	Loans and Receivables	Available for Sale	Fair Value through Profit and Loss	Other Financial Liabilities	Total Carrying Amount	Fair Value
Financial assets:						
Cash and short-term investments	128,156	–	–	–	128,156	128,166
Restricted cash	2,300	–	–	–	2,300	2,300
Invested assets ⁽¹⁾	442	–	–	–	442	442
Accounts receivable	42,491	–	–	–	42,491	42,491
Interest rate swaps	–	–	3,459	–	3,459	3,459
Amounts receivable and other assets ⁽²⁾⁽³⁾	58,541	–	–	–	58,541	62,300
Investments held for self-insured liabilities	–	86,296	–	–	86,296	86,296
	231,930	86,296	3,459	–	321,685	325,454
Financial liabilities:						
Accounts payable	–	–	–	4,272	4,272	4,272
Long-term debt excluding convertible debentures ⁽³⁾⁽⁴⁾	–	–	–	416,946	416,946	432,259
Convertible debentures	–	–	–	124,800	124,800	129,650
	–	–	–	546,018	546,018	566,181

⁽¹⁾ Included in other assets.

⁽²⁾ Includes primarily amounts receivable from government.

⁽³⁾ Includes current portion.

⁽⁴⁾ Excludes 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 (2017 – available for sale) are based on quoted market prices.

Items designated as loans and receivables include cash, accounts receivable as well as notes, mortgages and amounts receivable. Accounts receivable, including other long-term receivables, are recorded at amortized cost. The carrying values of accounts receivable approximate fair values due to their short-term maturities, with the exception of certain settlement receivables from third-party payors that are anticipated to be collected beyond one year. The fair values of these settlement receivables are estimated based on discounted cash flows at current borrowing rates. Notes, mortgages and amounts receivable primarily consist of notes and amounts receivable from government agencies, and other third-party notes. The fair values for these instruments are based on the amount of future cash flows associated with each instrument, discounted using current applicable rates for similar instruments of comparable maturity and credit quality. 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

We use 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; Level 3 – internal models without observable market information as inputs.

The Company uses interest rate swap contracts to effectively fix the interest rate on certain mortgages. As hedge accounting is not applied, the contracts are carried at fair value and reported as assets or liabilities depending on the fair value on the reporting date, with the change in fair value recognized in net earnings. The fair value of the interest rate swap contracts are calculated through discounting future expected cash flows using the BA-based swap curve. Since the BA-based swap curve is an observable input, these financial instruments are considered Level 2.

The fair values of financial instruments presented above, where carrying value is not a reasonable approximation of fair value, are as follows:

	Level 1	Level 2	Level 3	Total
As at December 31, 2018:				
Investments held for self-insured liabilities	67,938	–	–	67,938
Amounts receivable and other assets	–	55,142	–	55,142
Interest rate swaps	–	2,556	–	2,556
Long-term debt excluding convertible debentures	–	444,092	–	444,092
Convertible debentures	125,551	–	–	125,551
As at December 31, 2017:				
Investments held for self-insured liabilities	86,296	–	–	86,296
Amounts receivable and other assets	–	62,300	–	62,300
Interest rate swaps	–	3,459	–	3,459
Long-term debt excluding convertible debentures	–	432,259	–	432,259
Convertible debentures	129,650	–	–	129,650

27. CAPITAL MANAGEMENT

The completion of the U.S. Sale Transaction facilitated the repositioning of Extencicare as a pure-play Canadian senior care and services company. The Company's objective is to further expand and grow our Canadian operations including growing our long-term care revenue through redevelopment, and exploring opportunities in the private-pay retirement space.

The Company accesses the capital markets periodically to fund acquisitions, growth capital expenditures and certain other expenditures. We monitor the capital markets to assess the conditions for raising capital and the cost of such capital relative to the return on any acquisitions or growth capital projects. Funds raised in the capital markets that are not deployed in acquisitions or growth projects are held in high-quality investments with surplus cash held in secure institutions. We manage our cash position and prepare monthly cash flow projections over the remaining and future fiscal periods, and we continuously monitor the level, nature and maturity dates of debt and level of leverage and interest coverage ratios to ensure

our compliance with debt covenants. We provide information to the Board on a regular basis in order to carefully evaluate any significant cash flow decisions.

Normal Course Issuer Bid

On January 10, 2019, Extencicare received the approval of the TSX for the Bid (*note 15*). During 2018, under a similar normal course issuer bid that commenced on January 15, 2018 and ended on January 14, 2019, the Company acquired and cancelled 703,585 Common Shares at an average price of \$8.89 per share, for a total cost of \$6.3 million.

Capital Structure

The Company defines its capital structure to include long-term debt, net of cash and short-term investments, and share capital.

	2018	2017
Current portion of long-term debt ⁽¹⁾	74,626	59,664
Long-term debt ⁽¹⁾	454,344	476,404
Total debt	528,970	536,068
Less: cash and short-term investments	(65,893)	(128,156)
Net debt	463,077	407,912
Share capital	492,064	490,881
	955,141	898,793

(1) Net of financing costs.

Dividends

The declaration and payment of future distributions is at the discretion of our Board and will be dependent upon a number of factors including results of operations, requirements for capital expenditures and working capital, future financial prospects of Extencicare, debt covenants and obligations, and any other factors deemed relevant by the Board. If our Board determines that it would be in Extencicare's best interests, it may reduce, for any period, the amount and frequency of dividends to be distributed to holders of Common Shares.

Financial Covenants

Extencicare is subject to external requirements for certain of its loans on debt service coverage. Management and the Board monitor these covenant ratios on a monthly and quarterly basis, respectively. The Company was in compliance with all these covenants as at December 31, 2018.

28. RELATED PARTY TRANSACTIONS

a) Transactions with Key Management Personnel

As previously announced, Extencicare's former President and Chief Executive Officer, Tim Lukenda stepped down from his position on October 22, 2018. In connection with his separation agreement, Mr. Lukenda was entitled to receive a cash payment in the amount of \$2.9 million, and was required to forfeit, for no consideration, all of the PSUs credited to his account under the Company's LTIP. The Company reflected a charge in the 2018 third quarter for the cash payment of \$2.9 million, partly offset by the reversal of \$1.2 million in connection with the forfeiture of the PSUs, reflected below as part of short-term benefits (2017 – \$2.0 million).

During Mr. Lukenda's employment with Extencicare, the Company provided management services to a long-term care centre and group purchasing services to a retirement centre owned by Mr. Lukenda and members of his family through a company in which Mr. Lukenda had an approximate 7.1% direct and indirect ownership interest. Mr. Lukenda's employment contract provided a mechanism and process that effectively removed him from the decision-making process in situations where a conflict of interest may have arisen on any matter between the two companies.

b) Compensation of Key Management Personnel

The remuneration of directors and other key management personnel of the Company during the years ended December 31, 2018 and 2017, was as follows:

	2018	2017
Short-term benefits	3,318	4,555
Post-employment benefits	2,917	137
Share-based compensation	(106)	1,773
	6,129	6,465

29. SEGMENTED INFORMATION

The Company reports the following segments within its Canadian operations: i) long-term care; ii) retirement living; iii) home health care; iv) management, consulting and group purchasing as “other Canadian operations”; and v) the Canadian corporate functions and any intersegment eliminations as “corporate Canada”. The continuing U.S. operations consist of the Captive.

The long-term care segment represents the 58 long-term care centres that the Company owns and operates in Canada. The retirement living segment includes seven acquired retirement communities, and two communities that were newly constructed and opened in the fourth quarters of 2016 and 2017. The retirement communities provide accommodation and services to private-pay residents at rates set by Extencicare based on the services provided and market conditions. Through our wholly owned subsidiary ParaMed Inc. (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 Canadian operations are composed of its management, consulting and group purchasing operations. Through our Extencicare Assist division, we provide management and consulting services to third-party owners; and through our SGP Purchasing Partner Network division, we offer cost-effective purchasing contracts to other senior care providers for food, capital equipment, furnishings, cleaning and nursing supplies, and office products.

The Company continues to group its former and remaining U.S. operations as one segment. The Captive’s expense incurred for self-insured liabilities related to the Company’s U.S. general and professional liability risks up to the date of the U.S. Sale Transaction as well as the disposed U.S. businesses are presented as discontinued operations; while the Captive’s costs to administer and manage the settlement of the remaining claims are reported as continuing operations within the U.S. segment.

2018

<i>(in thousands of Canadian dollars)</i>	Long-term Care	Retirement Living	Home Health Care	Other Canadian Operations	Corporate Canada	Total Canada	Total U.S.	Total
CONTINUING OPERATIONS								
Revenue								
Long-term care	632,533	–	–	–	–	632,533	–	632,533
Retirement living	–	33,412	–	–	–	33,412	–	33,412
Home health care	–	–	431,343	–	–	431,343	–	431,343
Management, consulting and other	–	–	–	22,291	23	22,314	405	22,719
Total revenue	632,533	33,412	431,343	22,291	23	1,119,602	405	1,120,007
Operating expenses	559,489	24,430	393,354	8,750	–	986,023	–	986,023
Administrative costs	–	–	–	–	31,828	31,828	1,176	33,004
Lease costs	–	–	4,877	–	1,865	6,742	–	6,742
Total expenses	559,489	24,430	398,231	8,750	33,693	1,024,593	1,176	1,025,769
Earnings (loss) before depreciation, amortization, and other expense	73,044	8,982	33,112	13,541	(33,670)	95,009	(771)	94,238
Depreciation and amortization	–	–	–	–	35,270	35,270	–	35,270
Other expense	–	–	–	–	20,195	20,195	–	20,195
Earnings (loss) before net finance costs and income taxes	73,044	8,982	33,112	13,541	(89,135)	39,544	(771)	38,773
Interest expense	–	–	–	–	27,584	27,584	–	27,584
Accretion	–	–	–	–	1,250	1,250	1,628	2,878
Gain on foreign exchange and investments	–	–	–	–	(1,105)	(1,105)	(98)	(1,203)
Interest revenue	–	–	–	–	(3,761)	(3,761)	–	(3,761)
Fair value adjustments	–	–	–	–	956	956	–	956
Net finance costs	–	–	–	–	24,924	24,924	1,530	26,454
Earnings (loss) before income taxes	73,044	8,982	33,112	13,541	(114,059)	14,620	(2,301)	12,319
Income tax expense								
Current	–	–	–	–	8,129	8,129	–	8,129
Deferred	–	–	–	–	(3,894)	(3,894)	–	(3,894)
Total income tax expense	–	–	–	–	4,235	4,235	–	4,235
Earnings (loss) from continuing operations	73,044	8,982	33,112	13,541	(118,294)	10,385	(2,301)	8,084
DISCONTINUED OPERATIONS								
Earnings from discontinued operations, net of income taxes	–	–	–	–	–	–	23,654	23,654
Net earnings (loss)	73,044	8,982	33,112	13,541	(118,294)	10,385	21,353	31,738

2017

<i>(in thousands of Canadian dollars)</i>	Long-term Care	Retirement Living	Home Health Care	Other Canadian Operations	Corporate Canada	Total Canada	Total U.S.	Total
CONTINUING OPERATIONS								
Revenue								
Long-term care	616,887	–	–	–	–	616,887	–	616,887
Retirement living	–	20,673	–	–	–	20,673	–	20,673
Home health care	–	–	435,718	–	–	435,718	–	435,718
Management, consulting and other	–	–	–	18,789	15	18,804	5,249	24,053
Total revenue	616,887	20,673	435,718	18,789	15	1,092,082	5,249	1,097,331
Operating expenses	542,965	18,290	391,867	8,387	–	961,509	–	961,509
Administrative costs	–	–	–	–	30,333	30,333	1,134	31,467
Lease costs	–	–	4,778	–	1,980	6,758	–	6,758
Total expenses	542,965	18,290	396,645	8,387	32,313	998,600	1,134	999,734
Earnings (loss) before depreciation and amortization	73,922	2,383	39,073	10,402	(32,298)	93,482	4,115	97,597
Depreciation and amortization	–	–	–	–	31,379	31,379	–	31,379
Earnings (loss) before net finance costs and income taxes	73,922	2,383	39,073	10,402	(63,677)	62,103	4,115	66,218
Interest expense	–	–	–	–	28,082	28,082	–	28,082
Accretion	–	–	–	–	1,529	1,529	1,283	2,812
Loss (gain) on foreign exchange and investments	–	–	–	–	666	666	(1,530)	(864)
Interest revenue	–	–	–	–	(3,695)	(3,695)	(207)	(3,902)
Fair value adjustments	–	–	–	–	(2,474)	(2,474)	–	(2,474)
Net finance costs (income)	–	–	–	–	24,108	24,108	(454)	23,654
Earnings (loss) before income taxes	73,922	2,383	39,073	10,402	(87,785)	37,995	4,569	42,564
Income tax expense								
Current	–	–	–	–	10,149	10,149	–	10,149
Deferred	–	–	–	–	603	603	100	703
Total income tax expense	–	–	–	–	10,752	10,752	100	10,852
Earnings (loss) from continuing operations	73,922	2,383	39,073	10,402	(98,537)	27,243	4,469	31,712
DISCONTINUED OPERATIONS								
Loss from discontinued operations, net of income taxes	–	–	–	–	–	–	(29,580)	(29,580)
Net earnings (loss)	73,922	2,383	39,073	10,402	(98,537)	27,243	(25,111)	2,132

30. SIGNIFICANT SUBSIDIARIES

The following is a list of the significant subsidiaries as at December 31, 2018, all of which are 100% directly or indirectly owned by the Company.

	Jurisdiction of Incorporation
Extendicare (Canada) Inc.	Canada
ParaMed Inc.	Canada
Harvest Retirement Community Inc.	Canada
Stonebridge Crossing Retirement Community Inc.	Canada
Empire Crossing Retirement Community Inc.	Canada
Yorkton Crossing Retirement Community Inc.	Canada
West Park Crossing Retirement Community Inc.	Canada
9623523 Canada Inc.	Canada
Douglas Crossing Retirement Community Inc.	Canada
Lynde Creek Manor Retirement Community Inc.	Canada
9994165 Canada Inc.	Canada
Riverbend Crossing Retirement Community Inc.	Canada
Cedar Crossing Retirement Community Inc.	Canada
Laurier Indemnity Company, Ltd.	Bermuda

EXTENDICARE INC. BOARD OF DIRECTORS

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Chairman of the Board

Michael Guerriere
President and Chief Executive Officer

Margery O. Cunningham ^A
Corporate Director and Consultant

Sandra L. Hanington ^{A, GN, QR}
Corporate Director and Advisor

Alan R. Hibben ^{A, AQ, GN}
Corporate Director and Advisor

Donna E. Kingelin ^{AQ, HR, QR}
Corporate Director and Consultant

Al Mawani ^{A, AQ}
Principal of Exponent Capital
Partners Inc.

Gail Paech ^{HR, QR}
President and Chief Executive
Officer of Associated Medical
Services Inc.

Honorary Directors

George A. Fierheller
Dr. Seth. B. Goldsmith
Alvin G. Libin
J. Thomas MacQuarrie, QC

Committees

A Audit
AQ Acquisitions
GN Governance and Nominating
HR Human Resources
QR Quality and Risk

EXTENDICARE EXECUTIVES

Michael Guerriere
President and Chief Executive Officer

Elaine E. Everson
Vice President and Chief Financial
Officer

Christopher J. Dennis
President, ParaMed Inc.

Jillian E. Fountain
Vice President, Investor Relations

Michael A. Harris
Vice President, Long-term Care
Operations

Gary M. Loder
Vice President, Extendicare Assist
and SGP Purchasing Partner
Network

Mark A. Lugowski
Vice President, Esprit Lifestyle
Communities

Tracey L. Mulcahy
Vice President, Quality, Risk and
Innovation

Karen A. Scanlan
Vice President, People and Culture

Brandon L. Parent
Vice President, General Counsel &
Corporate Secretary

SECURITYHOLDER INFORMATION

Stock Exchange Listing
Toronto Stock Exchange

Symbols:
Common Shares – EXE
2025 Convertible Debt (5.0%) – EXE.DB.C

Transfer Agent

Computershare Trust Company of Canada
Tel: (800) 564-6253
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Published Information

Additional information about Extendicare, including this report, is available for viewing or printing on its website, in addition to news releases, quarterly reports and other filings with the securities commissions.
Printed copies are available upon request.

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