

Extendicare Inc.  
2019 ANNUAL REPORT

# EXTENDICARE<sup>®</sup>

... helping people live better



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CHAIR OF THE INVESTMENT COMMITTEE

### COMMITTEES

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HR Human Resources  
INV Investment  
QR Quality and Risk

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John Toffoletto  
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Gary Loder  
VICE PRESIDENT, EXTENDICARE ASSIST AND SGP PURCHASING  
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VICE PRESIDENT, FINANCE OPERATIONS

Mark Trenholm  
VICE PRESIDENT, FINANCE

# EXTENDICARE<sup>®</sup>

... helping people live better

March 30, 2020

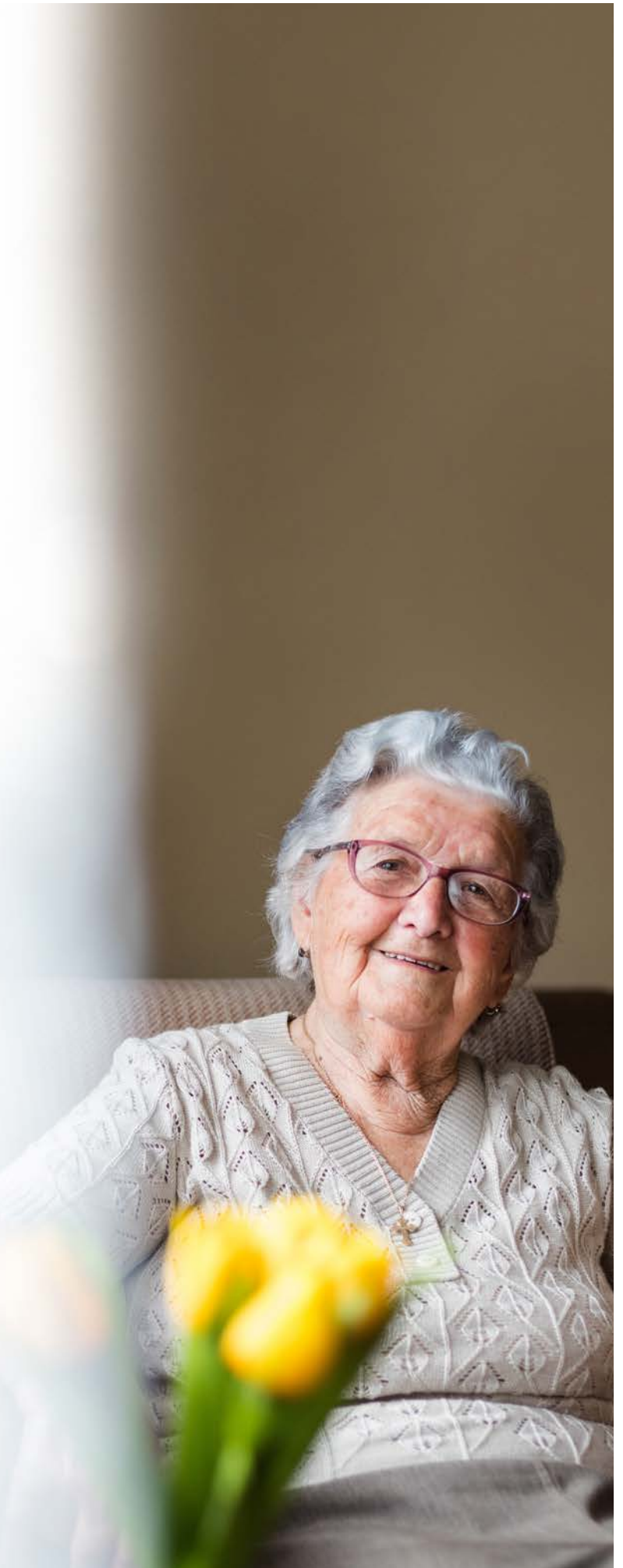
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## FELLOW EXTENDICARE SHAREHOLDERS,

WE FIND OURSELVES IN  
AN EXTRAORDINARY TIME,  
NAVIGATING THE UNCHARTED  
PERILS OF A GLOBAL PANDEMIC.

The world is changing quickly at a pace and scale unimaginable only a few short weeks ago. Extendicare is on the front lines of the battle with the virus, with the protection and care of our residents, clients and staff our paramount priority. We have well honed procedures for infection control, practiced over many years protecting seniors from annual waves of influenza and other viral threats. These techniques are well suited to preventing the spread of COVID-19, and are deployed across our homes, communities and offices.

The pandemic is affecting our business in numerous ways. Our business volumes may be impacted as access to our homes and communities is restricted and non-essential home health care services suspended where prudent. At the same time, we are experiencing increases in demand as hospitals look to our homes, retirement communities and home health care services as a safe place to manage hospital patients as they endeavour to create greater capacity for COVID-19 admissions. We are incurring additional costs as we use more masks, gloves and gowns, and incur greater staff absenteeism as they self-isolate when circumstances warrant. However, governments are making new funding announcements in an effort to mitigate the increased costs incurred in managing the virus and launching new programs to encourage virtual home health care, creating new opportunities to treat our clients at a distance. Also, we are seeing major volatility



in the labour market, which may impact recruiting, retention and engagement of staff both positively and negatively.

At this point, it is impossible to project the net impact of these changes on our business. That said, we have the benefit of being an essential service where over 90% of our business lines are government funded. Although it is hard to see how long this crisis will last and how it will end, our services will continue to be in high demand once the crisis passes.

AT EXTENDICARE, WE CONTINUE TO BE COMMITTED TO HELPING PEOPLE LIVE BETTER BY DELIVERING HIGH QUALITY CARE TO CANADA'S GROWING SENIORS' POPULATION.

We provide services directly to seniors across the continuum of care, ranging from home health care to retirement living and long-term care (LTC). We also use our proven expertise and experience to assist other LTC and retirement owners to operate their homes with particular focus on quality improvement, efficient operations, use of technology and cost-effective purchasing.

Extendicare's business is underpinned by government revenue and a strong balance sheet. To drive improved performance and profitability, we constantly monitor industry advancements and adapt our operations to take advantage of new technology, adding new systems to improve performance and drive organic growth.

**In 2019, we continued to invest in our future and positioned Extendicare for long-term success.** Our long-term care operations continued to deliver high quality care for seniors. Occupancy in our LTC homes averaged

over 97% in 2019, generating more than half our total revenue and delivering stable margins.

On the home health care front, we made significant progress in transforming our ParaMed home health care operations through a \$12 million investment in cloud-based software. While these costs put pressure on our 2019 home health care margins, they set us up for the future by creating capacity for growth and put ParaMed at the forefront of the home health care industry.

Our retirement living business performed strongly in 2019, with brisk lease up activity in our newly added and expanded communities. Since November 2018 we have added 281 new suites with the expansion of Douglas Crossing, and the opening of two new communities, Bolton Mills and The Barrievue.

Our B2B services are also an important part of our growth strategy. In 2019, we continued to grow this high margin segment of our business, most notably through a 27% increase in the number of beds served by our SGP Purchasing Partner Network.

**Looking forward, as the COVID-19 challenge recedes, we see growth opportunities across all segments of our business.** The number of seniors aged 75 or over in Canada is expected to grow at 4% per year, putting even more strain on our already stretched health care system. Expansion of home health care and long-term care will be essential to avoid overwhelming the acute health care system with services that can be provided more effectively in the community setting.

The Ontario government understands the importance of adding new beds and redeveloping existing beds to address the growing need for services. We are working closely with the government to advance the redevelopment program. Extendicare has 21 redevelopment projects that are well positioned to play a meaningful part in addressing the shortage of senior care beds in Ontario.

**B2C: DIRECT SERVICES TO SENIORS**

**B2B: CONTRACT & CONSULTING SERVICES**


LONG TERM CARE



**58**

Long-term care centres owned

HOME HEALTH CARE



**>9M**

Home Health Care hours delivered (TTM)

RETIREMENT LIVING



**11**

Retirement communities owned

GROUP PURCHASING SERVICES



**>71K**

Third-party residents served

CONTRACT SERVICES & CONSULTING



**53**

Homes under contract



With our ParaMed transformation substantially complete, we expect to fully participate in the growing seniors market with increased volume of care hours and improving margins. As the healthcare industry evolves, we expect to see increased integration and collaboration between home health care providers and doctors and hospitals. As the only home health care provider with scale and a cloud-based technology platform, our ability to provide integrated care services is a strategic advantage that positions us well to respond quickly to market opportunities as they arise.

Continued lease up of our new retirement communities and the planned expansion in Port Hope will contribute strongly to our overall performance.

Our well-established processes and scale can provide valuable assistance to smaller service providers through our B2B offerings. We expect to continue to develop opportunities to grow SGP and Extendicare Assist through additional services and product offerings and by expanding the geographic reach of our sales team.

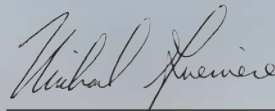
**WE ARE BUILDING A STRONG FOUNDATION TO DRIVE GROWTH AND SHAREHOLDER VALUE.**

Extendicare is well positioned to provide high quality care to Canada's growing seniors' population.

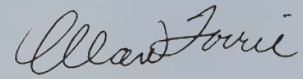
IN CLOSING, WE WANT TO  
PAY TRIBUTE TO OUR 22,000  
TEAM MEMBERS ACROSS THE  
COUNTRY WHO ARE GOING  
ABOVE AND BEYOND DURING  
THIS DIFFICULT TIME TO CARE  
FOR THOSE WHO DEPEND ON US.

Their dedication and commitment to the Extendicare mission sets an example for all of us to do everything in our power to protect our neighbours, our families and our way of life. We are also grateful to our advisors, business partners and Board of Directors for their tireless efforts in support of Extendicare and its mission.

While we are completely focused on addressing the COVID-19 challenge in the near term, we remain confident in our future. Once we emerge from this crisis, demographic tailwinds and the investments we have made in our business will provide a variety of future growth opportunities. As a leader in the industry, we will play an important part in improving the accessibility of seniors' care services. Our focus on helping people live better will drive sustainable value creation for Extendicare's shareholders for years to come.



Dr. Michael Guerriere  
PRESIDENT & CEO



Alan Torrie  
CHAIRMAN





## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

Year ended December 31, 2019

Extendicare Inc.

Dated: February 27, 2020





# Management's Discussion and Analysis

Year ended December 31, 2019

Dated: February 27, 2020

## TABLE OF CONTENTS

Basis of Presentation .....	1	2019 Fourth Quarter Financial Review .....	15
Additional Information.....	2	2019 Financial Review.....	19
Forward-looking Statements .....	2	Adjusted Funds from Operations .....	24
Non-GAAP Measures .....	3	Liquidity and Capital Resources .....	26
Business Strategy .....	4	Other Contractual Obligations and Contingencies.....	30
Significant 2019 Events and Developments.....	5	Update of Regulatory and Funding Changes Affecting Results.....	32
Business Overview.....	6	Related Party Transactions.....	35
Key Performance Indicators.....	10	Risks and Uncertainties.....	35
Select Annual Information .....	13	Accounting Policies and Estimates .....	44
Select Quarterly Financial Information.....	14		

## 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.

The Company and its predecessors have been in operation since 1968, helping Canadians live better through a commitment to quality care. The Company is the largest private-sector operator of long-term care homes in Canada and we believe is the largest private-sector provider of publicly funded home health care services in Canada through its wholly owned subsidiary ParaMed Inc. (ParaMed). In addition, the Company owns and operates retirement communities under the Esprit Lifestyle Communities brand, provides contract services and consulting to third-party long-term care (LTC) homes and retirement communities through its Extencicare Assist division and provides group purchasing services to third-party clients through its SGP Purchasing Partner Network (SGP) division. The Company's qualified and highly trained workforce of approximately 22,000 individuals is passionate about providing high quality services to help people live better.

The Company has prepared this MD&A to provide information to current and prospective investors of the Company to assist them to understand the Company's financial results for the year ended December 31, 2019. This MD&A should be read in conjunction with the Company's audited consolidated financial statements for the year ended 2019 and 2018, and the notes thereto, prepared in accordance with International Financial Reporting Standards (IFRS). The annual and interim MD&A, financial statements and notes thereto are available on the Company's website at [www.extencicare.com](http://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, 2019, 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 27, 2020. 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.

Effective January 1, 2019, the Company adopted IFRS 16 "Leases", as described under "Accounting, Policies and Estimates – New Accounting Policies Adopted". The Company has applied IFRS 16 using the modified retrospective approach, under which the comparative information presented has not been restated and continues to be reported under International Accounting Standard (IAS) 17 "Leases". Certain practical expedients were selected on transition. The transition did not result in any retrospective adjustment to opening retained earnings on January 1, 2019.

Lease costs for the prior year have been reclassified under administrative costs to conform with the current year presentation. The impact of adopting this standard on net earnings and overall cash flow is neutral; however, the principal payment of the lease liabilities is presented in financing activities (previously reflected as operating activities).

In connection with the adoption of IFRS 16, the Company has amended its definition of funds from operations (FFO) by including a deduction for “depreciation for office leases”. As a result, the impact of the adoption of IFRS 16 on the determination of FFO and adjusted funds from operations (AFFO) is not material.

## **ADDITIONAL INFORMATION**

Additional information about the Company, including its latest Annual Information Form, may be found on SEDAR’s website at [www.sedar.com](http://www.sedar.com) under the Company’s issuer profile and on the Company’s website at [www.extendicare.com](http://www.extendicare.com). A copy of this and other public documents of the Company are available upon request to the Corporate Secretary of the Company.

## **FORWARD-LOOKING STATEMENTS**

Information provided by the Company 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 AFFO to be derived from acquisitions and development projects; and statements relating to indemnification provisions 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 the Company 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 changes in 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, legal and economic influences; changes in applicable accounting policies; changes in regulations governing the health care and long-term care industries and the compliance by the Company with such regulations; changes in government funding levels for health care services; the ability of the Company to renew its government licenses and customer contracts; changes in labour relations and costs; changes in tax laws; resident care and class action litigation, including the Company’s exposure to punitive damage claims, increased insurance costs and other claims; the ability of the Company to maintain and increase resident occupancy levels and business volumes; changes in competition; changes in demographics and local environment economies; changes in foreign exchange and interest rates; changes in the financial markets, which may affect the ability of the Company to refinance debt; and the availability and terms of capital to the Company to fund capital expenditures and acquisitions; changes in the anticipated outcome and benefits of 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](http://www.sedar.com) under the Company’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 the Company. 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

The Company 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 the Company and its investors as a means of assessing the performance of the core operations in comparison to prior periods. They are presented by the Company 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 the Company 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 the 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, Adjusted EBITDA and Adjusted EBITDA margin to measure a company’s ability to service debt and meet other payment obligations, and as a common valuation measurement.

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: “foreign exchange and fair value adjustments” and “other expense”. These line items are reported separately and excluded from certain performance measures, because they are transitional in nature and would otherwise distort historical trends. 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 related 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”, depreciation for office leases, 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 the Company’s actual maintenance capex spending fluctuates on a quarterly basis with the timing of projects and seasonality, the adjustment to AFFO for these expenditures from the amount of depreciation for FFEC already deducted in determining FFO, may result in an increase to AFFO in the interim periods

reported. Management 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 the Company'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 "Select Quarterly Financial Information", "2019 Fourth Quarter Financial Review" and "2019 Financial Review".

Reconciliations of "earnings from continuing operations" to "FFO" and "AFFO" are provided under "Adjusted Funds from Operations".

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

## **BUSINESS STRATEGY**

Our vision is to be the leading provider of care and services to seniors in Canada. We strive to provide quality, person-centred care through compassionate caregivers across the continuum of care – offering the services seniors need wherever they need it as they age and their care needs change – and to be an employer of choice in the communities in which we operate.

Our LTC business provides high quality care in the homes we own and operate across the country. Capital investment is focused on redeveloping our older LTC homes in the portfolio that will proceed when the economics are favourable. We also provide contract services and consulting to a growing list of third-party LTC homes and retirement communities through our Extencare Assist division. Both our operations and our Extencare Assist clients are supported by our SGP Purchasing Partner Network division. We intend to continue to grow our third-party services offerings to gain market share and capitalize on the organic growth in the Canadian seniors care market.

Our core long-term care services are complemented by a market leading home health care platform operating under the ParaMed brand. Demand for home care is growing in tandem with the aging of the population, trending at an average market growth of 4% per year, according to Statistics Canada. Strategic investments in systems and processes are designed to enable volume growth in line with the market, while improving efficiency and resulting profitability.

Our private-pay retirement business operates under the Esprit Lifestyle Communities brand. We continue to grow Esprit through new developments and expansions in secondary markets where supply and demand dynamics are favourable.

We are continually enhancing our operations to provide excellent care to the growing number of Canadian seniors. These enhancements broaden the range of services available to seniors, while driving improved profitability and greater diversification for the Company. 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 the Company.

## **SIGNIFICANT 2019 EVENTS AND DEVELOPMENTS**

### **Completed Projects**

In October 2019, the Company opened and welcomed its first residents to The Barrievue, its 124-suite retirement living community in Barrie, Ontario, offering 78 independent living (IL) suites, 23 assisted living (AL) suites and 23 memory care (MC) suites. Based on the strong pre-sale activity and initial occupancy experienced at The Barrievue, management is projecting achieving stabilized occupancy of 95% by the end of 2020, earlier than originally anticipated. Management estimates the Adjusted Development Costs for this project to be \$35.4 million, with an estimated stabilized annual NOI of \$3.1 million and a corresponding NOI Yield of 8.7%.

### **Projects under Development**

The Company is undertaking a 59-suite expansion of Empire Crossing Retirement Community (63 suites) in Port Hope, Ontario that is anticipated to break ground in the second quarter of 2020. The project includes enhancements and upgrades of the common amenities, which together with the efficiencies of operating a larger community, are anticipated to generate incremental revenue and costs savings. Management estimates the Adjusted Development Costs for this project to be \$24.9 million, with an expected stabilized occupancy of the 122-suite retirement community of 95% and an estimated incremental stabilized annual NOI of \$2.0 million.

The Company continues to pursue the redevelopment of its 21 Class C LTC homes in Ontario in terms of pre-construction activities. Management is working closely with the Ontario government and the Ontario Long Term Care Association (the "OLTCA") to improve the building program, including potential changes to the application and licensing process and the capital funding subsidy required to advance our projects. Management believes that the Ontario government is well aware of the critical state of long-term care and the pressing need for additional LTC beds, as discussed further under "Update of Regulatory and Funding Changes Affecting Results – Ontario LTC Redevelopment and Expansion".

### **Financing Activity**

In April 2019, the Company secured a Canadian Mortgage and Housing Corporation (CMHC) insured mortgage in the amount of \$16.0 million, inclusive of fees, on Lynde Creek Manor Retirement Community that had been acquired in April 2018. The mortgage carries a fixed rate of 2.81% per annum, maturing in September 2029.

In June 2019, the Company renewed its corporate head office lease for a term of 10 years with renewal options, resulting in the recognition of a right-of-use asset and lease liability of \$10.3 million, in accordance with IFRS 16.

In October 2019, the Company refinanced its construction loan in the amount of \$9.0 million on Cedar Crossing Retirement Community that had opened in November 2016, with a CMHC-insured mortgage in the amount of \$9.3 million, inclusive of fees, that matures in September 2029 and carries a fixed rate of 2.49% per annum.

### **ParaMed – Bill 148 Funding Update**

In June 2019, the Company received confirmation from the Local Health Integration Networks (LHINs) of the amount of additional funding they would provide to offset increased costs associated with Bill 148, the *Fair Workplaces, Better Jobs Act, 2017* (Ontario) in 2018. The incremental funding was in excess of that estimated by the Company for the period ended December 31, 2018, resulting in a \$2.2 million increase in revenue recorded in the three months ended June 30, 2019. For further information, refer to the discussion under "Update of Regulatory and Funding Changes Affecting Results – Ontario Home Health Care Funding".

### **ParaMed – Transformation**

Our home health care business, ParaMed, accounted for 37.4% of our revenue in 2019, or 34.4% excluding the British Columbia (B.C.) operations, which ceased in January 2020. Demand for home health care services in Canadian markets is continuing to increase, but legacy information technology systems and processes are preventing us from fully capitalizing on this opportunity.

Our legacy scheduling technology has impaired our ability to give our staff full time hours, adversely impacting staff retention. This, coupled with competition for personal support workers (PSWs) and nurses, has prevented us from accepting growing client referrals. To address these issues we are investing over \$12 million to transform ParaMed's business (the "ParaMed Transformation"), including the implementation of a new cloud-based system to optimize scheduling and automate work processes, which will improve scheduling for our valued staff, reduce turnover, increase capacity and allow

for more care referrals to be accepted. At year end, 89% of the targeted business volumes were supported by the new platform, with the balance to be completed by the end of the first quarter of 2020.

The following table summarizes the costs incurred in respect of the ParaMed Transformation, including the ongoing costs of the three legacy systems to be decommissioned once the new system is implemented in all ParaMed offices. In 2019, Adjusted EBITDA was impacted by approximately \$5.9 million (\$2.3 million at the NOI level), as compared to approximately \$3.3 million (\$2.3 million at the NOI level) in 2018. Management anticipates that the remaining costs associated with the completion of the ParaMed Transformation project will total approximately \$1.2 million (\$0.5 million at the NOI level).

ParaMed Transformation Costs <i>(millions of dollars)</i>	Three months ended December 31		Years ended December 31		
	2019	2018	2019	2018	2017
Operating expenses <sup>(1)</sup>	0.5	0.5	2.3	2.3	1.6
Administrative costs	0.9	0.4	3.6	1.0	–
<b>Adjusted EBITDA</b>	<b>1.4</b>	<b>0.9</b>	<b>5.9</b>	<b>3.3</b>	<b>1.6</b>

(1) The operating expenses reflect the impact on net operating income.

The Company expects this investment will drive increased revenue growth and ultimately improve margins in the business. Management is focused on completing the systems implementation stage of the project in early 2020. It is anticipated that the new system, coupled with the ongoing training and optimization of the new platform, will drive volume increases in 2020, excluding the impact of the B.C. exit, with margin improvements coming later in the year.

## ParaMed – B.C. Contract Expiration

As previously announced in March 2019, the Company received notice from Fraser Health and Vancouver Coastal Health, both regional health authorities in B.C. (the “Health Authorities”), that the Health Authorities would be bringing their home support services in-house, and as a result, would not be renewing contracts with private sector home support agencies, including ParaMed. Consequently, ParaMed transferred and ceased providing services to the B.C. Health Authorities at the end of January 2020. In connection with the expiration of the contracts, the Company recorded a charge of \$1.4 million in the three months ended March 31, 2019, primarily for facilities related costs.

For the three months ended December 31, 2019, ParaMed’s B.C. operations contributed revenue of \$13.3 million and net operating income of \$0.1 million, as compared to revenue of \$11.6 million and a net operating loss of \$0.2 million for the three months ended December 31, 2018. For the year ended December 31, 2019, ParaMed’s B.C. operations contributed revenue of \$50.7 million and a net operating loss of \$0.3 million, as compared to revenue of \$45.5 million and a net operating loss of \$0.1 million for the year ended December 31, 2018. In addition, the B.C. operations incurred lease costs of approximately \$0.4 million annually.

## BUSINESS OVERVIEW

As at December 31, 2019, the Company owned and operated 58 LTC homes and 11 retirement living communities, through its Extencicare and Esprit Lifestyle Communities divisions, respectively, and provided contract services to 53 LTC homes and retirement communities for third parties through Extencicare Assist. In total, Extencicare operated or provided contract services to a network of 122 LTC homes and retirement communities across four provinces in Canada, with capacity for 15,787 residents. The majority of these homes are in Ontario and Alberta, which accounted for approximately 77% and 11% of residents served, respectively.

In addition to providing group purchasing services to the Company’s own operations, SGP supports third-party clients representing approximately 64,800 senior residents across Canada, as at December 31, 2019.

With respect to the Company’s home health care operations, ParaMed delivered approximately 10.6 million hours of home health care services in 2019. Excluding the B.C. operations, ParaMed’s business volumes were approximately 9.3 million in 2019, operating from 34 locations across five provinces (29 in Ontario, 2 in Alberta, 1 in Manitoba, 1 in Nova Scotia and 1 in Quebec).

The following table summarizes the LTC homes and retirement communities operated by the Company and those for which it provided contract services to, as at December 31, 2019. Included are nine LTC homes in Ontario that the Company operates under 25-year lease arrangements, with full ownership obtained at the end of the leases, which expire between 2026 and 2028. In addition to the homes listed in the following table, 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 Homes	Resident Capacity	No. of Homes	Resident Capacity	No. of Homes	Resident Capacity	No. of Homes	Resident Capacity
<b>Owned/Leased</b>								
Ontario	34	5,207	7	708	–	–	41	5,915
Alberta	14	1,519	–	–	–	–	14	1,519
Saskatchewan	5	649	4	341	–	–	9	990
Manitoba	5	762	–	–	–	–	5	762
	58	8,137	11	1,049	–	–	69	9,186
<b>Contract Services</b>								
Ontario	42	5,442	6	660	1	120	49	6,222
Alberta	1	102	1	109	–	–	2	211
Manitoba	2	168	–	–	–	–	2	168
	45	5,712	7	769	1	120	53	6,601
<b>Total</b>	<b>103</b>	<b>13,849</b>	<b>18</b>	<b>1,818</b>	<b>1</b>	<b>120</b>	<b>122</b>	<b>15,787</b>

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

The following reflects the change in operating capacity of the LTC homes and retirement communities during 2019 and 2018. During 2019, the Company opened Bolton Mills Retirement Community (112 suites) in Bolton, Ontario in January, and The Barrierview Retirement Community (124 suites) in Barrie, Ontario in October.

Long-term Care and Retirement Living	2019		2018	
	No. of Homes	Resident Capacity	No. of Homes	Resident Capacity
As at beginning of year	120	15,447	116	15,004
Contract services added	1	164	4	524
Contract services ceased	(1)	(60)	(1)	(243)
Retirement living	2	236	1	138
Long-term care	–	–	–	24
As at end of year	122	15,787	120	15,447

## Operating Segments

The Company reports the following segments within its Canadian operations: i) long-term care; ii) retirement living; iii) home health care; iv) contract services, 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 homes are reported under the “long-term care” or the “retirement living” operating segment based on the predominant level of care provided. The Company’s managed homes 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 the Company’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 U.S. 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 summarizes the contribution of the business segments to the Company's consolidated revenue and net operating income for 2019 and 2018.

Operating Segments	Three months ended December 31				Years ended December 31			
	2019		2018		2019		2018	
	Revenue	NOI	Revenue	NOI	Revenue	NOI	Revenue	NOI
Long-term care	57.3%	62.4%	57.0%	57.2%	56.9%	58.0%	56.5%	54.5%
Retirement living	3.9%	9.1%	3.1%	6.9%	3.6%	8.6%	3.0%	6.7%
Home health care	36.7%	18.0%	37.8%	24.1%	37.4%	23.5%	38.5%	28.4%
Other Canadian	2.1%	10.5%	2.0%	11.0%	2.1%	9.9%	2.0%	10.1%
Remaining U.S.	0.0%	0.0%	0.1%	0.8%	0.0%	0.0%	0.0%	0.3%

Excluding ParaMed's B.C. operations, the long-term care operations represented 59.6% of consolidated revenue and 57.9% of consolidated NOI for the 2019 year, while the home health care operations represented 34.4% and 23.7%, respectively.

The following describes the operating segments of the Company.

### LONG-TERM CARE

The Company owns and operates for its own account 58 LTC homes with capacity for 8,137 residents, inclusive of a stand-alone designated supportive living home (140 suites) and a designated supportive living wing (60 suites) in Alberta and two retirement wings (76 suites) in Ontario.

In Canada, provincial legislation and regulations closely control all aspects of the operation and funding of LTC homes and government-funded supportive living homes, including the fee structure, subsidies, the adequacy of physical homes, standards of care and accommodation, equipment and personnel. A substantial portion of the fees paid to providers of these services are funded by provincial programs, with a 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 homes provide an alternative setting for residents not yet requiring the needs of a more expensive LTC home. Such homes are licensed, regulated and funded by Alberta Health Services (AHS) in a similar manner to LTC homes, including a government-determined fee structure.

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

The following summarizes the composition of the owned/leased LTC homes operated by the Company in Ontario, as at December 31, 2019, as well as the maximum preferred differential rates per diem for each classification of bed that took effect July 1, 2019.

Ontario Owned/Leased	No. of Homes	Composition of Beds				
		Private \$26.64 premium	Private \$19.17 premium	Semi-private \$8.52 premium	Basic/Other	Total
New	13	1,106	–	–	741	1,847
Class C <sup>(1)</sup>	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 11 retirement communities with 1,049 suites as at December 31, 2019. Four of these communities (341 suites) are located in Saskatchewan and seven communities (708 suites) are located in Ontario. Plans are under way for a 59-suite expansion of the Company's 63-suite Empire Crossing Retirement Community in Port Hope, Ontario (see "Significant 2019 Events and Development – Projects under Development").

The Company'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.

## **HOME HEALTH CARE**

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

Provincial governments fund a wide range of home health care services and contract these services to providers such as ParaMed. ParaMed receives approximately 98% of its revenue from contracts tendered by locally administered provincial agencies, with the remainder coming from private-pay clients. ParaMed delivered approximately 10.6 million hours of service in 2019, of which approximately 81% were provided in Ontario, 12% in B.C., 4% in Alberta, and the balance were provided in Manitoba, Nova Scotia and Quebec. As previously noted, ParaMed transferred its operations in B.C. and ceased providing services to the B.C. Health Authorities at the end of January 2020 (refer to the discussion under "Significant 2019 Events and Developments – ParaMed – B.C. Contract Expiration"). Excluding the B.C. operations, ParaMed delivered approximately 9.3 million hours of service in 2019, with Ontario and Alberta representing approximately 92% and 5%, respectively.

## **OTHER CANADIAN OPERATIONS**

The Company's other Canadian operations are composed of its contract services and consulting provided by Extencicare Assist and group purchasing services provided by SGP Purchasing Partner Network.

### ***Contract Services and Consulting***

Through its Extencicare Assist division, the Company leverages its expertise in operating LTC homes and retirement communities in providing a wide range of contract services and consulting to third parties. Extencicare Assist partners with not-for-profit and for-profit organizations, hospitals and municipalities seeking 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, 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 LTC homes.

Extencicare Assist's contract services portfolio consisted of 53 LTC homes and retirement communities with capacity for 6,601 residents as at December 31, 2019 (December 31, 2018 – 53 homes with capacity for 6,497 residents).

### ***Group Purchasing Services***

Through SGP, the Company offers cost-effective purchasing contracts to other senior care providers for food, capital equipment, furnishings, cleaning and nursing supplies and office products. SGP negotiates long-term and high volume contracts with suppliers that provide members with preferred pricing, thereby providing a cost-effective means to secure quality national brand-name products, along with a range of innovative services. As at December 31, 2019, SGP provided services to third parties representing approximately 64,800 senior residents across Canada (December 31, 2018 – 51,100 seniors).

## U.S. REMAINING OPERATIONS – CAPTIVE INSURANCE COMPANY

Prior to the U.S. Sale Transaction, the Company self-insured certain risks related to general and professional liability of its disposed U.S. operations through the Captive. The obligation to settle 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 the Company, which continues to be funded through the Captive. The majority of the risks that the Company 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. 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, 2019, the accrual for U.S. self-insured general and professional liabilities was \$12.2 million (US\$9.4 million) as compared to \$37.1 million (US\$27.2 million) as at December 31, 2018, and the investments held for U.S. self-insured liabilities totalled \$27.6 million (US\$21.2 million) as compared to \$67.9 million (US\$49.8 million) as at December 31, 2018, with the decline in each primarily reflecting the “run off” of the self-insured liabilities and release of reserves. In 2019, the Company released \$12.2 million (US\$9.2 million) of reserves for self-insured liabilities, and transferred \$26.7 million (US\$20.0 million) of cash previously held for investment by the Captive to the Company for general corporate use. Subsequent to December 31, 2019, the Company initiated the repatriation of US\$7.0 million from the Captive, which is expected to be received in the second quarter of 2020. For further information on the self-insured liabilities, refer to the discussion under “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 “Non-GAAP Measures”, management uses certain key performance indicators in order to compare the financial performance of the Company’s continuing operations between periods. In addition, we assess the operations on a same-store basis between the reported periods. Such performance indicators may not be comparable to similar indicators presented by other companies. Set forth below is an analysis of the key performance indicators and a discussion of significant trends when comparing the Company’s financial results from continuing operations.

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

“**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;

“**Stabilized**” is the classification by the Company of an LTC home or retirement community that has achieved and sustained its expected stabilized occupancy level for three consecutive months, which level varies from project to project;

“**Lease-up**” is any LTC home or retirement community not classified as stabilized;

“**Non same-store**” or “**NSS**”, generally refers to those homes, communities or businesses that were not continuously operated by the Company since the beginning of the previous fiscal year or have been classified as held for sale; and

“**Same-store**” or “**SS**” generally refers to those homes, communities or businesses that were continuously operated by the Company since the beginning of the previous fiscal year, and which are not classified as held for sale.

## Long-term Care

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

Long-term Care Homes Average Occupancy (%)	2019					2018				
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year
Total LTC	96.9%	97.5%	97.9%	97.8%	97.5%	96.4%	97.2%	97.8%	97.6%	97.3%
Ontario LTC										
Total operations	97.5%	98.2%	98.5%	98.2%	98.1%	97.1%	97.7%	98.3%	98.2%	97.8%
Preferred Accommodation <sup>(1)</sup>										
“New” homes – private	95.1%	96.3%	95.9%	95.8%	95.8%	96.3%	96.7%	97.6%	96.6%	96.8%
“C” homes – private	96.2%	93.8%	94.2%	93.1%	94.3%	97.4%	97.3%	97.8%	97.6%	97.5%
“C” homes – semi-private	65.3%	65.6%	66.5%	66.7%	66.0%	65.2%	65.7%	66.5%	66.1%	65.9%

(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 the Company's LTC homes was 97.8% for the three months ended December 31, 2019, as compared to 97.6% for the three months ended December 31, 2018, and 97.9% for the three months ended September 30, 2019. For the year, average occupancy was slightly higher at 97.5% as compared to 97.3% in 2018. 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 for the three months ended March 31, 2018, were impacted by the fill-up of a 24-bed addition to one of the LTC homes that opened in February 2018, 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. In 2019, the Company's LTC homes in Ontario achieved an overall average occupancy of 98.1%, with all but one home achieving the 97% occupancy threshold.

In addition, the Company's Ontario LTC homes receive premiums for preferred accommodation. The average occupancy of private beds in the "New" homes was 95.8% for the three months ended December 31, 2019, as compared to 96.6% for the three months ended December 31, 2018. For the year, the average occupancy of the "New" private beds was 95.8% as compared to 96.8% in 2018. The average occupancy of the private beds at the Company's Class C homes was 93.1% for the three months ended December 31, 2019, as compared to 97.6% for the three months ended December 31, 2018. For the year, the average occupancy of the Class C private beds was 94.3% as compared to 97.5% in 2018.

## Retirement Living

The following table summarizes the composition of the Company's eleven retirement communities in operation as at December 31, 2019. During the three months ended December 31, 2019, Douglas Crossing and Yorkton Crossing achieved stabilized occupancy and The Barrievue opened at the beginning of October. Consequently, three of the retirement communities were in lease-up and three of the retirement communities were classified as non same-store.

Retirement Communities	Location	Total	Stabilized	Lease-up	Same-store	Non Same-store
Cedar Crossing	Simcoe, ON	68	68		68	
Douglas Crossing	Uxbridge, ON	148	148		148	
Empire Crossing	Port Hope, ON	63	63		63	
Harvest Crossing	Tillsonburg, ON	100	100		100	
Riverbend Crossing	Regina, SK	67	67		67	
Stonebridge Crossing	Saskatoon, SK	116	116		116	
Yorkton Crossing	Yorkton, SK	79	79		79	
Lynde Creek Manor	Whitby, ON	93	93			93
West Park Crossing	Moose Jaw, SK	79		79	79	
The Barrievue	Barrie, ON	124		124		124
Bolton Mills	Bolton, ON	112		112		112
<b>Total suites</b>		<b>1,049</b>	<b>734</b>	<b>315</b>	<b>720</b>	<b>329</b>
<b>Total communities</b>		<b>11</b>	<b>8</b>	<b>3</b>	<b>8</b>	<b>3</b>

## AS AT OCCUPANCY

The following table provides the combined occupancy of the Company's stabilized and lease-up retirement communities at the end of each of the past eight quarters, based on their classification at December 31, 2019.

Retirement Communities	2019				2018			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>As at Occupancy (%) – total</b>	<b>80.9%</b>	<b>83.8%</b>	<b>86.6%</b>	<b>85.6%</b>	80.8%	86.0%	89.5%	88.6%
Stabilized communities	<b>91.0%</b>	<b>92.5%</b>	<b>94.1%</b>	<b>95.1%</b>	83.2%	88.7%	91.6%	89.8%
Lease-up communities	<b>41.9%</b>	<b>50.3%</b>	<b>57.6%</b>	<b>63.5%</b>	62.0%	62.0%	70.9%	77.2%

The occupancy of the stabilized communities was 95.1% as at December 31, 2019, as compared to 94.1% as at September 30, 2019, and to 89.8% as at December 31, 2018. The improvement from the end of last year reflects the lease-up of Douglas Crossing and Yorkton Crossing and the maintenance of stable occupancy levels at the six other retirement communities in that category. The completion of the 45-suite addition at Douglas Crossing in November 2018 resulted in a sequential decline in occupancy as at December 31, 2018 from September 30, 2018. The occupancy of the three lease-up communities increased to 63.5% as at December 31, 2019, as compared to 57.6% as at September 30, 2019. The opening of Bolton Mills (112 suites) in January 2019, resulted in a decline in occupancy of the lease-up communities from 77.2% at December 31, 2018.

## 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 grew to 94.9% for the three months ended December 31, 2019, as compared to 89.8% for the same prior year period. The sequential trend in the average occupancy of the stabilized communities experienced in the three months ended December 31, 2018 from the three months ended September 30, 2018, reflects the opening of the 45-suite addition at Douglas Crossing. The sequential trend in the average occupancy of the lease-up communities from the end of 2018 reflects the impact of the opening of Bolton Mills (112 suites) in January 2019 and The Barrievue (124 suites) in October 2019.

Retirement Communities	2019					2018				
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year
<b>Average Occupancy (%) – total</b>	<b>79.3%</b>	<b>82.0%</b>	<b>85.5%</b>	<b>81.7%</b>	<b>82.1%</b>	80.4%	84.4%	87.9%	88.4%	85.5%
Stabilized communities	<b>90.7%</b>	<b>91.4%</b>	<b>94.0%</b>	<b>94.9%</b>	<b>92.7%</b>	82.6%	87.1%	90.1%	89.8%	87.6%
Lease-up communities	<b>35.7%</b>	<b>45.8%</b>	<b>52.7%</b>	<b>50.7%</b>	<b>46.9%</b>	64.0%	61.5%	69.0%	76.1%	67.7%

## Home Health Care

The following table provides the service volumes of the Company's home health care operations in total and excluding the B.C. operations, for the past eight quarters.

Home Health Care Service Volumes	2019					2018				
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year
<b>Total</b>										
Hours of service (000's)	<b>2,595.3</b>	<b>2,660.5</b>	<b>2,652.7</b>	<b>2,661.2</b>	<b>10,569.7</b>	2,705.0	2,734.8	2,708.6	2,750.0	10,898.4
Hours per day	<b>28,837</b>	<b>29,236</b>	<b>28,834</b>	<b>28,926</b>	<b>28,958</b>	30,055	30,053	29,441	29,891	29,859
<b>Excluding B.C.</b>										
Hours of service (000's)	<b>2,291.9</b>	<b>2,340.0</b>	<b>2,322.5</b>	<b>2,329.2</b>	<b>9,283.6</b>	2,408.7	2,430.1	2,402.0	2,441.6	9,682.4
Hours per day	<b>25,465</b>	<b>25,714</b>	<b>25,245</b>	<b>25,318</b>	<b>25,435</b>	26,763	26,704	26,108	26,539	26,527

ParaMed's average daily hours of service for the three months ended December 31, 2019, increased by 0.3% from the three months ended September 30, 2019. In comparison to 2018, ParaMed's average daily hours of service declined by 3.2% for the three months ended December 31, 2019, and declined by 3.0% for the year. Excluding the B.C. operations, the average daily volumes declined by 4.1% over 2018, due to the challenges experienced with ParaMed's Ontario operations. We continue efforts to build capacity to address these challenges and to take advantage of the significant organic growth opportunity that exists across Canada (refer to the discussion under "Significant 2019 Events and Developments – ParaMed – Transformation").

## 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>	<b>2019</b>	<b>2018</b>	<b>2017</b>
<b>Financial Results</b>			
Revenue	<b>1,131,950</b>	1,120,007	1,097,331
Earnings before depreciation, amortization and other expense (Adjusted EBITDA)	<b>91,111</b>	94,238	97,597
Earnings from continuing operations	<b>17,051</b>	8,084	31,712
per basic and diluted share (\$)	<b>0.19</b>	0.09	0.36
Earnings (loss) from discontinued operations	<b>11,579</b>	23,654	(29,580)
Net earnings	<b>28,630</b>	31,738	2,132
per basic and diluted share (\$)	<b>0.32</b>	0.36	0.02
AFFO	<b>52,600</b>	57,751	58,495
per basic share (\$)	<b>0.590</b>	0.653	0.659
Cash dividends declared	<b>42,672</b>	42,351	42,583
per share (\$)	<b>0.480</b>	0.480	0.480
<b>Financial Position (at year end)</b>			
Total assets	<b>888,800</b>	896,324	934,281
Total non-current liabilities	<b>497,515</b>	543,359	588,804
Long-term debt	<b>422,535</b>	454,344	476,404
Long-term debt, including current portion	<b>556,306</b>	528,970	536,068

**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 financial results for 2018 reflected a decline in earnings from continuing operations of \$23.6 million, largely impacted by other expenses totalling \$20.2 million that included an impairment charge of \$16.2 million pre-tax in respect of certain of the Company’s retirement communities and long-term care homes, costs associated with the redemption of convertible debentures and the acquisition of a retirement community, a net change in foreign exchange and fair value adjustments of \$3.1 million pre-tax and a decline in Adjusted EBITDA. The decrease in Adjusted EBITDA reflects an improvement from Canadian operations of \$1.5 million, offset by a decline from U.S. operations due to lower investment income from the Captive as it winds down.

**Financial Position** – Since the end of 2017, 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.

A comparison between the 2019 and 2018 financial results is provided in the discussion under the headings “2019 Financial Review” and “Liquidity and Capital Resources”.

## SELECT QUARTERLY FINANCIAL INFORMATION

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

<i>(thousands of dollars unless otherwise noted)</i>	2019				2018			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	290,895	282,733	284,053	274,269	288,793	280,302	279,488	271,424
Net operating income	32,877	34,867	35,320	30,386	32,863	35,492	36,307	29,322
<i>NOI margin</i>	11.3%	12.3%	12.4%	11.1%	11.4%	12.7%	13.0%	10.8%
Adjusted EBITDA	22,998	23,588	24,973	19,552	22,538	24,393	27,330	19,977
<i>Adjusted EBITDA margin</i>	7.9%	8.3%	8.8%	7.1%	7.8%	8.7%	9.8%	7.4%
Earnings (loss) from continuing operations	4,893	5,247	5,854	1,057	(9,055)	7,598	5,975	3,566
per basic and diluted share (\$)	0.05	0.06	0.07	0.01	(0.10)	0.08	0.07	0.04
Earnings from discontinued operations	5,195	2,012	2,471	1,901	15,562	975	5,852	1,265
Net earnings	10,088	7,259	8,325	2,958	6,507	8,573	11,827	4,831
per basic and diluted share (\$)	0.11	0.08	0.10	0.03	0.07	0.10	0.14	0.05
AFFO	11,365	13,693	14,927	12,615	12,570	13,379	17,133	14,669
per basic share (\$)	0.127	0.153	0.168	0.142	0.142	0.151	0.194	0.166
Maintenance Capex	6,028	3,056	2,312	916	4,202	3,639	3,783	1,051
Cash dividends declared	10,701	10,680	10,657	10,634	10,612	10,591	10,570	10,578
per share (\$)	0.120	0.120	0.120	0.120	0.120	0.120	0.120	0.120
Weighted Average Number of Shares								
Basic	89,467	89,253	89,039	88,825	88,612	88,412	88,208	88,379
Diluted	99,850	99,614	99,415	99,186	98,962	98,788	98,595	99,688

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>	2019				2018			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
<b>Earnings (loss) from continuing operations before income taxes</b>	6,878	7,488	8,057	1,813	(12,327)	10,135	9,131	5,380
<b>Add (Deduct):</b>								
Depreciation and amortization	10,597	9,861	9,705	9,427	10,184	9,014	8,235	7,837
Net finance costs	5,523	6,239	6,236	6,883	8,039	5,244	6,591	6,580
Other expense	–	–	975	1,429	16,642	–	3,373	180
<b>Adjusted EBITDA</b>	22,998	23,588	24,973	19,552	22,538	24,393	27,330	19,977
<b>Add (Deduct):</b>								
Administrative costs	9,879	11,279	10,347	10,834	10,325	11,099	8,977	9,345
<b>Net operating income</b>	32,877	34,867	35,320	30,386	32,863	35,492	36,307	29,322

There are a number of factors affecting the trend of the Company’s quarterly results from continuing operations. With respect to the core operations, while year-over-year quarterly comparisons will generally remain comparable, sequential quarters can vary materially for seasonal and other trends. 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, with both generally being 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 1<sup>st</sup> and accommodation funding increases effective July 1<sup>st</sup>, and Alberta long-term care providers generally receive annual inflationary rate increases and acuity-based funding adjustments on April 1<sup>st</sup> and accommodation funding increases effective July 1<sup>st</sup>;
- maintenance capex spending, which impacts AFFO, fluctuates on a quarterly basis with the timing of projects and seasonality and is generally at its lowest in the first quarter and its highest in the fourth quarter;
- utility costs are generally at their highest in the first quarter and their lowest in the second and third quarters; and
- certain line items that are reported separately due to their transitional nature that would otherwise distort the comparability of the historical trends, being “other expense” and “foreign exchange and fair value adjustments”.

## 2019 FOURTH QUARTER FINANCIAL REVIEW

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

<i>(thousands of dollars)</i>	Three months ended December 31						
	2019			2018			Total Change
	Canada	U.S.	Total	Canada	U.S.	Total	
<b>Revenue</b>	290,895	–	290,895	288,516	277	288,793	2,102
Operating expenses	258,018	–	258,018	255,930	–	255,930	2,088
<b>Net operating income</b>	32,877	–	32,877	32,586	277	32,863	14
Administrative costs	9,350	529	9,879	9,986	339	10,325	(446)
<b>Adjusted EBITDA</b>	23,527	(529)	22,998	22,600	(62)	22,538	460
Depreciation and amortization	10,597	–	10,597	10,184	–	10,184	413
Other expense	–	–	–	16,642	–	16,642	(16,642)
<b>Earnings (loss) before net finance costs and income taxes</b>	12,930	(529)	12,401	(4,226)	(62)	(4,288)	16,689
Interest expense (net of capitalized interest)	7,623	–	7,623	6,685	–	6,685	938
Interest revenue	(1,004)	–	(1,004)	(926)	–	(926)	(78)
Accretion	303	90	393	299	336	635	(242)
Foreign exchange and fair value adjustments	(444)	(1,045)	(1,489)	1,289	356	1,645	(3,134)
<b>Net finance costs (income)</b>	6,478	(955)	5,523	7,347	692	8,039	(2,516)
<b>Earnings (loss) from continuing operations before income taxes</b>	6,452	426	6,878	(11,573)	(754)	(12,327)	19,205
<b>Income tax expense (recovery)</b>							
Current	1,068	–	1,068	2,001	–	2,001	(933)
Deferred	917	–	917	(5,273)	–	(5,273)	6,190
Total income tax expense (recovery)	1,985	–	1,985	(3,272)	–	(3,272)	5,257
<b>Earnings (loss) from continuing operations</b>	4,467	426	4,893	(8,301)	(754)	(9,055)	13,948
Earnings from discontinued operations	–	5,195	5,195	–	15,562	15,562	(10,367)
<b>Net earnings</b>	4,467	5,621	10,088	(8,301)	14,808	6,507	3,581
<b>Earnings (loss) from continuing operations</b>	4,467	426	4,893	(8,301)	(754)	(9,055)	13,948
<b>Add (Deduct)<sup>(1)</sup>:</b>							
Foreign exchange and fair value adjustments	(255)	(1,045)	(1,300)	715	356	1,071	(2,371)
Other expense	–	–	–	12,153	–	12,153	(12,153)
<b>Earnings (loss) from continuing operations before separately reported items, net of taxes</b>	4,212	(619)	3,593	4,567	(398)	4,169	(576)

(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 (loss) from continuing operations before income taxes” to “Adjusted EBITDA” and “net operating income”.

<i>(thousands of dollars)</i>	Three months ended December 31						
	2019			2018			Total Change
	Canada	U.S.	Total	Canada	U.S.	Total	
<b>Earnings (loss) from continuing operations before income taxes</b>	6,452	426	6,878	(11,573)	(754)	(12,327)	19,205
<b>Add (Deduct):</b>							
Depreciation and amortization	10,597	–	10,597	10,184	–	10,184	413
Net finance costs (income)	6,478	(955)	5,523	7,347	692	8,039	(2,516)
Other expense	–	–	–	16,642	–	16,642	(16,642)
<b>Adjusted EBITDA</b>	23,527	(529)	22,998	22,600	(62)	22,538	460
<b>Add (Deduct):</b>							
Administrative costs	9,350	529	9,879	9,986	339	10,325	(446)
<b>Net operating income</b>	32,877	–	32,877	32,586	277	32,863	14

The following is an analysis of the consolidated results from operations for the three months ended December 31, 2019, as compared to the three months ended December 31, 2018. Refer to the discussion that follows under “Summary of Results of Operations by Segment” for an analysis of the revenue and net operating income by operating segment, including the components of non same-store revenue and net operating income.

## **Revenue**

Revenue grew by \$2.1 million or 0.7% to \$290.9 million for the three months ended December 31, 2019, driven primarily by LTC funding enhancements, expansion of the retirement living operations and growth in other Canadian operations, partially offset by a decline in home health care volumes.

## **Operating Expenses**

Operating expenses increased by \$2.1 million or 0.8% to \$258.0 million for the three months ended December 31, 2019. The increase in operating expenses was driven by increased costs of resident care, expansion of the retirement living operations and higher labour and utility costs, partially offset by the impact of lower home health care volumes delivered and favourable year-end labour accrual adjustments. Labour costs, including the favourable year-end adjustments declined by \$1.1 million over the same prior year period and represented 84.0% of operating expenses as compared to 85.1% for the three months ended December 31, 2018, and labour costs as a percentage of revenue were 74.5% for the three months ended December 31, 2019, and 75.4% for the same prior year period.

## **Net Operating Income**

Net operating income was unchanged at \$32.9 million for the three months ended December 31, 2019, and represented 11.3% of revenue as compared to 11.4% for the three months ended December 31, 2018, reflecting funding enhancements, timing of spending under the Ontario flow through envelopes, growth of the retirement living and other Canadian operations and year-end adjustments for labour accruals, offset by lower home health care volumes and increased back office operating costs.

## **Administrative Costs**

Administrative costs declined by \$0.5 million or 4.3% to \$9.9 million for the three months ended December 31, 2019. The comparability of administrative costs between periods was impacted by higher ParaMed Transformation costs of \$0.5 million (\$0.9 million for the three months ended December 31, 2019, as compared to \$0.4 million for the same prior year period), and the adoption of IFRS 16, which reduced administrative costs by \$0.8 million. Excluding the \$0.3 million favourable net impact of these factors, administrative costs decreased by \$0.2 million.

## **Adjusted EBITDA**

Adjusted EBITDA increased by \$0.5 million to \$23.0 million for the three months ended December 31, 2019, as compared to \$22.5 million for the three months ended December 31, 2018, and represented 7.9% of revenue as compared to 7.8%, respectively, reflecting flat net operating income and lower administrative costs of \$0.5 million. The comparability of Adjusted EBITDA between periods was impacted by higher ParaMed Transformation costs of \$0.5 million, year-end accrual adjustments of \$0.9 million and the adoption of IFRS 16 of \$0.8 million, for a net favourable impact of \$1.2 million. Excluding these factors, Adjusted EBITDA declined by \$0.7 million to \$22.7 million, or 7.8% of revenue for the three months ended December 31, 2019, as compared to \$23.4 million, or 8.1% of revenue for the same prior year period, reflecting growth in net operating income of the LTC and retirement living operations and lower administrative costs, offset by lower volumes and net operating income of the home health care operations.

## **Depreciation and Amortization**

Depreciation and amortization costs increased by \$0.4 million to \$10.6 million for the three months ended December 31, 2019, and included higher costs of \$0.6 million as a result of the adoption of IFRS 16.

## **Other Expense**

Other expense of \$16.6 million for the three months ended December 31, 2018, related primarily to an impairment charge in respect of certain of the Company’s retirement communities and LTC homes.

## **Net Finance Costs**

Net finance costs decreased by \$2.5 million to \$5.5 million for the three months ended December 31, 2019, primarily due to a net favourable change in foreign exchange and fair value adjustments related to the Captive’s investments and interest



rate swaps aggregating to \$3.1 million and lower accretion costs in connection with the decline in the accrual for U.S. self-insured liabilities, partially offset by higher net interest costs of \$0.8 million. Net interest costs were negatively impacted by a reduction in the amount of capitalized interest of \$0.4 million following the completion of two retirement communities, the adoption of IFRS 16 of \$0.2 million and an increase in debt levels.

## Income Taxes

The income tax provision was \$2.0 million for the three months ended December 31, 2019, representing an effective tax rate of 28.9%, as compared to a provision of \$3.3 million and an effective tax rate of 26.5% for the three months ended December 31, 2018. The effective tax rate of the Canadian operations was 30.8% for the three months ended December 31, 2019, as compared to 28.3% for the three months ended December 31, 2018, and was impacted by, among other things, foreign exchange and fair value adjustments and other items reported separately as “other expense”, as noted above. The effective tax rate of the Canadian operations, excluding the impact of separately reported items, was 29.9% for the three months ended December 31, 2019, as compared to 28.2% for the same prior year period.

## Earnings from Continuing Operations

Earnings from continuing operations of \$4.9 million (\$0.05 per basic share) for the three months ended December 31, 2019, was up by \$13.9 million from a loss of \$9.0 million (loss of \$0.10 per basic share) for the three months ended December 31, 2018, largely impacted by the impairment charge incurred in 2018 and favourable change in foreign exchange and fair value adjustments.

## Discontinued Operations

Earnings from discontinued operations relate to the former U.S. operations and were \$5.2 million for the three months ended December 31, 2019, which included the release of \$5.5 million of the Captive’s reserves, partially offset by the impact of discount rate adjustments. The \$15.5 million reported for the three months ended December 31, 2018, included the release of \$7.1 million of the Captive’s reserves, the favourable impact of discount rate adjustments of \$1.1 million, a \$3.6 million reduction in indemnification provisions and other items and a net tax recovery of \$5.9 million.

## Summary of Results of Operations by Segment

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

Three months ended 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
<b>2019</b>								
Revenue	166,656	11,356	106,699	6,184	–	290,895	–	290,895
Operating expenses	146,135	8,363	100,778	2,742	–	258,018	–	258,018
Net operating income	20,521	2,993	5,921	3,442	–	32,877	–	32,877
<i>NOI margin %</i>	<i>12.3%</i>	<i>26.4%</i>	<i>5.5%</i>	<i>55.7%</i>	–	<i>11.3%</i>	–	<i>11.3%</i>
<b>2018</b>								
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>	<i>11.4%</i>	<i>25.2%</i>	<i>7.3%</i>	<i>61.7%</i>	<i>100.0%</i>	<i>11.3%</i>	<i>100.0%</i>	<i>11.4%</i>
<b>Change</b>								
Revenue	2,000	2,317	(2,313)	376	(1)	2,379	(277)	2,102
Operating expenses	286	1,602	(319)	519	–	2,088	–	2,088
Net operating income	1,714	715	(1,994)	(143)	(1)	291	(277)	14

## LONG-TERM CARE OPERATIONS

Net operating income from the long-term care operations was \$20.5 million for the three months ended December 31, 2019, as compared to \$18.8 million for the three months ended December 31, 2018, an increase of \$1.7 million or 9.1%, with an NOI margin of 12.3% and 11.4%, respectively. Results included favourable labour accrual adjustments of approximately \$1.4 million recorded this quarter, excluding which the net operating income would have been \$19.1 million, with an NOI margin of 11.5%. Revenue grew by \$2.0 million, or 1.2%, of which approximately \$1.5 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 \$0.3 million, or 0.2%, due primarily to higher labour, utilities and other costs of resident care, partially offset by the labour accrual adjustments. Excluding the accrual adjustments, labour costs as a component of operating expenses increased by \$0.3 million over the three months ended December 31, 2018, and represented 80.5% of operating expenses for the three months ended December 31, 2019, as compared to 81.2% for the same prior year period.

## RETIREMENT LIVING OPERATIONS

The following table summarizes the breakdown of the same-store and non same-store operating results of the retirement living operations.

Retirement Living <i>(thousands of dollars unless otherwise noted)</i>	Three months ended December 31				
	2019		2018		Change
<b>Same-store</b>					
Revenue	<b>9,043</b>		7,885		1,158
Operating expenses	<b>6,086</b>		5,695		391
Net operating income / margin %	<b>2,957</b>	<b>32.7%</b>	2,190	27.8%	767
<i>Average occupancy / weighted average available suites</i>	<b>95.8%</b>	<b>720</b>	88.3%	702	18
<b>Non Same-store</b>					
Revenue	<b>2,313</b>		1,154		1,159
Operating expenses	<b>2,277</b>		1,066		1,211
Net operating income / margin %	<b>36</b>	<b>1.6%</b>	88	7.6%	(52)
<i>Average occupancy / weighted average available suites</i>	<b>50.6%</b>	<b>328</b>	89.5%	93	235
<b>Total</b>					
Revenue	<b>11,356</b>		9,039		2,317
Operating expenses	<b>8,363</b>		6,761		1,602
Net operating income / margin %	<b>2,993</b>	<b>26.4%</b>	2,278	25.2%	715
<i>Average occupancy / weighted average available suites</i>	<b>81.7%</b>	<b>1,048</b>	88.4%	795	253

Net operating income from the retirement living operations was \$3.0 million for the three months ended December 31, 2019, as compared to \$2.3 million for the three months ended December 31, 2018, an increase of \$0.7 million or 31.4%, reflecting growth in occupancy of same-store operations to 95.8% from 88.3%. Net operating income from non same-store operations reflect the impact of early lease-up and pre-opening losses from Bolton Mills and The Barrievew.

## HOME HEALTH CARE OPERATIONS

Net operating income from the home health care operations was \$5.9 million for the three months ended December 31, 2019, as compared to \$7.9 million for the three months ended December 31, 2018, a decrease of \$2.0 million or 25.2%, with an NOI margin of 5.5% and 7.3%, respectively. Total labour costs as a component of total operating expenses decreased by \$1.3 million and represented 91.7% of operating expenses for the three months ended December 31, 2019, as compared to 92.8% for the same prior year period. For the three months ended December 31, 2019, results reflect a 3.2% decline in average daily volumes and increased back office operating costs compared to the same prior year period, and approximately \$0.5 million of out-of-period adjustments related to benefit cost accrual adjustments and private-pay customer receivable provisions. Excluding the net impact of the out-of-period accrual adjustments and ParaMed Transformation costs of \$0.5 million, net operating income would have been \$6.9 million this period as compared to \$8.4 million in the same prior year period, with an NOI margin of 6.5% as compared to 7.7%, respectively. After further excluding the impact of the B.C. operations, net operating income would have been \$6.8 million this period as compared to \$8.6 million in the same prior year period, with an NOI margin of 7.3% as compared to 8.9%, respectively. Refer to the discussion under “Significant 2019 Events and Developments – ParaMed – B.C. Contract Expiration”.

## OTHER CANADIAN OPERATIONS

Net operating income from the contract services, consulting and group purchasing operations declined by \$0.1 million to \$3.4 million for the three months ended December 31, 2019, as compared to three months ended December 31, 2018, with revenue growth of 6.5% due to an increase in clients served offset by increased costs to support operations.

## 2019 FINANCIAL REVIEW

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

<i>(thousands of dollars)</i>	Years ended December 31						
	2019			2018			Total Change
	Canada	U.S.	Total	Canada	U.S.	Total	
<b>Revenue</b>	<b>1,131,950</b>	<b>–</b>	<b>1,131,950</b>	1,119,602	405	1,120,007	11,943
Operating expenses	<b>998,500</b>	<b>–</b>	<b>998,500</b>	986,023	–	986,023	12,477
<b>Net operating income</b>	<b>133,450</b>	<b>–</b>	<b>133,450</b>	133,579	405	133,984	(534)
Administrative costs	<b>41,151</b>	<b>1,188</b>	<b>42,339</b>	38,570	1,176	39,746	2,593
<b>Adjusted EBITDA</b>	<b>92,299</b>	<b>(1,188)</b>	<b>91,111</b>	95,009	(771)	94,238	(3,127)
Depreciation and amortization	<b>39,590</b>	<b>–</b>	<b>39,590</b>	35,270	–	35,270	4,320
Other expense	<b>2,404</b>	<b>–</b>	<b>2,404</b>	20,195	–	20,195	(17,791)
<b>Earnings (loss) before net finance costs and income taxes</b>	<b>50,305</b>	<b>(1,188)</b>	<b>49,117</b>	39,544	(771)	38,773	10,344
Interest expense (net of capitalized interest)	<b>28,733</b>	<b>–</b>	<b>28,733</b>	27,584	–	27,584	1,149
Interest revenue	<b>(3,688)</b>	<b>–</b>	<b>(3,688)</b>	(3,761)	–	(3,761)	73
Accretion	<b>1,195</b>	<b>648</b>	<b>1,843</b>	1,250	1,628	2,878	(1,035)
Foreign exchange and fair value adjustments	<b>2,081</b>	<b>(4,088)</b>	<b>(2,007)</b>	(149)	(98)	(247)	(1,760)
<b>Net finance costs (income)</b>	<b>28,321</b>	<b>(3,440)</b>	<b>24,881</b>	24,924	1,530	26,454	(1,573)
<b>Earnings (loss) from continuing operations before income taxes</b>	<b>21,984</b>	<b>2,252</b>	<b>24,236</b>	14,620	(2,301)	12,319	11,917
<b>Income tax expense (recovery)</b>							
Current	<b>8,287</b>	<b>–</b>	<b>8,287</b>	8,129	–	8,129	158
Deferred	<b>(1,102)</b>	<b>–</b>	<b>(1,102)</b>	(3,894)	–	(3,894)	2,792
Total income tax expense	<b>7,185</b>	<b>–</b>	<b>7,185</b>	4,235	–	4,235	2,950
<b>Earnings (loss) from continuing operations</b>	<b>14,799</b>	<b>2,252</b>	<b>17,051</b>	10,385	(2,301)	8,084	8,967
Earnings from discontinued operations	<b>–</b>	<b>11,579</b>	<b>11,579</b>	–	23,654	23,654	(12,075)
<b>Net earnings</b>	<b>14,799</b>	<b>13,831</b>	<b>28,630</b>	10,385	21,353	31,738	(3,108)
<b>Earnings (loss) from continuing operations</b>	<b>14,799</b>	<b>2,252</b>	<b>17,051</b>	10,385	(2,301)	8,084	8,967
<b>Add (Deduct)<sup>(1)</sup>:</b>							
Foreign exchange and fair value adjustments	<b>1,732</b>	<b>(4,088)</b>	<b>(2,356)</b>	(523)	(98)	(621)	(1,735)
Other expense	<b>2,070</b>	<b>–</b>	<b>2,070</b>	15,165	–	15,165	(13,095)
<b>Earnings (loss) from continuing operations before separately reported items, net of taxes</b>	<b>18,601</b>	<b>(1,836)</b>	<b>16,765</b>	25,027	(2,399)	22,628	(5,863)

(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 (loss) from continuing operations before income taxes” to “Adjusted EBITDA” and “net operating income”.

<i>(thousands of dollars)</i>	Years ended December 31						
	2019			2018			Total Change
	Canada	U.S.	Total	Canada	U.S.	Total	
<b>Earnings (loss) from continuing operations before income taxes</b>	<b>21,984</b>	<b>2,252</b>	<b>24,236</b>	14,620	(2,301)	12,319	11,917
<b>Add (Deduct):</b>							
Depreciation and amortization	<b>39,590</b>	<b>–</b>	<b>39,590</b>	35,270	–	35,270	4,320
Net finance costs (income)	<b>28,321</b>	<b>(3,440)</b>	<b>24,881</b>	24,924	1,530	26,454	(1,573)
Other expense	<b>2,404</b>	<b>–</b>	<b>2,404</b>	20,195	–	20,195	(17,791)
<b>Adjusted EBITDA</b>	<b>92,299</b>	<b>(1,188)</b>	<b>91,111</b>	95,009	(771)	94,238	(3,127)
<b>Add (Deduct):</b>							
Administrative costs	<b>41,151</b>	<b>1,188</b>	<b>42,339</b>	38,570	1,176	39,746	2,593
<b>Net operating income</b>	<b>133,450</b>	<b>–</b>	<b>133,450</b>	133,579	405	133,984	(534)

The following is an analysis of the consolidated results from operations for 2019 as compared to 2018. Refer to the discussion that follows under “Summary of Results of Operations by Segment” for an analysis of the revenue and net operating income by operating segment, including the components of non same-store revenue and net operating income.

## Summary of Factors Impacting Comparability

To assist in the analysis, the following is a summary of items impacting the comparability of results from operations between periods:

- **ParaMed Bill 148 funding:** incremental revenue of \$2.2 million recognized in the three months ended June 30, 2019, related to 2018 for Bill 148.
- **ParaMed Transformation costs:**
  - operating expenses included \$2.3 million in each of 2019 and 2018; and
  - administrative costs were higher by \$2.6 million (\$3.6 million in 2019 as compared to \$1.0 million in 2018);
- **Severance costs:** reduced administrative costs by \$0.6 million (\$1.1 million in 2019 as compared to \$1.7 million in 2018).
- **Adoption of IFRS 16 in 2019:** reduced administrative costs by \$2.9 million in 2019 (which was offset by higher depreciation costs of \$2.6 million and interest costs of \$0.5 million).
- **Year-end adjustments in 2019:** reduced operating expenses by \$0.6 million related to adjustments recorded in the three months ended December 31, 2019, primarily related to favourable labour accrual adjustments.

The net impact of the above items was an increase of \$2.8 million in net operating income (net favourable of \$0.5 million in 2019 as compared to costs of \$2.3 million in 2018) and an increase of \$3.7 million in Adjusted EBITDA (\$1.3 million in 2019 as compared to \$5.0 million in 2018).

## Revenue

Revenue grew by \$12.0 million or 1.1% to \$1,132.0 million in 2019. Excluding the factors impacting comparability discussed above, revenue increased by \$9.8 million, or 0.9%, driven primarily by LTC funding enhancements, expansion of the retirement living operations and growth in other Canadian operations, partially offset by a decline in home health care volumes.

## Operating Expenses

Operating expenses increased by \$12.5 million or 1.3% to \$998.5 million in 2019. Total labour costs increased by \$6.8 million over 2018 and represented 85.5% and 86.0% of operating expenses for 2019 and 2018, respectively, and as a percentage of revenue were 75.5% and 75.7%, respectively. Excluding the factors impacting comparability of \$0.6 million discussed above, the increase in operating expenses of \$13.1 million was driven by higher costs of resident care, expansion of the retirement living operations and higher labour costs, partially offset by the impact of lower home health care volumes delivered.

## Net Operating Income

Net operating income declined by \$0.5 million or 0.4% to \$133.5 million in 2019 and represented 11.8% of revenue as compared to 12.0% in 2018. Excluding the factors impacting comparability of \$2.8 million discussed above, net operating income declined by \$3.3 million to \$133.0 million, or 11.8% of revenue in 2019, as compared to \$136.3 million, or 12.2% of revenue in 2018, reflecting funding enhancements and growth of the retirement living and other Canadian operations, offset by lower home health care volumes and increased back office operating costs.

## Administrative Costs

Administrative costs increased by \$2.6 million or 6.5% to \$42.3 million in 2019. Excluding the factors impacting comparability of \$0.9 million discussed above, administrative costs increased by \$3.5 million, primarily due to higher compensation costs and professional fees.

## Adjusted EBITDA

Adjusted EBITDA declined by \$3.1 million to \$91.1 million in 2019 and represented 8.0% of revenue as compared to 8.4% in 2018, reflecting the \$0.5 million decline in net operating income and \$2.6 million increase in administrative costs. Excluding the factors impacting comparability of \$3.7 million discussed above, Adjusted EBITDA declined by \$6.8 million to \$92.4 million, or 8.2% of revenue in 2019, as compared to \$99.2 million, or 8.9% of revenue in 2018, reflecting growth in net operating income of the LTC and retirement living operations, offset by lower volumes and net operating income of the home health care operations and higher administrative costs.

## Depreciation and Amortization

Depreciation and amortization costs increased by \$4.3 million to \$39.6 million in 2019, of which \$2.6 million was a result of the adoption of IFRS 16, and the balance was due to higher capital expenditures in prior periods.

## Other Expense

Other expense of \$2.4 million in 2019 related to costs associated with the ParaMed B.C. Contract Expiration of \$1.4 million recorded in the three months ended March 31, 2019, and costs of \$1.0 million recognized in the three months ended June 30, 2019, in connection with a representation and standstill agreement entered into with the Sandpiper group pursuant to which two nominees of the Sandpiper group were appointed to the Company's board of directors (the "Board of Directors" or "Board") and certain standstill covenants were provided in favour of the Company. Other expense of \$20.2 million in 2018 related to an impairment charge of \$16.2 million in respect of certain of the Company's retirement communities and LTC homes, costs associated with the redemption of convertible debentures and costs related to the acquisition of a retirement community.

## Net Finance Costs

Net finance costs decreased by \$1.6 million to \$24.9 million in 2019, primarily due to a favourable net change in foreign exchange and fair value adjustments related to the Captive's investments and interest rate swaps aggregating to \$1.8 million and lower accretion costs in connection with the decline in the accrual for U.S. self-insured liabilities, partially offset by higher interest expense due to a reduction in capitalized interest of \$0.6 million, increased debt levels and the adoption of IFRS 16 in the amount of \$0.5 million.

## Income Taxes

The income tax provision was \$7.2 million in 2019, representing an effective tax rate of 29.6%, as compared to a provision of \$4.2 million and an effective tax rate of 34.4% in 2018. The effective tax rate of the Canadian operations was 32.7% in 2019, as compared to 29.0% in 2018, and was impacted by, among other things, foreign exchange and fair value adjustments and other items reported separately as "other expense", as noted above. The effective tax rate of the Canadian operations, excluding the impact of separately reported items, was 29.7% in 2019 as compared to 27.8% in 2018.

## Earnings from Continuing Operations

Earnings from continuing operations of \$17.1 million (\$0.19 per basic share) in 2019 was up by \$9.0 million from \$8.1 million (\$0.09 per basic share) in 2018, largely impacted by the above noted impairment charge incurred in 2018 and the favourable change in foreign exchange and fair value adjustments, partially offset by an increase in depreciation costs, and decline in earnings from the home health care operations due to higher back office operating costs and ParaMed Transformation costs and lower business volumes.

## Discontinued Operations

Earnings from discontinued operations relate to the former U.S. operations and were \$11.6 million in 2019 as compared to \$23.6 million in 2018. The 2019 after-tax earnings include the release of \$12.2 million of the Captive's reserves, partially offset by the impact of discount rate adjustments. The 2018 after-tax earnings of \$23.6 million include the release of \$13.0 million of the Captive's reserves, the favourable impact of discount rate adjustments of \$1.1 million, a \$3.6 million decrease in indemnification provisions and other items and a net tax recovery of \$5.9 million.

## Summary of Results of Operations by Segment

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

<b>Years ended December 31</b> <i>(thousands of dollars)</i>	<b>Long-term Care</b>	<b>Retirement Living</b>	<b>Home Health Care</b>	<b>Other Canadian Operations</b>	<b>Corporate Canada</b>	<b>Total Canada</b>	<b>Total U.S.</b>	<b>Total</b>
<b>2019</b>								
Revenue	643,785	41,276	422,995	23,894	–	1,131,950	–	1,131,950
Operating expenses	566,375	29,844	391,646	10,635	–	998,500	–	998,500
Net operating income	77,410	11,432	31,349	13,259	–	133,450	–	133,450
NOI margin %	12.0%	27.7%	7.4%	55.5%	–	11.8%	–	11.8%
<b>2018</b>								
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
NOI margin %	11.5%	26.9%	8.8%	60.7%	100.0%	11.9%	100.0%	12.0%
<b>Change</b>								
Revenue	11,252	7,864	(8,348)	1,603	(23)	12,348	(405)	11,943
Operating expenses	6,886	5,414	(1,708)	1,885	–	12,477	–	12,477
Net operating income	4,366	2,450	(6,640)	(282)	(23)	(129)	(405)	(534)

### LONG-TERM CARE OPERATIONS

Net operating income from the long-term care operations was \$77.4 million in 2019 as compared to \$73.0 million in 2018, an increase of \$4.4 million or 6.0%, with an NOI margin of 12.0% and 11.5%, respectively. Results included favourable labour accrual adjustments of approximately \$1.1 million recorded in 2019, excluding which the net operating income would have been \$76.3 million, with an NOI margin of 11.9%. Revenue grew by \$11.3 million, or 1.8%, of which approximately \$6.7 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 \$6.9 million, or 1.2%, due primarily to higher labour, utilities and other costs of resident care, partially offset by the labour accrual adjustments. Excluding the accrual adjustments, labour costs as a component of operating expenses increased by \$5.3 million or 1.2% over 2018, and represented 82.3% of operating expenses in 2019 as compared to 82.5% in 2018.

### RETIREMENT LIVING OPERATIONS

The following table summarizes the breakdown of the same-store and non same-store operating results of the retirement living operations.

<b>Retirement Living</b> <i>(thousands of dollars unless otherwise noted)</i>	<b>Years ended December 31</b>				
	<b>2019</b>		<b>2018</b>		<b>Change</b>
<b>Same-store</b>					
Revenue	34,725		29,615		5,110
Operating expenses	23,290		21,320		1,970
Net operating income / margin %	11,435	32.9%	8,295	28.0%	3,140
Average occupancy / weighted average available suites	93.0%	720	84.7%	683	37
<b>Non Same-store</b>					
Revenue	6,551		3,797		2,754
Operating expenses	6,554		3,110		3,444
Net operating income (loss) / margin %	(3)	–	687	18.1%	(690)
Average occupancy / weighted average available suites	48.9%	236	93.0%	68	168
<b>Total</b>					
Revenue	41,276		33,412		7,864
Operating expenses	29,844		24,430		5,414
Net operating income / margin %	11,432	27.7%	8,982	26.9%	2,450
Average occupancy / weighted average available suites	82.1%	956	85.5%	750	206

Net operating income from the retirement living operations was \$11.4 million in 2019 as compared to \$9.0 million in 2018, representing an increase of \$2.4 million or 27.3%. This improvement was driven primarily by growth in average occupancy from same-store operations to 93.0% in 2019 as compared to 84.7% for the same prior year period, partially offset by a decline in contribution from non same-store operations of \$0.7 million, due to early lease-up and pre-opening losses from Bolton Mills and The Barrievue.

### **HOME HEALTH CARE OPERATIONS**

Net operating income from the home health care operations declined by \$6.6 million or 19.2% to \$31.3 million in 2019 over 2018, with an NOI margin of 7.4% and 8.8%, respectively. Total labour costs as a component of total operating expenses decreased by \$3.5 million and represented 92.3% of operating expenses compared to 92.8% in 2018. Excluding the factors impacting comparability of \$1.7 million discussed under “– Summary of Factors Impacting Comparability”, net operating income declined by \$8.3 million to \$32.0 million, or 7.6% of revenue, in 2019, as compared to \$40.3 million, or 9.3% of revenue, in 2018. The decline in net operating income related primarily to a 3.0% decline in average daily volumes and higher back office operating costs. After further excluding the impact of the B.C. operations, net operating income for 2019 would have been \$32.3 million as compared to \$40.3 million in 2018, with an NOI margin of 8.7% compared to 10.5%, respectively. Refer to the discussion under “Significant 2019 Events and Developments – ParaMed – B.C. Contract Expiration”.

### **OTHER CANADIAN OPERATIONS**

Net operating income from the contract services, consulting and group purchasing operations declined by \$0.3 million or 2.1% to \$13.3 million in 2019 over 2018, with revenue growth of 7.2% due to an increase in clients served, offset by increased costs to support operations.

## ADJUSTED FUNDS FROM OPERATIONS

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

<i>(thousands of dollars unless otherwise noted)</i>	Three months ended			Years ended		
	December 31			December 31		
	2019	2018	Change	2019	2018	Change
<b>Net earnings</b>	<b>10,088</b>	6,507	3,581	<b>28,630</b>	31,738	(3,108)
<b>Add (Deduct):</b>						
Depreciation and amortization	<b>10,597</b>	10,184	413	<b>39,590</b>	35,270	4,320
Depreciation for FFEC (maintenance capex) <sup>(1)</sup>	<b>(1,855)</b>	(1,882)	27	<b>(6,898)</b>	(7,422)	524
Depreciation for office leases <sup>(2)</sup>	<b>(621)</b>	–	(621)	<b>(2,588)</b>	–	(2,588)
Other expense (continuing operations)	–	16,642	(16,642)	<b>2,404</b>	20,195	(17,791)
Other income (discontinued operations)	<b>(5,195)</b>	(9,663)	4,468	<b>(11,579)</b>	(17,755)	6,176
Foreign exchange and fair value adjustments	<b>(1,489)</b>	1,645	(3,134)	<b>(2,007)</b>	(247)	(1,760)
Current income tax expense (recovery) on other expense, foreign exchange and fair value adjustments <sup>(3)</sup>	<b>(1,299)</b>	(12,076)	10,777	<b>(1,579)</b>	(11,805)	10,226
Deferred income tax expense	<b>2,209</b>	830	1,379	<b>212</b>	1,936	(1,724)
<b>FFO</b>	<b>12,435</b>	12,187	248	<b>46,185</b>	51,910	(5,725)
Amortization of deferred financing costs	<b>436</b>	391	45	<b>1,714</b>	1,736	(22)
Accretion costs	<b>393</b>	635	(242)	<b>1,843</b>	2,878	(1,035)
Non-cash share-based compensation	<b>376</b>	214	162	<b>1,598</b>	430	1,168
Principal portion of government capital funding	<b>1,369</b>	1,300	69	<b>5,486</b>	5,200	286
Amounts offset through investments held for self-insured liabilities <sup>(4)</sup>	<b>529</b>	163	366	<b>1,188</b>	850	338
Additional maintenance capex <sup>(1)</sup>	<b>(4,173)</b>	(2,320)	(1,853)	<b>(5,414)</b>	(5,253)	(161)
<b>AFFO</b>	<b>11,365</b>	12,570	(1,205)	<b>52,600</b>	57,751	(5,151)
<b>Per Basic Share (\$)</b>						
FFO	<b>0.139</b>	0.137	0.002	<b>0.518</b>	0.587	(0.069)
AFFO	<b>0.127</b>	0.142	(0.015)	<b>0.590</b>	0.653	(0.063)
<b>Per Diluted Share (\$)</b>						
FFO	<b>0.139</b>	0.137	0.002	<b>0.518</b>	0.587	(0.069)
AFFO	<b>0.124</b>	0.138	(0.014)	<b>0.572</b>	0.634	(0.062)
<b>Dividends (\$)</b>						
Declared	<b>10,701</b>	10,612	89	<b>42,672</b>	42,351	321
Declared per share (\$)	<b>0.120</b>	0.120	–	<b>0.480</b>	0.480	–
<b>Weighted Average Number of Shares (thousands)</b>						
Basic	<b>89,467</b>	88,612		<b>89,148</b>	88,403	
Diluted	<b>99,850</b>	98,962		<b>99,539</b>	98,753	
<b>Current income tax expense included in FFO</b>	<b>1,075</b>	2,075	(1,000)	<b>8,552</b>	8,205	347
<b>Total maintenance capex <sup>(1)</sup></b>	<b>6,028</b>	4,202	1,826	<b>12,312</b>	12,675	(363)

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

(2) Represents depreciation recognized on adoption of IFRS 16 related to office leases.

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

(4) 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 2019 Financial Review

For the three months ended December 31, 2019, AFFO declined by \$1.2 million, or 9.6%, to \$11.4 million (\$0.127 per basic share) from \$12.6 million (\$0.142 per basic share) for the three months ended December 31, 2018, impacted by an increase in maintenance capex of \$1.8 million and net interest costs of \$0.8 million, partially offset by lower current taxes of \$1.0 million. Current income taxes this quarter were impacted by favourable year-end accrual adjustments and deferred tax timing differences.



For 2019, AFFO declined by \$5.2 million, or 8.9%, to \$52.6 million (\$0.590 per basic share) from \$57.8 million (\$0.653 per basic share) in 2018, impacted by the decline in Adjusted EBITDA, partly driven by reduced volumes and lower net operating income in the home health care operations and higher administrative costs, and increased net interest costs.

Excluding the impact of the previously noted factors, AFFO declined by \$1.8 million, or 13.9%, to \$11.4 million for the three months ended December 31, 2019 and by \$7.0 million, or 11.2%, to \$55.3 million from \$62.3 million for the year ended December 31, 2019.

A discussion of the factors impacting net earnings and Adjusted EBITDA can be found under “2019 Fourth Quarter Financial Review” and “2019 Financial Review”.

The effective tax rate on FFO was 15.6% in 2019 as compared to 13.6% in 2018. The Company’s current income taxes for 2018 benefitted from favourable timing differences and the utilization of tax loss carryforwards. In 2020, the Company expects the effective tax rate on FFO will be in the range of 14% to 16%. The determination of FFO includes a deduction for current income tax expense and does not include deferred income tax expense. As a result, the effective tax rates on FFO can be impacted by: adjustments to estimates of annual deferred timing differences, particularly when dealing with cash-based tax items versus accounting accruals; changes in the proportion of earnings between taxable and non-taxable entities; book-to-file adjustments for prior year filings; and the ability to utilize loss carryforwards.

Maintenance capex was \$6.0 million for the three months ended December 31, 2019, as compared to \$4.2 million for the three months ended December 31, 2018, and as compared to \$3.0 million for the three months ended September 30, 2019, representing 2.1%, 1.5% and 1.1% of revenue, respectively. Maintenance capex was \$12.3 million in 2019 as compared to \$12.7 million in 2018, representing 1.1% of revenue in each year. 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 2020, the Company expects to spend in the range of \$11 million to \$13 million in maintenance capex, as compared to \$12.3 million in 2019.

## Reconciliation of Net Cash from Operating Activities to AFFO

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

	Three months ended		Years ended	
	December 31		December 31	
<i>(thousands of dollars)</i>	2019	2018	2019	2018
<b>Net cash from operating activities</b>	<b>4,996</b>	1,189	<b>45,190</b>	39,473
<b>Add (Deduct):</b>				
Net change in operating assets and liabilities, including interest, taxes and payments for U.S. self-insured liabilities	<b>12,419</b>	26,196	<b>17,215</b>	36,708
Current income tax on items excluded from AFFO <sup>(1)</sup>	<b>(1,299)</b>	(12,076)	<b>(1,579)</b>	(11,805)
Depreciation for office leases <sup>(2)</sup>	<b>(621)</b>	–	<b>(2,588)</b>	–
Depreciation for FFEC (maintenance capex) <sup>(3)</sup>	<b>(1,855)</b>	(1,882)	<b>(6,898)</b>	(7,422)
Additional maintenance capex <sup>(3)</sup>	<b>(4,173)</b>	(2,320)	<b>(5,414)</b>	(5,253)
Principal portion of government capital funding	<b>1,369</b>	1,300	<b>5,486</b>	5,200
Amounts offset through investments held for self-insured liabilities <sup>(4)</sup>	<b>529</b>	163	<b>1,188</b>	850
<b>AFFO</b>	<b>11,365</b>	12,570	<b>52,600</b>	57,751

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

(2) Represents depreciation recognized on adoption of IFRS 16 related to office leases.

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

(4) 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.

## LIQUIDITY AND CAPITAL RESOURCES

### Sources and Uses of Cash

The following summarizes the sources and uses of cash between continuing and discontinued operations for 2019 and 2018.

<i>(thousands of dollars unless otherwise noted)</i>	2019			2018		
	Continuing	Discontinued	Total	Continuing	Discontinued	Total
Cash provided by operating activities, before working capital changes and interest and income taxes	92,708	–	92,708	94,668	–	94,668
Net change in operating assets and liabilities						
Accounts receivable	200	–	200	(8,172)	–	(8,172)
Other assets	1,133	–	1,133	(536)	–	(536)
Accounts payable and accrued liabilities	(6,165)	–	(6,165)	2,210	–	2,210
	(4,832)	–	(4,832)	(6,498)	–	(6,498)
Interest, taxes and claims payments						
Interest paid	(27,933)	–	(27,933)	(28,383)	–	(28,383)
Interest received	3,677	–	3,677	3,785	–	3,785
Income taxes paid	(5,661)	–	(5,661)	(8,862)	–	(8,862)
Payments for U.S. self-insured liabilities	–	(12,769)	(12,769)	–	(15,237)	(15,237)
	(29,917)	(12,769)	(42,686)	(33,460)	(15,237)	(48,697)
<b>Net cash from (used in) operating activities</b>	<b>57,959</b>	<b>(12,769)</b>	<b>45,190</b>	<b>54,710</b>	<b>(15,237)</b>	<b>39,473</b>
<b>Net cash from (used in) investing activities</b>	<b>–</b>	<b>12,769</b>	<b>12,769</b>	<b>(70,289)</b>	<b>15,237</b>	<b>(55,052)</b>
<b>Net cash used in financing activities</b>	<b>(28,668)</b>	<b>–</b>	<b>(28,668)</b>	<b>(48,763)</b>	<b>–</b>	<b>(48,763)</b>
Forex exchange gain (loss) on U.S. cash held	(727)	–	(727)	2,079	–	2,079
<b>Increase (decrease) in cash and short-term investments</b>	<b>28,564</b>	<b>–</b>	<b>28,564</b>	<b>(62,263)</b>	<b>–</b>	<b>(62,263)</b>
Cash and short-term investments at beginning of year	65,893	–	65,893	128,156	–	128,156
<b>Cash and short-term investments at end of year</b>	<b>94,457</b>	<b>–</b>	<b>94,457</b>	<b>65,893</b>	<b>–</b>	<b>65,893</b>

As at December 31, 2019, the Company had cash and short-term investments on hand of \$94.5 million, reflecting an increase in cash of \$28.6 million from the beginning of the year. Cash flow generated from the operating activities of the continuing operations of \$57.9 million was in excess of cash dividends paid of \$37.2 million.

**Net cash from operating activities** of the continuing operations was a source of cash of \$57.9 million in 2019, up \$3.2 million or 5.9% as compared to a source of cash of \$54.7 million in 2018. The increase in cash between periods was primarily due to a reduction in net income taxes paid and favourable net change in operating assets and liabilities, partially offset by lower earnings between periods.

**Net cash from investing activities** of the continuing operations was break even in 2019, as compared to a use of cash of \$70.3 million in 2018. The 2019 activity included the repatriation of cash of \$26.7 million (US\$20.0 million) from the Captive and collection of other assets, offset by purchases of property, equipment and other intangible assets of \$33.2 million. The 2018 activity included cash from the Captive of \$9.7 million (US\$7.5 million) and collection of other assets, offset by the acquisition of a retirement community for \$33.8 million and purchases of property, equipment and other intangible assets of \$50.6 million. The table that follows summarizes the capital expenditures. Growth capex, excluding acquisitions, relates to the construction of new beds, building improvements or other capital projects, all of which are aimed at earnings growth. Maintenance capex relates to the actual capital expenditures incurred to sustain and upgrade existing property and equipment. 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 2020, the Company is projecting to spend in the range of \$11 million to \$13 million in maintenance capex and in the range of \$25 million to \$28 million in growth capex related primarily to the planned expansion of Empire Crossing Retirement Community, LTC redevelopment and other growth initiatives.

<i>(thousands of dollars)</i>	2019	2018
<b>Growth capex</b>	<b>21,595</b>	39,291
Deduct: capitalized interest	(725)	(1,318)
<b>Growth capex, excluding capitalized interest</b>	<b>20,870</b>	37,973
<b>Maintenance capex</b>	<b>12,312</b>	12,675
	<b>33,182</b>	50,648

**Net cash from financing activities** of the continuing operations was a use of cash of \$28.7 million in 2019, down \$20.1 million, as compared to a use of cash of \$48.8 million in 2018. The 2019 activity included debt repayments of \$35.7 million and cash dividends paid of \$37.2 million, partially offset by the issuance of mortgages on two retirement communities in the aggregate of \$25.3 million and draws on construction financing of \$20.7 million. The 2018 activity included debt repayments of \$33.2 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 in connection with the issuance and redemption of convertible debentures, partially offset by draws on construction financing of \$23.0 million and the issuance of a \$10.5 million mortgage on a retirement community. For information on the change in long-term debt, refer to “– Long-term Debt”.

**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.

## Capital Structure

### SHAREHOLDERS’ EQUITY

The following summarizes shareholders’ equity for 2019 and 2018.

<i>(thousands of dollars unless otherwise noted)</i>	<b>2019</b>	<b>2018</b>	
<b>Shareholders’ Equity</b>			
Common Shares	<b>498,116</b>	492,064	
Equity portion of convertible debentures	<b>7,085</b>	7,085	
Contributed surplus	<b>3,675</b>	2,706	
	<b>508,876</b>	501,855	
Accumulated deficit at beginning of year	<b>(368,147)</b>	(365,084)	
Adoption of new standard on financial instruments	–	4,334	
Net earnings	<b>28,630</b>	31,738	
Dividends declared	<b>(42,672)</b>	(42,351)	
Equity portion of redeemed convertible debentures	–	5,573	
Purchase of Common Shares in excess of book value and other	–	(2,357)	
Accumulated deficit at end of year	<b>(382,189)</b>	(368,147)	
Accumulated other comprehensive loss	<b>(11,273)</b>	(7,717)	
<b>Shareholders’ equity</b>	<b>115,414</b>	125,991	
<b>Share Information</b> <i>(thousands)</i>	<b>February 26 , 2020</b>	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Common Shares (TSX symbol: EXE) <sup>(1)</sup>	<b>89,383.9</b>	<b>89,232.5</b>	88,490.0

(1) Closing market value per the TSX on February 26, 2020, was \$8.25.

As at February 26, 2020, the Company had \$126.5 million in aggregate principal amount of convertible subordinate debentures outstanding that mature in April 2025 (the “2025 Debentures”), which in the aggregate are convertible into 10,326,531 Common Shares.

### DIVIDENDS

The declaration and payment of dividends by the Company is at the discretion of 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 the Company, debt covenants and obligations and any other factors deemed relevant by the Board. If the Board determines that it would be in the Company’s best interests, it may modify the amount and frequency of dividends to be distributed to holders of Common Shares (Shareholders).

The Company declared cash dividends of \$0.48 per share in 2019, consistent with that declared in 2018, representing \$42.7 million and \$42.3 million in dividends declared for each period respectively. In 2019, dividends paid in cash totalled \$37.2 million and \$5.4 million were by way of 693,466 Common Shares issued under the Company’s dividend reinvestment plan (the “DRIP”), as compared to \$37.4 million in cash and \$4.9 million by way of 650,361 Common Shares issued under the DRIP in 2018.

Compared to AFFO of \$52.6 million in 2019, dividends declared of \$42.7 million represented a payout ratio of 81%, as compared to a payout ratio of 73% in 2018. The increase in the payout ratio was primarily due to the decline in earnings in 2019. For further information on AFFO, refer to the discussion under “Adjusted Funds from Operations”.

### **NORMAL COURSE ISSUER BID (NCIB)**

During 2019, the Company purchased no Common Shares under its NCIB that expired on January 14, 2020, for which it sought and received approval from the TSX to purchase up to 8,830,000 Common Shares.

During 2018, under its NCIB that expired on January 14, 2019, for which the Company sought and received approval from the TSX to purchase up to 8,770,000 Common Shares, the Company purchased an aggregate of 703,585 Common Shares at a weighted average price of \$8.89 per share, for a total cost of \$6.3 million.

In January 2020, the Company received approval from the TSX to renew its NCIB to purchase for cancellation up to 8,000,000 Common Shares (representing approximately 10% of its public float) through the facilities of the TSX, and through alternative Canadian trading systems, in accordance with TSX rules. The NCIB commenced on January 15, 2020, and provides the Company with flexibility to purchase Common Shares for cancellation until January 14, 2021, or on such earlier date as the NCIB is complete. The actual number of Common Shares purchased under the NCIB and the timing of any such purchases will be at the Company’s discretion. Subject to the TSX’s block purchase exception, on any trading day, purchases under the NCIB will not exceed 42,703 Common Shares. As at February 27, 2020, the Company has not acquired any Common Shares under its NCIB.

## **Long-term Debt**

### **CONTINUITY OF LONG-TERM DEBT**

Long-term debt totalled \$556.3 million as at December 31, 2019, as compared with \$529.0 million as at December 31, 2018, representing an increase of \$27.3 million, consisting of an increase in lease liabilities of \$16.8 million primarily due to the renewal of the corporate head office lease (\$10.3 million) and the adoption of IFRS 16 (\$5.8 million), mortgage financings on two retirement communities in the aggregate of \$25.3 million and draws on construction loans, partially offset by debt repayments. The long-term debt activity for 2018 included a \$10.5 million mortgage on a retirement community and the refinancing of \$126.5 million of convertible debentures for seven years to 2025, draws on construction loans, partially offset by debt repayments. The Company and its subsidiaries are in compliance with all of their respective financial covenants as at December 31, 2019. 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 2019 and 2018.

<i>(millions of dollars)</i>	<b>2019</b>	<b>2018</b>
<b>Long-term debt at beginning of year, prior to deferred financing costs</b>	<b>537.4</b>	541.8
Issue of long-term debt		
Construction loans	<b>20.7</b>	23.0
Mortgages	<b>25.3</b>	10.5
2025 Debentures at face value	–	126.5
Lease liabilities on adoption of IFRS 16	<b>5.8</b>	–
Lease liabilities	<b>11.0</b>	–
Redemption of convertible debentures at face value	–	(126.5)
Repayment of long-term debt	<b>(35.7)</b>	(33.2)
Change in equity component of convertible debentures and other	<b>0.2</b>	(4.7)
	<b>564.7</b>	537.4
Deferred financing costs at end of year	<b>(8.4)</b>	(8.4)
<b>Long-term debt at end of year</b>	<b>556.3</b>	529.0
Less: current portion	<b>(133.8)</b>	(74.7)
	<b>422.5</b>	454.3

## CREDIT FACILITIES

The Company's wholly owned subsidiary, ParaMed Inc., has a demand credit facility in the amount of \$65.0 million (the "ParaMed Credit Facility") that is secured by the assets of its home health care business and is available for general corporate purposes by 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, 2019.

Extendicare Inc. has a demand credit facility in the amount of \$47.3 million (the "Extendicare Credit Facility") that is secured by 13 Class C LTC homes in Ontario and is guaranteed by certain Canadian subsidiaries of Extendicare. As at December 31, 2019, the Company had letters of credit totalling \$43.6 million issued under the Extendicare Credit Facility, of which \$38.1 million secure the defined benefit pension plan obligations and the balance were issued in connection with obligations relating to recently acquired homes and those homes under development. The letter of credit to secure the pension plan obligations renews annually in May based on an actuarial valuation. The Extendicare Credit Facility has no financial covenants, but does contain normal and customary terms including annual re-appraisals of the homes that could limit the maximum amount available.

## LONG-TERM DEBT MATURITIES AND WEIGHTED AVERAGE INTEREST RATES

The following table 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, 2019. The Company had an aggregate of \$64.6 million drawn on construction loans at the end of 2019, 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. Consequently, these loans are reflected as current and due in 2020 in the following table. Permanent financing for each of the communities may be sought upon maturity of the construction financing.

<i>(millions of dollars unless otherwise noted)</i>	2020	2021	2022	2023	2024	After 2024	Total	Fair Value
<b>Convertible Debentures (at face value)</b>								
Fixed rate	–	–	–	–	–	126.5	<b>126.5</b>	132.6
Average interest rate	–	–	–	–	–	5.00%	<b>5.00%</b>	
<b>Long-term Debt</b>								
Fixed rate (including fixed through swap)	60.8	15.9	59.4	46.4	6.0	104.7	<b>293.2</b>	290.1
Average interest rate	3.75%	4.06%	3.75%	4.03%	4.89%	4.50%	<b>4.18%</b>	
Variable rate (construction loans)	64.6	–	–	–	–	–	<b>64.6</b>	64.6
Average interest rate	4.41%	–	–	–	–	–	<b>4.41%</b>	
<b>Lease Liabilities</b>								
Fixed rate	9.9	11.0	10.0	10.1	10.5	34.7	<b>86.2</b>	95.7
Average interest rate	6.39%	6.16%	6.73%	6.83%	6.88%	6.53%	<b>6.83%</b>	

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 \$64.6 million. The Company's variable-rate mortgages and term loan, aggregating \$82.0 million at the end of 2019, have effectively been converted to fixed rate financings with interest rate swaps over the full term. As at December 31, 2019, the net carrying value of the interest rate swaps was a net asset of \$0.8 million (including a liability of \$0.7 million).

The following summarizes key metrics of consolidated long-term debt as at December 31, 2019 and 2018.

<i>(thousands of dollars unless otherwise noted)</i>	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Weighted average interest rate of long-term debt outstanding	<b>4.7%</b>	4.9%
Weighted average term to maturity of long-term debt outstanding	<b>6.7 yrs</b>	7.4 yrs
Trailing twelve months consolidated net interest coverage ratio <sup>(1)</sup>	<b>3.5 X</b>	3.7 X
Trailing twelve months consolidated interest coverage ratio <sup>(2)</sup>	<b>3.1 X</b>	3.2 X
<b>Debt to Gross Book Value (GBV)</b>		
Total assets (carrying value)	<b>888,800</b>	896,324
Accumulated depreciation on property and equipment	<b>251,403</b>	226,417
Accumulated amortization on other intangible assets	<b>23,951</b>	18,509
GBV	<b>1,164,154</b>	1,141,250
Debt <sup>(3)</sup>	<b>570,536</b>	544,111
<b>Debt to GBV</b>	<b>49.0%</b>	47.7%

(1) Net interest coverage ratio is defined as Adjusted EBITDA divided by net interest (interest expense before reduction of capitalized interest, net of interest revenue). The adoption of IFRS 16 has not had a material impact on the interest coverage ratios.

(2) Interest coverage ratio is defined as Adjusted EBITDA divided by interest expense before reduction of capitalized interest. The adoption of IFRS 16 has not had a material impact on the interest coverage ratios.

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

## Future Liquidity and Capital Resources

The Company's consolidated cash and short-term investments on hand was \$94.5 million as at December 31, 2019, as compared with \$65.9 million as at December 31, 2018, representing an increase of \$28.6 million. In addition, the Company had \$65.0 million available to draw under its ParaMed Credit Facility. Cash and short-term investments exclude restricted cash of \$2.4 million and \$27.6 million (US\$21.2 million) of investments held by the Captive to support the accrual for U.S. self-insured liabilities of \$12.2 million (US\$9.4 million). Subsequent to December 31, 2019, the Company initiated the repatriation of US\$7.0 million from the Captive, which is expected to be received in the second quarter of 2020.

As at December 31, 2019, the Company had construction financings in the aggregate of up to \$77.7 million that are secured on three retirement communities (Douglas Crossing, Bolton and The Barrievue), of which \$64.6 million was drawn. As at December 31, 2019, the Company had incurred approximately \$98.4 million of the estimated \$99.1 million of Adjusted Development Costs for these three retirement communities.

Management believes that cash from operating activities and future debt financings will be sufficiently available to support the Company's ongoing business operations, maintenance capex and debt repayment obligations. Growth through redevelopment of the LTC homes over the next few years, strategic acquisitions and developments will necessitate the raising of funds through debt and equity financings. 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

### Property and Equipment Commitments

The Company had outstanding commitments of \$0.6 million at December 31, 2019, in connection with retirement communities under development in Ontario.

### Defined Benefit Pension Plan Obligations

The Company has a registered defined benefit plan and a supplementary plan covering certain executives, both of which have been closed to new entrants since 2000. The accrued benefit liability on the statement of financial position as at December 31, 2019, was \$36.5 million (2018 – \$36.1 million). The registered defined benefit plan was in an actuarial deficit of \$2.8 million, with plan assets of \$5.3 million and accrued benefit obligations of \$8.1 million as at December 31, 2019 (2018 – an actuarial deficit of \$2.6 million with plan assets of \$5.1 million and accrued benefit obligations of \$7.7 million). The accrued benefit obligations of the supplementary plan were \$33.7 million as at December 31, 2019 (2018 – \$33.5 million). The Company does 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 \$38.1 million as at December 31, 2019 (2018 – \$38.0 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 \$3.4 million, and the annual contributions to the registered pension plan are less than \$0.1 million. Since the majority of

the accrued benefit obligations represent obligations under the 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 the Company's cash flow requirements with respect to its pension obligations, or on its pension expense.

### **Accrual for U.S. Self-insured Liabilities**

The obligation to settle 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 the Company, which continues to be funded 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 determine the appropriateness of the carrying value of this liability. The most recent independent actuarial review was conducted at the end of 2019, which confirmed the adequacy of the Company's reserves.

As at December 31, 2019, the accrual for U.S. self-insured general and professional liabilities was \$12.2 million (US\$9.4 million) as compared to \$37.1 million (US\$27.2 million) at the beginning of the year. The decline of US\$17.8 million reflected claim payments of US\$9.6 million and a release of reserves of US\$9.2 million, partially offset by accretion of the discounted liability and change in discount factor applied.

During 2018, payments for self-insured liabilities were \$15.2 million (US\$11.8 million) and \$13.0 million (US\$9.9 million) in reserves were released and reflected in discontinued operations.

Most of the risks that the Company 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, 2019, management estimated that approximately \$3.6 million of the accrual for U.S. self-insured general and professional liabilities will be paid within the next twelve months. As the timing of payments is not directly within management's control, 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 \$27.6 million (US\$21.2 million) as at December 31, 2019, as compared to \$67.9 million (US\$49.8 million) at the beginning of the year. During 2019, the Captive transferred US\$20.0 million of cash previously held for investment to the Company for general corporate use and initiated repatriation of a further US\$7.0 million, which is expected to be received in the second quarter of 2020. Management believes there are sufficient invested funds held to meet estimated current claims payment obligations.

### **Legal Proceedings, Claims and Regulatory Actions**

The Company 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 homes and its provision of care to residents and seeking \$150.0 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. Since July 2019, certain individual plaintiffs have served the Company with statements of claim alleging negligence by the Company in the operation of certain of its long-term care homes and its provision of care to certain residents. 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 seeking 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 \$20.0 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. The Company 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.

## **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 homes and publicly funded home health care services, including the fee structure, subsidies, the adequacy of physical homes, standards of care and accommodation, equipment and personnel. A substantial portion of the fees paid to providers of these services are funded by provincial programs, with a 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 health care programs, such as long-term care and home health care, 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 in order to operate LTC homes and retirement communities. In Ontario, license terms for LTC homes are issued for a fixed term of not more than 30 years, after which the license may or may not be renewed. License terms for Class B and C homes in Ontario are set to expire in June 2025, unless the license terms are extended or the homes are redeveloped to the government's new design standards wherein a new license will be issued upon successful application, as discussed further below under "– Ontario LTC Redevelopment and Expansion". 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 communities is less restrictive as the funding for these services is generally private-pay. In addition to, or in some provinces in place of, the license procedure, LTC operators in Alberta, Manitoba, Ontario and Saskatchewan are required to sign service contracts that incorporate service expectations with the applicable provincial health authority. A failure of the Company's operating licences or contracts to be renewed or conditionally renewed may have a material adverse impact on the business, results of operations and financial condition of the Company.

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

In April 2019, Bill 74, *The People's Health Care Act, 2019* (Ontario), received Royal Assent, resulting in the creation of the Ontario Health agency 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 LHINs. LHIN functions that involve the oversight of home and community care, including long-term care, are anticipated to move to Ontario Health.

Bill 74 also introduces the creation of Ontario Health Teams (OHTs), which are groups of health care providers, such as primary care and hospitals, home care and long-term care and mental health and addictions supports, who will be ultimately clinically and fiscally responsible for delivering the full continuum of care to patients. In April 2019, the government provided a guidance document for interested applicants, *Ontario Health Teams: Guidance for Health Care Providers and Organizations*, that provides an overview of the intended structure of the OHTs, recognizing that the framework will be further developed as the new health care model becomes operational.

The Ministry of Health's application process for groups of providers interested in becoming an OHT is ongoing. The Company continues to participate in the various stages and be involved in a variety of such groups across the province as it continues to explore growth opportunities.

All of ParaMed's government funded business in Ontario is currently governed by contracts with the LHINs. These contracts may be impacted by the integration of the LHINs into the new agency and may need to be assigned or reissued.



Although the treatment of these contracts is not yet known, and while any change in home care contracting and associated government operating models would represent a significant change, the underlying market demand is such that it is likely that there would be minimal disruption to ParaMed's business service provision; however, 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.

## **Ontario LTC Redevelopment and Expansion**

In Ontario, the Company's largest LTC market, management seeks to advance the redevelopment of its 21 Class C LTC homes (3,287 beds) under the Ministry of Long-Term Care's (MOLTC) redevelopment program. The license terms for these 21 Class C LTC homes are set to expire in June 2025, unless they are redeveloped to the government's new design standards. Given the significant backlog in demand for long-term care, the lack of alternative care environments and license extension precedents to-date, management is of the view that it is likely that licenses will be extended until redevelopment can be completed; however, there can be no assurance that this will be the case.

As part of the 2019 Ontario Budget, released in April 2019, the government announced \$1.75 billion in additional funding over five years to add 15,000 new LTC beds and to redevelop 15,000 existing LTC beds. We are encouraged by the importance the Ontario Government has put on LTC, and we will continue to apply for allocations of new beds to leverage the redevelopment of our older homes and to initiate new campus of care opportunities.

In May 2019, the Ontario government announced updates to the *Construction Funding Subsidy Policy for Long-Term Care Homes, 2019*, which among other things, increased the base per diem funding from \$16.65 to \$18.03 for LTC homes with 161 or more beds. LTC homes with between 40% and 60% of beds designated as basic accommodation are eligible to receive an additional per diem subsidy of up to \$3.50. Where variances from design requirements are permitted, reductions in the per diem subsidy may apply. Further updates to the policy may be made in 2020 to reflect changes in market conditions and construction cost inflation.

Each of the Company's 21 redevelopment projects is unique, with the overall redevelopment program involving a combination of new construction and retrofits. Each project is being carefully appraised to ensure strong economic fundamentals prior to proceeding with construction. Factors such as construction costs, adequacy of the government capital funding subsidies, availability of financing and the timing of project approvals will affect the sequencing and the duration of the redevelopment program. Management is working closely with the Ontario government with the goal of accelerating the Company's redevelopment projects. Projects are in various stages of planning and approvals, but none are under construction at present.

Once completed, redeveloped homes are expected to realize the benefit of improved performance and extended license terms. The extent to which such redevelopment plans are not implemented or proceed on significantly different timing, terms or government funding than currently anticipated, could have an adverse effect on the business, results of operations and financial condition of the Company.

## **Ontario LTC Funding**

Ontario is the Company's largest market for its senior care services. Funding for LTC homes in Ontario is based on reimbursement for the level of care assessed to be required by the residents, in accordance with scheduled rates. The MOLTC 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 MOLTC (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 premiums that providers can charge and retain for semi-private and private accommodation (preferred accommodation) and these premiums vary according to the structural classification of the LTC home. Long-term care providers are permitted to designate up to 60% of the resident capacity of a home as preferred accommodation. The accommodation rates are substantially paid for by the resident; however, the province guarantees funding for beds designated as 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 May 2019, the MOLTC announced an overall funding increase for long-term care providers of 1% for the flow-through and accommodation envelopes, retroactive to April 1, 2019, which represents additional accommodation envelope (non-flow through) revenue for the Company of approximately \$1.1 million. In addition, the MOLTC had indicated plans to eliminate the structural compliance premium (SCP) funding of \$5.00, \$2.50 and \$1.00 per diem for eligible Class A, B and C beds, respectively, effective October 1, 2019. However, the MOLTC has since deferred that change until April 1, 2020. The Company currently receives annual SCP funding of \$1.3 million.

In addition, effective July 1, 2019, the MOLTC implemented a 2.3% increase in the maximum preferred accommodation premiums that may be charged by long-term care providers. For older LTC beds that are not classified as “New” or “A” beds, the maximum daily preferred accommodation premiums increased to \$8.52 and \$19.17 for semi-private and private rooms, respectively. For newer LTC beds that are classified as “New” or “A” beds, the maximum daily preferred accommodation premiums increased to \$12.78 and \$26.64 for semi-private and private rooms, respectively. Refer to the table under “Business Overview – Operating Segments – Long-term Care” for a summary of the classification of the Company’s LTC beds in Ontario.

As announced in December 2019 and implemented on January 1, 2020, the Ministry of Health implemented changes to the reimbursement model for pharmacies providing professional services to residents of LTC homes in Ontario. The reimbursement model shifts from a fee-for-service model to a fixed fee-per-bed capitation model. The new model reimburses pharmacies for all medication dispensing and professional service activities including, medication reviews, medication assessments, and education seminars on a capitated basis.

Similar capitation-based reimbursement models are in place in other provinces in Western Canada where the Company operates. To adjust to the new reimbursement model in Ontario, pharmacy operators are evaluating existing workflows and looking for opportunities to streamline operations and deliver the same service level using technology and virtual meetings. While the Company continues to work with pharmacy operators to assess the impact of the workflow changes, it is not anticipated that these changes will have a material adverse impact on the business, results of operations or financial condition of the Company.

## **Alberta LTC Funding**

Alberta is the Company’s second largest market for its senior care services. Since April 2010, AHS has been using an activity-based funding system for continuing care homes 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.

The Alberta government’s 2019-20 budget released in October 2019 imposed a four-year funding freeze for AHS. In February 2020, an independent comprehensive review of AHS (the “AHS Performance Review”) was released, which includes a number of recommendations for AHS to potentially reduce costs and improve system performance. AHS has until May 2020 to develop a long-term implementation plan in response to the AHS Performance Review. As well, in February 2020, the Alberta Health Minister launched a formal review of the continuing care system, which currently has separate legislation for home health care, supportive living and long-term care. The Company is unable to predict whether the Alberta government or AHS 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.

On July 1, 2019, the annual accommodation charge (the portion paid directly by residents of long-term care and designated supportive living homes) increased by 1.6%, based on inflation as reflected by Alberta’s CPI, representing additional annual revenue for the Company of approximately \$0.5 million.

In November 2019, AHS announced adjustments to government funding for providers of long-term care and designated supportive living homes retroactive to October 1, 2019, rather than to April 1, 2019, the start of the government’s fiscal year. The funding changes represent additional annual revenue to the Company of approximately \$0.4 million.

## **Ontario Home Health Care Funding**

Ontario is ParaMed's largest market, representing approximately 92% of its annual service volumes (following the exit from B.C.), of which approximately 98% are received from government-funded contracts at specified rates, making ParaMed the largest private-sector provider of publicly funded home health care in the province. ParaMed's government-funded business in Ontario is currently obtained through evergreen contracts with the LHINs. In 2019, the Ontario government announced plans to integrate the LHINs into a newly created Ontario Health agency to act as a central point of accountability and oversight for the province's public health system. For further information, refer to the discussion above under "– The People's Health Care Act, 2019 (Bill 74)".

The enactment of Bill 148, the *Fair Workplaces, Better Jobs Act, 2017* (Ontario) in November 2017, resulted in a number of amendments to the *Employment Standards Act* (ESA) that included: an increase in the minimum wage and revisions to vacation, public holiday pay and personal leave entitlements that took effect January 1, 2018. Bill 148 necessitated changes in the manner in which the Company managed its workforce and had a significant financial impact on the Company's home health care operations, although such impact was subsequently reduced with the enactment of Bill 47, *Making Ontario Open for Business Act, 2018* (Ontario) in November 2018.

In response to increased costs associated with Bill 148, the Ontario government provided enhanced funding to contracted service providers, including ParaMed. During 2018, the Company received \$2.0 million of additional funding for the three months ended March 31, 2018, and continued to estimate an accrual for incremental funding beyond that date. During 2019, the Company received additional funding from the LHINs related to 2018 that was in excess of that estimated by the Company for the period ended December 31, 2018, resulting in a \$2.2 million increase in revenue recorded in the three months ended June 30, 2019.

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. 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. In the 2019 Ontario Budget, released in April 2019, the government announced an additional \$267 million for home and community care, focused on increasing front-line care delivery, such as personal support services, nursing, therapy and other professional services at home and in the community, in an effort to reduce waitlists for long-term care. As governments continue to recognize the benefits of this segment of the Canadian health care system, management believes 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 the Company's position. In addition, ParaMed continues to assess private-pay home health care opportunities that may enable it to further leverage its platform.

## **RELATED PARTY TRANSACTIONS**

As previously disclosed, the Company's former President and Chief Executive Officer stepped down from his position on October 22, 2018. In connection therewith, the Company recorded a charge of \$1.7 million in the three months ended September 30, 2018, representing a cash payment of \$2.9 million, partially offset by the reversal of \$1.2 million in respect of forfeited performance share units.

## **RISKS AND UNCERTAINTIES**

The risks and uncertainties described below could adversely affect the business, results of operations and financial condition of the Company, 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 the Company from time to time. The risks and uncertainties described below, which is not an exhaustive description of the risks and uncertainties faced by the Company, should be carefully considered by investors.

### **General Business Risks**

The Company 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; the ability of the Company to renew its government licenses and customer contracts; changes in government funding and reimbursement programs, including the ability to achieve adequate government funding increases; changes in labour relations and costs; increases in other operating costs; competition from other senior care providers; changes in neighbourhood or location conditions and general economic conditions; health related risks, including disease outbreaks

(for example COVID-19 if it progresses) and control risks; changes in accounting principles and policies; the imposition of increased taxes or new taxes; capital expenditure requirements; and changes in the availability and cost of both short- and 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 the 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 LTC homes, and grow its home health care, private-pay retirement, contract services, 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 homes 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 the Company's owned LTC beds are in older Ontario homes that are subject to redevelopment. In Ontario, licenses for LTC homes 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. License terms for Class B and C LTC homes in Ontario are set to expire in June 2025, unless the license terms are extended or the homes are redeveloped to the government's new design standards wherein a new license will be issued upon successful application. Given the significant backlog in demand for long-term care, the lack of alternative care environments and license extension precedents to-date, management is of the view that it is likely that licenses will be extended until redevelopment can be completed; however, there can be no assurance that this will be the case. The Company has 21 Class C LTC homes with 3,287 beds that it is seeking to redevelop under the government's redevelopment program (see "Ontario LTC Redevelopment and Expansion" 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, terms or government funding than currently anticipated, 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 homes after acquisition or development, and the ability of the Company to effectively integrate and operate the acquired businesses or homes. Acquired businesses or homes, 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 new businesses effectively may have an adverse effect on the business, results of operations and financial condition of the Company.

The success of the Company's ability to grow its contract services, 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 the Company'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. The Company's 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, the Company's local reputation for quality care, the commitment and expertise of its staff, the Company's local service offerings, the cost of care in each locality, and the physical appearance, location, age and condition of its residences. Increased competition could limit the Company's ability to attract and retain residents and clients and thus maintain or increase occupancy levels and business volumes. 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**

The Company'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 2019), 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.

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 and range from notices of deficiencies to revocation of licenses or termination of contracts. 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.

Non-compliance with applicable laws and licensure requirements 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 reputational damage to the Company. These penalties could have a material adverse effect on the business, results of operations and financial condition of the Company.

The Company 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. 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.

The majority of ParaMed's business volumes are generated in Ontario and Alberta, representing 92% and 5%, respectively, based on volumes delivered in 2019 excluding the recently exited B.C. operations. In Alberta, government contracts have specified termination dates and or/renewal periods, following which they are put out to tender. In Ontario, 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 regime, all of ParaMed's government contracts in Ontario have remained in effect. In 2019, the Ontario government created the Ontario Health agency to act as central point of accountability and oversight for the provinces' public health care system. All of ParaMed's government funded business in Ontario is currently governed by contracts with the LHINs. These contracts may be impacted by the integration of the LHINs into the new agency and may need to be assigned or reissued. Although the treatment of these contracts is not yet known, and while any change in home care contracting and associated government operating models would represent a significant change, the underlying market demand is such that it is likely that there would be minimal disruption to ParaMed's business service provision; however, 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. For further information, refer to the discussion under "Update of Regulatory and Funding Changes Affecting Results – The People's Health Care Act, 2019 (Bill 74)".

## **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**

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

## **Risks Related to Labour Intensive Business**

### **AVAILABILITY AND COST OF PERSONNEL**

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 its businesses. The health care industry continues to face shortages of qualified personnel, such as nurses, certified nurse's assistants, nurse's aides and therapists, particularly in non-urban settings. 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. In addition, the Company has contracted out select dietary and housekeeping services provided in some of its homes. Should the Company become dissatisfied with the quality or cost of such contracted services, it may need to terminate the related contracts and recruit replacement staff at an incremental cost and potential business disruption. 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.

## **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 and reputational damage to the

Company and thus have a material adverse effect on the business, results of operations and financial condition of the Company.

## **LABOUR RELATIONS**

The Company employs approximately 22,000 individuals, of whom approximately 69% 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, other labour disruptions 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 homes that the Company 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.

There can be no assurance that employees who are not currently unionized will not, in the future, become unionized, 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 the Company to an inherent risk of claims of wrongful death, personal injury, professional malpractice and other potential claims being brought by the Company's residents, clients, and employees. From time to time, the Company 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 the Company will not face risks of this nature. Refer to the discussion under "Other Contractual Obligations and Contingencies – Legal Proceedings, Claims and Regulatory Actions".

The Company 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, or maintain favourable standings with regulatory authorities.

Prior to the U.S. Sale Transaction, the Company 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 the Company, which continues to be funded 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, the Company is exposed to the potential loss, misuse or theft of any such information. If the Company were found to be in violation of 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 organizations are increasing in sophistication and are often focused on financial fraud, compromising sensitive data for inappropriate use or disrupting business operations. The Company 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.

The Company 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 the Company's reputation and results of operations. To counter internet-based and internal security threats, the Company invests in cyber defense technologies to identify risks to its network, software and hardware systems. Extencare partners with leading technology security firms to mitigate identified risks and develop contingency plans. As security threats to the Company'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. 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.

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 and any such losses may have a material adverse effect on the business, results of operations and financial condition of the Company.

## **Risks Related to Tax Rules and Regulations**

The Company 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.

The Extencare Credit Facility is a demand facility in the amount of \$47.3 million that is secured by 13 Class C LTC homes in Ontario and is guaranteed by certain Canadian subsidiaries of Extencare. As at December 31, 2019, Extencare had letters of credit totalling \$43.6 million issued under the Extencare Credit Facility, of which \$38.1 million secured the defined benefit pension plan obligations. The Extencare Credit Facility has no financial covenants, but does contain normal and customary terms, including annual re-appraisals of the homes that could limit the maximum level of the line of credit and other restrictions on Extencare'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 the Company 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 – see "Interest Rates" below) 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 and its subsidiaries are in compliance with all of their respective financial covenants as at December 31, 2019. 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 \$64.6 million drawn as at December 31, 2019. The Company primarily finances its properties through fixed-rate mortgages and considers securing interest rate swap agreements for any variable-rate debt to mitigate exposure to interest rate changes. The Company's



variable-rate mortgages and term loan, aggregating \$82.0 million as at December 31, 2019, 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 mortgage financing) 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.

The Company owns, or operates under 25-year lease arrangements whereby ownership transfers at the end of the lease term, 100% of its LTC homes and retirement communities, excluding those to which it provides contract services. LTC homes and retirement communities are limited in terms of alternative uses; therefore, their values are directly driven by the cash flow from operations. All but 11 of the Company's 69 homes owned by it at December 31, 2019, are government-funded senior care homes. 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 operates could cause its homes 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 LTC homes and retirement communities, 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 property and equipment to meet regulatory standards, operate efficiently and remain competitive in its markets. During 2019, the company incurred \$12.3 million in maintenance capex, and expects to spend in the range of \$11 million to \$13 million in 2020 to sustain and upgrade its existing property and equipment. In addition to recurring maintenance capex, the Company invests in enhancements of existing properties aimed at earnings growth and improved profitability, including redevelopment of LTC homes under provincial programs. See “– 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, and have a material adverse effect on the business, results of operations and financial condition of the Company.

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 \$10.7 million undiscounted, or \$9.5 million discounted, as at December 31, 2019, 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.

## **Risks Related to the Common Shares and Debentures**

### **UNPREDICTABILITY AND VOLATILITY OF THE COMMON SHARE PRICE**

A publicly traded company does not necessarily trade at values determined by reference to the underlying value of its business. The prices at which the Common Shares will trade cannot be predicted. The market price of the Common Shares could be subject to significant fluctuations in response to variations in quarterly operating results, dividends and other factors beyond the control of the Company. The annual yield on the Common Shares, represented as the ratio of annual dividend to the market price per Common Share, as compared to the annual yield on other financial instruments, may also influence the price of the Common Shares in the public trading markets. In addition, the securities markets have experienced significant price and volume fluctuations from time to time in recent years that often have been unrelated or disproportionate to the operating performance of particular issuers. These broad fluctuations may adversely affect the market price of the Common Shares.

### **CASH DIVIDENDS ARE NOT GUARANTEED AND MAY FLUCTUATE WITH THE PERFORMANCE OF THE COMPANY**

The declaration and payment of dividends by the Company is at the discretion of 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 the Company, debt covenants and obligations and any other factors deemed relevant by the Board. All of these factors are susceptible to a number of risks and other factors beyond the control of the Company. The amount of funds available for distribution will fluctuate with the performance of the Company. If the Board determines that it would be in the Company's best interests, it may reduce the amount and frequency of dividends to be distributed to Shareholders and such reductions may significantly effect the market value of the Common Shares.

A high dividend yield results in a higher cost of capital incurred by the Company in raising capital through the issue of Common Shares to fund future growth and equally can inhibit the ability of the Company to grow through acquisition or new developments. Therefore, the Board also has to balance the dividend yield relative to its growth plans and need to raise capital.

Funds available for dividends are driven by cash generated from operations and may be dependent upon the Company's plan for growth-based capital expenditures. The timing and amount of capital expenditures will directly affect the amount of cash available for dividends to Shareholders. Dividend payments to Shareholders may be reduced, or even eliminated, at times when the Company cannot access the capital markets for raising cash and/or when Directors deem it necessary to make significant capital or other expenditures. The Company may be required to reduce dividends or access the capital markets in order to accommodate these items. There can be no assurance that sufficient capital will be available on acceptable terms to the Company for necessary or desirable capital expenditures.

### **COMPANY STRUCTURE**

The Company does not carry on business directly, but does so indirectly through its subsidiaries. The Company has no major assets of its own, other than the LTC homes that it leases to Extencicare (Canada) Inc. (ECI) and the direct and indirect interests it has in its subsidiaries (including ECI, ParaMed and the subsidiaries that own and operate the Company's retirement communities), all of which are separate legal entities. The Company is therefore financially dependent on lease payments that it receives from ECI and dividends and other distributions it receives from all of its subsidiaries.

### **FUTURE ISSUES OF COMMON SHARES AND PREFERRED SHARES AND DILUTION**

The Company's articles permit the issuance of an unlimited number of Common Shares and a number of preferred shares of the Company (the "Preferred Shares"), issuable in series, equal to 50% of the number of Common Shares that are issued and outstanding, for the consideration and on the terms and conditions that the Board may determine without Shareholder approval. Shareholders have no pre-emptive rights in connection with such future issues. Future issues of Common Shares and/or Preferred Shares could be dilutive to the interests of Shareholders and could adversely affect the prevailing market price of the Common Shares.

## **LEVERAGE AND RESTRICTIVE COVENANTS IN CURRENT AND FUTURE INDEBTEDNESS**

The ability of the Company to pay dividends is subject to applicable laws and contractual restrictions contained in the instruments governing any indebtedness of the Company (including its subsidiaries). The degree to which the Company is leveraged could have important consequences to Shareholders, including: (i) that the Company's ability to obtain additional financing in the future for working capital, capital expenditures or acquisitions may be limited; (ii) that a significant portion of the Company's cash flow from operations may be dedicated to the payment of the principal of, and interest on, its indebtedness; (iii) that certain of the Company's borrowings could be financed at variable rates of interest, which exposes the Company to the risk of increased interest rates; and (iv) that the Company may be more vulnerable to economic downturns and be limited in its ability to withstand competitive pressures. These factors may reduce funds available for the Company to pay dividends.

## **CHANGES IN THE COMPANY'S CREDITWORTHINESS MAY AFFECT THE VALUE OF THE COMMON SHARES**

The perceived creditworthiness of the Company may affect the market price or value and the liquidity of the Common Shares.

## **MATTERS AFFECTING TRADING PRICES FOR THE DEBENTURES**

The 2025 Debentures are listed on the TSX. No assurance can be given that an active or liquid trading market for the 2025 Debentures will develop or be sustained. If an active or a liquid market for the 2025 Debentures fails to develop or be sustained, the prices at which the 2025 Debentures trade may be adversely affected. Whether or not the 2025 Debentures will trade at lower prices depends on many factors, including liquidity of the 2025 Debentures, prevailing interest rates and the markets for similar securities, the market price of the Common Shares, general economic conditions, and the Company's financial condition, historic financial performance and future prospects.

The Company may determine to redeem outstanding 2025 Debentures for Common Shares or to repay outstanding principal amounts thereunder at maturity of the 2025 Debentures by issuing additional Common Shares. Accordingly, Shareholders may suffer dilution.

## **DEBENTURES – CREDIT RISK AND PRIOR RANKING INDEBTEDNESS; ABSENCE OF COVENANT PROTECTION**

The likelihood that purchasers of the 2025 Debentures will receive payments owing to them under the terms of the 2025 Debentures will depend on the Company's financial condition and creditworthiness. In addition, the 2025 Debentures are unsecured obligations of the Company and are subordinate in right of payment to all of the Company's existing and future senior indebtedness. Therefore, if the Company becomes bankrupt, liquidates its assets, reorganizes or enters into certain other transactions, the Company's assets will be available to pay its obligations with respect to the 2025 Debentures only after it has paid all of its senior indebtedness in full. There may be insufficient assets remaining following such payments to pay amounts due on any or all of the 2025 Debentures then outstanding. The 2025 Debentures are also effectively subordinate to claims of creditors of the Company's subsidiaries except to the extent the Company is a creditor of such subsidiaries ranking at least *pari passu* with such other creditors. The trust indenture, pursuant to which the Company issued the 2025 Debentures (the "Indenture") does not prohibit or limit the ability of the Company or its subsidiaries to incur additional debt or liabilities (including senior indebtedness) or to make distributions except in respect of distributions where an event of default caused by the failure to pay interest when due has occurred and such default has not been cured or waived. The Indenture does not contain any provision specifically intended to protect holders of 2025 Debentures in the event of a future leveraged transaction involving the Company or any of its subsidiaries.

## **CONVERSION OF THE DEBENTURES FOLLOWING CERTAIN TRANSACTIONS**

In the case of certain transactions, the 2025 Debentures will become convertible into the securities, cash or property receivable by a Shareholder under the transaction. The change could substantially lessen or eliminate the value of the conversion privilege associated with the 2025 Debentures in the future. For example, if the Company were acquired in a cash merger, the 2025 Debenture would become convertible solely into cash and would no longer be convertible into securities whose value would vary depending on the Company's future prospects and other factors.

## **REDEMPTION OF THE DEBENTURES PRIOR TO MATURITY**

The 2025 Debentures may be redeemed, at the option of the Company, at any time and from time to time, at a price equal to the principal amount thereof plus accrued and unpaid interest.

## **INABILITY OF THE COMPANY TO PURCHASE THE DEBENTURES IN CASH ON A CHANGE OF CONTROL**

If a change of control of the Company occurs, debentureholders will have the right to require the Company to redeem the 2025 Debentures in an amount equal to 101% of the principal amount of the 2025 Debentures plus accrued and unpaid interest until the date of redemption. If holders of 2025 Debentures holding 90% or more of all the 2025 Debentures exercise their right to require the Company to redeem such 2025 Debentures, the Company may acquire the remaining 2025 Debentures on the same terms. In such event, the conversion privilege associated with the 2025 Debentures would be eliminated. Although the Company may be required to purchase all outstanding 2025 Debentures upon the occurrence of a change of control, it is possible that following a change of control, the Company will not have sufficient funds at that time to make any required purchase of outstanding 2025 Debentures or that restrictions contained in other indebtedness will restrict those purchases.

## **ACCOUNTING POLICIES AND ESTIMATES**

### **Critical Accounting Policies and Estimates**

A full discussion of the Company's critical accounting policies and estimates is provided in *Note 3* of the audited consolidated financial statements for the year ended December 31, 2019, and under the heading "Future Changes in Accounting Policies" that follows this section.

Management considers an understanding of the Company'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 60% of the Company's total assets as at December 31, 2019, and goodwill and other intangibles represent approximately 10%. 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 home 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 homes (\$0.3 million).

### **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, 2019, the Company had remaining provisions totalling \$7.4 million or US\$5.7 million (2018 – \$13.7 million or US\$10.1 million) and an indemnification receivable of \$1.3 million (2018 – \$2.0 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. There were no valuation changes to the indemnifications during 2019 (2018 – favourable changes of \$3.8 million), refer to *Note 21* 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 the Company, which continues to be funded through the Captive. The accrual for U.S. self-insured liabilities of the Company's former U.S. operations is based on management's best estimate of the ultimate cost to resolve general and professional liability claims, 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 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, 2019, the accrual for self-insured general and professional liabilities was \$12.2 million or US\$9.4 million (2018 – \$37.1 million or US\$27.2 million) supported by investments held by the Captive of \$27.6 million or US\$21.2 million (2018 – \$67.9 million or US\$49.8 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, 2019, would have impacted the Company's net earnings from discontinued operations by approximately \$0.1 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. The ultimate realization of deferred tax assets is dependent upon if the generation of future taxable income is probable 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, 2019, the Company had recognized deferred tax assets totalling \$12.7 million (2018 – \$9.7 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, 2019, there were capital losses available for Canadian income tax purposes of \$41.7 million (2018 – \$42.1 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, 2019, and have been applied in preparing the financial results for the year ended December 31, 2019. These accounting standards are summarized below, and are more fully described in *Note 4* of the audited consolidated financial statements.

### **LEASES**

Effective January 1, 2019, the Company adopted IFRS 16 "Leases", which supersedes IAS 17 "Leases" and related interpretations. This 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 accounting model, thereby eliminating the distinction between operating and finance leases. The nature and timing of the related expense has changed as IFRS 16 replaces the straight-line lease costs with a depreciation charge for right-of-use assets and interest expense on lease liabilities.

Lease costs for the prior year have been reclassified under administrative costs to conform with the current year presentation. The impact of adopting this standard on net earnings and overall cash flow is neutral; however, the principal payment of the lease liabilities is presented in financing activities (previously reflected as operating activities).

The Company has applied IFRS 16 using the modified retrospective approach, under which the comparative information presented has not been restated. Certain practical expedients were selected on transition. The transition did not result in any retrospective adjustment to opening retained earnings on January 1, 2019.

### ***Transition***

At transition, for leases classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental weighted average borrowing rate as at January 1, 2019, of 4.86%. Right-of-use assets were measured at an amount equal to the lease liability. For leases that were classified as finance leases under IAS 17, the carrying amount of the right-of-use assets and the lease liability as at January 1, 2019, was the carrying amount of the lease assets and lease liability immediately before the date of initial application. These are accounted for using IFRS 16 from that date.

The Company used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- applied the exemption not to recognize right-of-use assets and liabilities for leases with less than 12 months of lease term;
- applied the exemption not to recognize right-of-use assets and liabilities for leases that are of low value;
- excluded initial direct costs from measuring the right-of-use asset as at January 1, 2019; and
- used hindsight as at January 1, 2019, when determining the lease term if the contract contains options to extend or terminate the lease.

## **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. Effective January 1, 2019, the Company adopted the IFRIC Interpretation 23, with no material impact on the consolidated financial statements.

## **Future Changes in Accounting Policies**

On October 22, 2018, the IASB issued amendments to IFRS 3 “Business Combinations”, that seek to clarify whether a transaction results in an asset or a business acquisition. The amendments apply to businesses acquired in annual reporting periods beginning on or after January 1, 2020. Earlier application is permitted. The Company intends to adopt the amendments for the annual period beginning on January 1, 2020.

## **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, 2019, 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, 2019.

## **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, 2019.

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, 2019

Extencare Inc.  
Dated: February 27, 2020



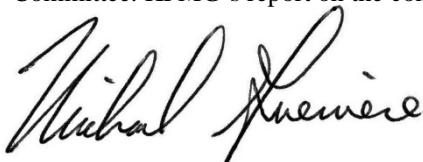
## Management’s Responsibility for Consolidated Financial Statements

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.

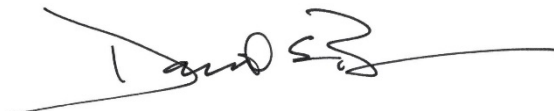
A system of internal accounting and administrative controls is maintained by management to provide reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition and that financial records are properly maintained to provide accurate and reliable consolidated financial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



**DAVID BACON**  
Senior Vice President and  
Chief Financial Officer

February 27, 2020



KPMG LLP  
100 New Park Place, Suite 1400  
Vaughan, ON L4K 0J3  
Tel 905-265 5900  
Fax 905-265 6390  
www.kpmg.ca

## Independent Auditors' Report

To the Shareholders of Extencicare Inc.

### **Opinion**

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

- the consolidated statements of financial position as at December 31, 2019 and December 31, 2018
- the consolidated statements of earnings and comprehensive income (loss) 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, 2019 and December 31, 2018, 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 27, 2020

# Extendicare Inc.

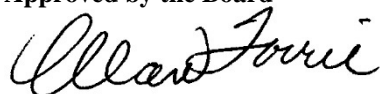
## Consolidated Statements of Financial Position

As at December 31

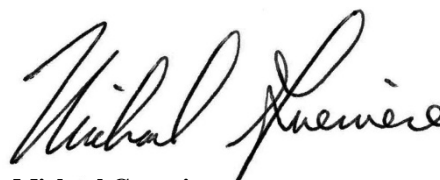
<i>(in thousands of Canadian dollars)</i>	<i>notes</i>	<b>2019</b>	<b>2018</b>
<b>Assets</b>			
Current assets			
Cash and short-term investments		94,457	65,893
Restricted cash		2,441	2,290
Accounts receivable	7	50,382	50,570
Income taxes recoverable		15,958	17,316
Other assets	10	20,661	21,465
<b>Total current assets</b>		<b>183,899</b>	<b>157,534</b>
Non-current assets			
Property and equipment	8	530,527	514,849
Goodwill and other intangible assets	9	89,874	95,200
Other assets	10	71,752	118,996
Deferred tax assets	22	12,748	9,745
<b>Total non-current assets</b>		<b>704,901</b>	<b>738,790</b>
<b>Total assets</b>		<b>888,800</b>	<b>896,324</b>
<b>Liabilities and Equity</b>			
Current liabilities			
Accounts payable and accrued liabilities		136,922	133,654
Income taxes payable		1,606	1,073
Long-term debt	12	133,771	74,626
Provisions	11	3,572	17,621
<b>Total current liabilities</b>		<b>275,871</b>	<b>226,974</b>
Non-current liabilities			
Long-term debt	12	422,535	454,344
Provisions	11	25,541	42,595
Other long-term liabilities	13	35,187	35,077
Deferred tax liabilities	22	14,252	11,343
<b>Total non-current liabilities</b>		<b>497,515</b>	<b>543,359</b>
<b>Total liabilities</b>		<b>773,386</b>	<b>770,333</b>
Share capital	15	498,116	492,064
Equity portion of convertible debentures	12	7,085	7,085
Contributed surplus	14	3,675	2,706
Accumulated deficit		(382,189)	(368,147)
Accumulated other comprehensive loss		(11,273)	(7,717)
<b>Shareholders' equity</b>		<b>115,414</b>	<b>125,991</b>
<b>Total liabilities and equity</b>		<b>888,800</b>	<b>896,324</b>

See accompanying notes to consolidated financial statements.  
Commitments and contingencies (Note 23).

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>	<b>2019</b>	<b>2018</b>
<b>CONTINUING OPERATIONS</b>			
<b>Revenue</b>	<i>16, 28</i>	<b>1,131,950</b>	1,120,007
Operating expenses		<b>998,500</b>	986,023
Administrative costs		<b>42,339</b>	39,746
<b>Total expenses</b>	<i>17</i>	<b>1,040,839</b>	1,025,769
<b>Earnings before depreciation, amortization, and other expense</b>		<b>91,111</b>	94,238
Depreciation and amortization		<b>39,590</b>	35,270
Other expense	<i>18</i>	<b>2,404</b>	20,195
<b>Earnings before net finance costs and income taxes</b>		<b>49,117</b>	38,773
Interest expense		<b>28,733</b>	27,584
Interest revenue		<b>(3,688)</b>	(3,761)
Accretion		<b>1,843</b>	2,878
Foreign exchange and fair value adjustments	<i>19</i>	<b>(2,007)</b>	(247)
Net finance costs		<b>24,881</b>	26,454
<b>Earnings before income taxes</b>		<b>24,236</b>	12,319
<b>Income tax expense (recovery)</b>			
Current		<b>8,287</b>	8,129
Deferred		<b>(1,102)</b>	(3,894)
Total income tax expense	<i>22</i>	<b>7,185</b>	4,235
<b>Earnings from continuing operations</b>		<b>17,051</b>	8,084
<b>DISCONTINUED OPERATIONS</b>			
Earnings from discontinued operations, net of income taxes	<i>21</i>	<b>11,579</b>	23,654
<b>Net earnings</b>		<b>28,630</b>	31,738
<b>Basic and Diluted Earnings per Share</b>			
Earnings from continuing operations	<i>20</i>	<b>0.19</b>	0.09
Net earnings	<i>20</i>	<b>0.32</b>	0.36

*See accompanying notes to consolidated financial statements.*

## Extedicare Inc.

### Consolidated Statements of Comprehensive Income

Years ended December 31

<i>(in thousands of Canadian dollars)</i>	<i>notes</i>	<b>2019</b>	<b>2018</b>
<b>Net earnings</b>		<b>28,630</b>	31,738
<b>Other comprehensive loss, net of income taxes</b>			
Items that will not be reclassified to profit or loss:			
Defined benefit plan actuarial losses, net of taxes	22, 24	<b>(1,043)</b>	(373)
Items that are or may be reclassified subsequently to profit or loss:			
Net change in foreign currency translation adjustment	22	<b>(2,513)</b>	1,841
Total items that are or may be reclassified subsequently to profit or loss		<b>(2,513)</b>	1,841
Other comprehensive income (loss), net of tax		<b>(3,556)</b>	1,468
<b>Total comprehensive income</b>		<b>25,074</b>	33,206

*See accompanying notes to consolidated financial statements.*

# Extencicare Inc.

## Consolidated Statements of Changes in Equity

Years ended December 31

<i>(in thousands of Canadian dollars)</i>	<i>notes</i>	<i>Number of Shares</i>	<i>Share Capital</i>	<i>Equity Portion of Convertible Debentures</i>	<i>Contributed Surplus</i>	<i>Accumulated Deficit</i>	<i>Accumulated Other Comprehensive Income (Loss)</i>	<i>Shareholders' Equity</i>
<b>Balance at January 1, 2019</b>		<b>88,489,984</b>	<b>492,064</b>	<b>7,085</b>	<b>2,706</b>	<b>(368,147)</b>	<b>(7,717)</b>	<b>125,991</b>
<b>DRIP</b>	<i>15</i>	<i>693,466</i>	<i>5,423</i>	–	–	–	–	<i>5,423</i>
<b>Share-based compensation</b>	<i>14</i>	<i>49,062</i>	<i>629</i>	–	<i>969</i>	–	–	<i>1,598</i>
<b>Net earnings</b>		–	–	–	–	<b>28,630</b>	–	<b>28,630</b>
<b>Dividends declared</b>		–	–	–	–	<b>(42,672)</b>	–	<b>(42,672)</b>
<b>Other comprehensive loss</b>		–	–	–	–	–	<b>(3,556)</b>	<b>(3,556)</b>
<b>Balance at December 31, 2019</b>		<b>89,232,512</b>	<b>498,116</b>	<b>7,085</b>	<b>3,675</b>	<b>(382,189)</b>	<b>(11,273)</b>	<b>115,414</b>

<i>(in thousands of Canadian dollars)</i>	<i>notes</i>	<i>Number of Shares</i>	<i>Share capital</i>	<i>Equity portion of convertible debentures</i>	<i>Contributed surplus</i>	<i>Accumulated deficit</i>	<i>Accumulated other comprehensive income (loss)</i>	<i>Shareholders' equity</i>
Balance at January 1, 2018, previously		88,523,290	490,881	5,573	2,437	(365,084)	(4,851)	128,956
Adoption of new standard <sup>(1)</sup>		–	–	–	–	4,334	(4,334)	–
Balance at January 1, 2018		88,523,290	490,881	5,573	2,437	(360,750)	(9,185)	128,956
DRIP	<i>15</i>	<i>650,361</i>	<i>4,928</i>	–	–	–	–	<i>4,928</i>
Purchase of shares for cancellation	<i>15</i>	<i>(703,585)</i>	<i>(3,903)</i>	–	–	<i>(2,357)</i>	–	<i>(6,260)</i>
Share-based compensation	<i>14</i>	<i>19,918</i>	<i>158</i>	–	<i>269</i>	–	–	<i>427</i>
Redemption of convertible debentures	<i>12</i>	–	–	<i>(5,573)</i>	–	<i>5,573</i>	–	–
Issuance of convertible debentures	<i>12</i>	–	–	<i>7,085</i>	–	–	–	<i>7,085</i>
Net earnings		–	–	–	–	<b>31,738</b>	–	<b>31,738</b>
Dividends declared		–	–	–	–	<b>(42,351)</b>	–	<b>(42,351)</b>
Other comprehensive income		–	–	–	–	–	<b>1,468</b>	<b>1,468</b>
Balance at December 31, 2018		<b>88,489,984</b>	<b>492,064</b>	<b>7,085</b>	<b>2,706</b>	<b>(368,147)</b>	<b>(7,717)</b>	<b>125,991</b>

See accompanying notes to consolidated financial statements.

(1) Adoption of new standard on financial instruments – IFRS 9.

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

<i>(in thousands of Canadian dollars)</i>	<i>notes</i>	<b>2019</b>	<b>2018</b>
<b>Operating Activities</b>			
Net earnings		28,630	31,738
Adjustments for:			
Depreciation and amortization	8, 9	39,590	35,270
Share-based compensation	14	1,598	430
Deferred taxes	22	212	1,936
Current taxes	22	6,973	(3,600)
Net finance costs	12	26,888	26,701
Other expense		(9,175)	2,440
Foreign exchange and fair value adjustments	19	(2,007)	(247)
		<b>92,709</b>	<b>94,668</b>
Net change in operating assets and liabilities			
Accounts receivable		200	(8,172)
Other assets		1,133	(536)
Accounts payable and accrued liabilities		(6,166)	2,210
		<b>87,876</b>	<b>88,170</b>
Payments for self-insured liabilities		(12,769)	(15,237)
Interest paid		(27,933)	(28,383)
Interest received		3,677	3,785
Income taxes paid		(5,661)	(8,862)
<b>Net cash from operating activities</b>		<b>45,190</b>	<b>39,473</b>
<b>Investing Activities</b>			
Purchase of property, equipment and other intangible assets	8, 9	(33,182)	(50,648)
Acquisitions	6	–	(33,767)
Decrease in investments held for self-insured liabilities		40,464	24,163
Decrease in other assets		5,487	5,200
<b>Net cash from (used in) investing activities</b>		<b>12,769</b>	<b>(55,052)</b>
<b>Financing Activities</b>			
Issuance of long-term debt		45,987	159,998
Repayment of long-term debt		(35,658)	(159,674)
Decrease (increase) in restricted cash		(151)	10
Purchase of securities for cancellation		–	(6,258)
Dividends paid		(37,218)	(37,424)
Financing costs		(1,628)	(5,886)
Other		–	471
<b>Net cash used in financing activities</b>		<b>(28,668)</b>	<b>(48,763)</b>
Increase (decrease) in cash and short-term investments		29,291	(64,342)
Cash and short-term investments at beginning of year		65,893	128,156
Foreign exchange gain (loss) on cash held in foreign currency		(727)	2,079
<b>Cash and short-term investments at end of year</b>		<b>94,457</b>	<b>65,893</b>

*See accompanying notes to consolidated financial statements.*

# Notes to Consolidated Financial Statements

YEAR ENDED DECEMBER 31, 2019

1	General Information and Nature of the Business.....	12
2	Basis of Preparation.....	12
3	Significant Accounting Policies.....	13
4	New Accounting Policies Adopted.....	20
5	Future Changes in Accounting Policies.....	21
6	Acquisition.....	21
7	Accounts Receivable.....	22
8	Property and Equipment.....	22
9	Goodwill and Other Intangible Assets.....	23
10	Other Assets.....	23
11	Provisions.....	24
12	Long-term Debt.....	25
13	Other Long-term Liabilities.....	28
14	Share-based Compensation.....	28
15	Share Capital.....	29
16	Revenue.....	30
17	Expenses by Nature.....	30
18	Other Expense.....	30
19	Foreign Exchange and Fair Value Adjustments.....	31
20	Earnings per Share.....	32
21	Discontinued Operations.....	32
22	Income Taxes.....	33
23	Commitments and Contingencies.....	35
24	Employee Benefits.....	36
25	Management of Risks and Financial Instruments.....	38
26	Capital Management.....	43
27	Related Party Transactions.....	43
28	Segmented Information.....	44
29	Significant Subsidiaries.....	45

## **1. GENERAL INFORMATION AND NATURE OF THE BUSINESS**

The common shares (the “Common Shares”) of Extencicare Inc. (“Extencicare” or the “Company”) are listed on the Toronto Stock Exchange (TSX) under the symbol “EXE”. The Company and its predecessors have been operating since 1968, providing care and services to seniors throughout Canada. The Company has repositioned itself as a leading provider of care and services across Canada, committed to delivering quality care throughout the health continuum to meet the needs of a growing seniors’ population. The registered office of the Company is located at 3000 Steeles Avenue East, Suite 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 (the “Board”) on February 27, 2020.

### **b) Basis of Measurement**

The consolidated financial statements have been prepared on the historical cost basis except for financial assets and liabilities classified at fair value through profit or loss.

The Company’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:

- determination of the lease term for leases that include renewal options and the appropriate discount rate used to recognize lease liability;
- valuation of purchase price allocation for acquisition;
- valuation of indemnification provisions;
- valuation of self-insured liabilities;
- valuation of equity portion of convertible debentures;
- valuation of financial assets and liabilities;
- valuation of share-based compensation;
- determination of the recoverable amount of cash generating units (CGUs) subject to an impairment test; and
- accounting for tax uncertainties and the tax rates used for valuation of deferred taxes

In addition, the assessment of contingencies and provisions are 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 the Company, 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. 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.

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.

#### 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. Homes 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 homes, including borrowing costs of assets meeting certain criteria that are capitalized until the home is completed for its intended use.

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) homes or retirement communities under construction commences in the month after the home is available for its intended use based upon the useful life of the asset, as outlined in the following table. Land and Construction in Progress are not depreciated. 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

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses and adjusted for certain remeasurements of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost through accretion and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The Company has applied judgement to determine the lease term for leases that include renewal options. The assessment of whether there is reasonable certainty to exercise such options impacts the lease term, which significantly affects the amount of right-of-use assets and lease liabilities recognized.

### 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.

#### 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.



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.

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 its useful life.

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 home 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**

Financial assets are reviewed at each reporting date using the expected credit loss (ECL) impairment model which applies to all financial assets except for investments in equity securities.

The Company has elected to use the simplified approach and calculates impairment loss on account receivable when there has been a significant increase in credit risk of 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.

## **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**

### **EQUITY-SETTLED LONG-TERM INCENTIVE PLANS**

Awards for deferred share units (DSUs) and performance share units (PSUs) are a share-based component of director and executive compensation, which are accounted for based on the intended form of settlement. Under a long-term incentive plan (LTIP), 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**

As a result of the U.S. Sale Transaction, 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 homes. Although asbestos is currently not a health hazard in any of these homes, 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.

### **l) Fair Value Measurement**

The Company 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 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**

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.

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.

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 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 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.

## **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.

The Company currently does not have any fair-value, cash-flow or net investment hedges.

## **n) Revenue**

The Company 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, contract services, consulting and group purchasing 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 home 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, the Company'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 the Company operates.

### ***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. The Company 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*

The Company also offers contract services, consulting and group purchasing 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; 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 in foreign exchange on non-Canadian based financial assets.

**p) Income Taxes**

The Company 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 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 the Company operates. 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.

The ultimate realization of deferred tax assets is dependent upon if the generation of future taxable income is probable 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.

International Financial Reporting Interpretations Committee (IFRIC) Interpretation 23, Uncertainty over Income Tax Treatments, was effective for reporting periods beginning on or after January 1, 2019. IFRIC 23 clarifies the recognition and measurement requirements under IAS 12, Income Taxes, when there is uncertainty over income tax treatments. As at January 1, 2019, the Company applied IFRIC 23, and there was no material impact on the Company's consolidated financial statements as there are no known material uncertain tax positions.

**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

### Leases

Effective January 1, 2019, the Company adopted IFRS 16 “Leases”, which supersedes IAS 17 “Leases” and related interpretations. This 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 accounting model, thereby eliminating the distinction between operating and finance leases. The nature and timing of the related expense has changed as IFRS 16 replaces the straight-line lease costs with a depreciation charge for right-of-use assets and interest expense on lease liabilities.

Lease costs for the prior year have been reclassified under administrative costs to conform with the current year presentation. The impact of adopting this standard on net earnings and overall cash flow is neutral; however, the principal payment of the lease liabilities is presented in financing activities (previously reflected as operating activities).

The Company has applied IFRS 16 using the modified retrospective approach, under which the comparative information presented has not been restated. Certain practical expedients were selected on transition. The transition did not result in any retrospective adjustment to opening retained earnings on January 1, 2019.

### DEFINITION OF A LEASE

Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. On transition to IFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases, whereby IFRS 16 applies only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and related interpretations were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts that were entered into or changed on or after January 1, 2019.

### RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

The Company has lease agreements for office space and office equipment. As a lessee, lease arrangements were previously classified as operating or finance leases based on the assessment of whether the lease transferred substantially all the risks and rewards of ownership. Under IFRS 16, the Company recognizes right-of-use assets and lease liabilities for all material and long-term leases on the consolidated statement of financial position.

### TRANSITION

At transition, for leases classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company’s incremental weighted average borrowing rate as at January 1, 2019, of 4.86%. Right-of-use assets were measured at an amount equal to the lease liability. For leases that were classified as finance leases under IAS 17, the carrying amount of the right-of-use assets and the lease liability as at January 1, 2019, was the carrying amount of the lease assets and lease liability immediately before the date of initial application. These are accounted for using IFRS 16 from that date.

The Company used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- applied the exemption not to recognize right-of-use assets and liabilities for leases with less than 12 months of lease term;
- applied the exemption not to recognize right-of-use assets and liabilities for leases that are of low value;
- excluded initial direct costs from measuring the right-of-use asset as at January 1, 2019; and
- used hindsight as at January 1, 2019, when determining the lease term if the contract contains options to extend or terminate the lease.

**IMPACTS ON FINANCIAL STATEMENTS***i. Impacts on transition*

On transition to IFRS 16, the Company recognized additional right-of-use assets and lease liabilities of \$5.8 million.

	<b>January 1, 2019</b>
Right-of-use assets presented in property and equipment	5,780
Lease liabilities – current portion presented in current portion of long-term debt	2,305
Lease liabilities – long-term portion presented in long-term debt	3,475

The weighted average discount rate applied to the total lease liabilities recognized on transition was 4.86%, representing the Company's incremental borrowing rate at January 1, 2019.

Operating lease commitments balance, December 31, 2018	7,874
Operating lease commitments discounted using the incremental borrowing rate	7,138
Finance lease liabilities balance, December 31, 2018	80,992
Recognition exemption for:	
Leases relating to termination of home healthcare operations in B.C.	(1,045)
Short-term and low value leases	(313)
Lease liabilities balance, January 1, 2019	86,772

**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. Effective January 1, 2019, the Company adopted the IFRIC Interpretation 23, with no material impact on the interim condensed consolidated financial statements.

**5. FUTURE CHANGES IN ACCOUNTING POLICIES****Definition of a Business (Amendments to IFRS 3)**

On October 22, 2018, the IASB issued amendments to IFRS 3 *Business Combinations*, that seek to clarify whether a transaction results in an asset or a business acquisition. The amendments apply to businesses acquired in annual reporting periods beginning on or after January 1, 2020. Earlier application is permitted. The Company intends to adopt the amendments for the annual period beginning on January 1, 2020.

**6. ACQUISITION**

On April 11, 2018, the Company completed the acquisition of Lynde Creek Retirement Community for \$33.8 million, which included \$31.2 million property and equipment, \$2.9 million intangible assets, net of (\$0.3 million) 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.

## 7. ACCOUNTS RECEIVABLE

	2019	2018
Trade receivables	38,633	39,894
Other receivables	11,749	10,676
<b>Accounts receivable - net of allowance (Note 25(a))</b>	<b>50,382</b>	<b>50,570</b>

## 8. PROPERTY AND EQUIPMENT

	Land & Land Improvements	Buildings	Furniture & Equipment	Leasehold Improvements	Construction in Progress (CIP)	Total
<b>Cost or Deemed Cost</b>						
January 1, 2018	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 18)	(1,123)	(14,566)	(469)	–	–	(16,158)
Transfer from CIP	3,886	31,157	1,276	–	(36,319)	–
<b>December 31, 2018</b>	<b>58,280</b>	<b>587,161</b>	<b>63,047</b>	<b>1,927</b>	<b>30,851</b>	<b>741,266</b>
<b>January 1, 2019</b>	<b>58,280</b>	<b>587,161</b>	<b>63,047</b>	<b>1,927</b>	<b>30,851</b>	<b>741,266</b>
Recognition of right-of-use assets on initial application of IFRS 16	–	5,780	–	–	–	5,780
<b>Adjusted January 1, 2019</b>	<b>58,280</b>	<b>592,941</b>	<b>63,047</b>	<b>1,927</b>	<b>30,851</b>	<b>747,046</b>
Additions	247	14,030	6,147	139	21,666	42,229
Write-off of fully depreciated assets	(197)	(980)	(5,213)	(955)	–	(7,345)
Transfer from CIP	3,080	33,746	2,543	–	(39,369)	–
<b>December 31, 2019</b>	<b>61,410</b>	<b>639,737</b>	<b>66,524</b>	<b>1,111</b>	<b>13,148</b>	<b>781,930</b>
<b>Accumulated Depreciation</b>						
January 1, 2018	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)
<b>December 31, 2018</b>	<b>4,580</b>	<b>191,780</b>	<b>28,251</b>	<b>1,806</b>	<b>–</b>	<b>226,417</b>
<b>January 1, 2019</b>	<b>4,580</b>	<b>191,780</b>	<b>28,251</b>	<b>1,806</b>	<b>–</b>	<b>226,417</b>
Recognition of right-of-use assets on initial application of IFRS 16	–	–	–	–	–	–
<b>Adjusted January 1, 2019</b>	<b>4,580</b>	<b>191,780</b>	<b>28,251</b>	<b>1,806</b>	<b>–</b>	<b>226,417</b>
Additions	647	24,775	6,474	435	–	32,331
Write-off of fully depreciated assets	(197)	(980)	(5,213)	(955)	–	(7,345)
<b>December 31, 2019</b>	<b>5,030</b>	<b>215,575</b>	<b>29,512</b>	<b>1,286</b>	<b>–</b>	<b>251,403</b>
<b>Carrying amounts</b>						
At December 31, 2018	53,700	395,381	34,796	121	30,851	514,849
<b>At December 31, 2019</b>	<b>56,380</b>	<b>424,162</b>	<b>37,012</b>	<b>(175)</b>	<b>13,148</b>	<b>530,527</b>

The right-of-use assets included in buildings were \$97.8 million (2018 – \$81.0 million) with accumulated depreciation of \$39.6 million (2018 – \$32.2 million).

During 2019, new and renewed leases have been recognized as right-of-use asset within Buildings is \$11.0 million with accumulated depreciation of \$2.6 million. The additions include \$10.3 million recognized in connection with the renewed lease for its corporate office for 10 years with renewal options.



During 2019, the Company capitalized \$0.7 million of borrowing costs related to development projects under construction at an average capitalization rate of 4.5% (2018 – \$1.5 million at 4.9%).

## 9. GOODWILL AND OTHER INTANGIBLE ASSETS

	2019	2018
<b>Goodwill</b>		
Balance at beginning of year	51,675	51,675
Balance at end of year	51,675	51,675
<b>Other Intangible Assets</b>		
Gross carrying value at beginning of year	62,034	56,455
Additions	1,933	3,292
Acquisitions ( <i>Note 6</i> )	–	2,925
Disposal	–	(484)
Write-off of fully amortized assets	(1,817)	(154)
Gross carrying value at end of year	62,150	62,034
Accumulated amortization at beginning of year	18,509	12,229
Amortization	7,259	6,434
Write-off of fully amortized assets	(1,817)	(154)
Accumulated amortization at end of year	23,951	18,509
Net carrying value at end of year	38,199	43,525
<b>Goodwill and other intangible assets</b>	<b>89,874</b>	<b>95,200</b>

## 10. OTHER ASSETS

	2019	2018
Investments held for self-insured liabilities	27,562	67,938
Amounts receivable and other assets	63,371	69,967
Interest rate swaps	1,480	2,556
	92,413	140,461
less: current portion	(20,661)	(21,465)
	<b>71,752</b>	<b>118,996</b>

### Investments Held for Self-insured Liabilities

After the sale of our U.S. business in 2015 (the “U.S. Sale Transaction”), as part of its continuing operations, the Company retained its wholly owned Bermuda-based captive insurance company, Laurier Indemnity Company, Ltd. (the “Captive”), which, along with third-party insurers, insured the Company’s U.S. general and professional liability risks up to the date of the U.S. Sale Transaction.

The Company holds U.S. dollar-denominated investments within the Captive for settlements of the self-insured liabilities that are subject to insurance regulatory requirements.

As at December 31, 2019, the investment portfolio comprises cash of \$6.3 million (December 31, 2018 – \$5.8 million), money market funds of \$21.2 million (December 31, 2018 – \$53.8 million), and investment-grade corporate securities \$nil (December 31, 2018 – \$8.3 million). Certain of these investments in the amount of \$2.7 million (December 31, 2018 – \$35.1 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, 2019, all investments were carried at fair value, with changes in fair value reflected in earnings.

### 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 homes, totalling \$47.9 million (December 31, 2018 – \$53.3 million) of which \$5.8 million (December 31, 2018 – \$5.5 million) is current. These subsidies represent funding for a portion of long-term care home construction costs over a 20-year or 25-year period. The weighted average remaining term of this funding is 14 years.

Also included in amounts receivable and other assets is a \$1.3 million receivable as at December 31, 2019 (2018 – \$2.0 million), resulting from the U.S. Sale Transaction. The remaining balance of \$14.2 million primarily relates to prepaid expenses and deposits (2018 – \$14.7 million).

## Interest Rate Swaps

The interest rate swaps include swap contracts relating to mortgages, with notional amount totalling \$82.1 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 19*). As at December 31, 2019, the interest rate swaps were valued at a net asset of \$0.8 million (2018 – \$2.0 million), including a liability of \$0.7 million (2018 – \$0.5 million) (*Notes 12 and 13*).

## 11. PROVISIONS

	Accrual for Self-insured Liabilities	Indemnification Provisions	Decommissioning Provisions	Total
January 1, 2018	61,135	22,679	9,185	92,999
Provisions 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
<b>December 31, 2018</b>	<b>37,138</b>	<b>13,713</b>	<b>9,365</b>	<b>60,216</b>
Less: current portion	(12,286)	(5,335)	–	(17,621)
	<b>24,852</b>	<b>8,378</b>	<b>9,365</b>	<b>42,595</b>
January 1, 2019	<b>37,138</b>	<b>13,713</b>	<b>9,365</b>	<b>60,216</b>
Provisions released	(11,579)	–	–	(11,579)
Provisions used	(12,769)	(5,757)	(34)	(18,560)
Accretion	648	–	195	843
Effect of movements in exchange rates	(1,277)	(530)	–	(1,807)
<b>December 31, 2019</b>	<b>12,161</b>	<b>7,426</b>	<b>9,526</b>	<b>29,113</b>
Less: current portion	(3,572)	–	–	(3,572)
	<b>8,589</b>	<b>7,426</b>	<b>9,526</b>	<b>25,541</b>

### Accrual for Self-Insured Liabilities

The obligation to settle 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 the Company, 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, 2019, the accrual for self-insured general and professional liabilities was \$12.2 million (US\$9.4 million) compared to \$37.1 million (US\$27.2 million) as at December 31, 2018. The decline represented mainly claim payments and the release of reserves (*Note 21*).

### Indemnification Provisions

As a result of the U.S. Sale Transaction, 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 21*). As at December 31, 2019, the remaining provisions totalled

\$7.4 million (US\$5.7 million) (2018 – \$13.7 million or US\$10.1 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 the Company's pre-1980 constructed homes. An estimated undiscounted cash flow amount of approximately \$10.7 million (December 31, 2018 – \$10.5 million) was discounted using a rate of 1.64% (December 31, 2018 – 1.98%) over an estimated time to settle of 6 years. This represents management's best estimate and actual amounts may differ.

## 12. LONG-TERM DEBT

	Interest Rate	Year of Maturity	2019	2018
Convertible unsecured subordinated debentures	5.0%	2025	120,675	119,775
CMHC mortgages	2.49% - 7.70%	2020 - 2037	128,878	114,083
Non-CMHC mortgages	3.11% - 5.64%	2020 - 2038	164,349	169,670
Construction loans	variable	on demand	64,601	52,866
Lease liabilities	2.28% - 7.19%	2020 - 2034	86,208	80,992
			564,711	537,386
Deferred financing costs			(8,405)	(8,416)
Total debt, net of deferred financing costs			556,306	528,970
Less: current portion			(133,771)	(74,626)
Long-term debt, net of deferred financing costs			422,535	454,344

### Convertible Unsecured Subordinated Debentures

In April 2018, the Company issued \$126.5 million aggregate principal amount of 5.00% convertible unsecured subordinated debentures due April 30, 2025 (the "2025 Debentures"), with a conversion price of \$12.25 per Common Share (the "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 18*), and the related equity portion of \$5.6 million was classified as part of accumulated deficit.

## CMHC Mortgages

The Company has various mortgages insured through the Canada Mortgage and Housing Corporation (CMHC) program. The CMHC mortgages are secured by several Canadian financial institutions at rates ranging from 2.49% to 7.70% with maturity dates through to 2037.

In April 2019, the Company secured a CMHC-insured mortgage of \$16.0 million, inclusive of fees, on the Lynde Creek Manor Retirement Community, that matures in September 2029, with a fixed rate of 2.81% per annum.

In October 2019, the Company secured a CMHC-insured mortgage of \$9.3 million, inclusive of fees, on the Cedar Crossing Retirement Community, that matures in September 2029, with a fixed rate of 2.49% per annum.

In August 2018, the Company renewed maturing mortgages of \$8.3 million. These renewed mortgages mature in August 2022, with a fixed rate of 2.96%.

## Non-CMHC Mortgages

The Company has a number of conventional mortgages on certain long-term care homes, at rates ranging from 3.11% to 5.64%. Some of these mortgages have a requirement to maintain a minimum debt service coverage ratio. 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.

## Construction Loans

Construction loans of \$77.7 million are available for three retirement home developments at Bolton, Uxbridge, and Barrie and provide for additional letter of credit facilities of \$0.8 million, \$0.8 million, and \$1.0 million respectively, at rates ranging from 2.25% to 2.50% if utilized. Construction loans are interest-only based on 30-day banker's acceptance (BA) plus 2.25% to 2.50%, with no standby fee.

The construction loans are payable 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 2021 for Bolton and Uxbridge; and by the earlier of September 2023 and three months following stabilized occupancy as defined by the agreement for Barrie. During 2019, the Company repaid the construction loan balance relating to Cedar Crossing and refinanced it with a CMHC mortgage mentioned above.

All construction loans have been reflected as current.

As at December 31, 2019, an aggregate of \$64.6 million was drawn on the construction loans, leaving \$13.1 million available; in addition, letters of credit totalling \$1.3 million were issued under credit facilities, leaving \$1.3 million available.

## Lease Liabilities

Lease liabilities as at December 31, 2019 include leases on long-term care homes and the liability related to office leases in connection with IFRS 16 (*Note 4*). The Company operates nine Ontario long-term care homes, which were built between 2001 and 2003, under 25-year lease arrangements. The liability associated with the office leases will be amortized over the remaining lease terms ranging up to 15 years.

	<b>Amount</b>
Balance, December 31, 2018	-
Initial recognition of lease liabilities upon transition to IFRS 16	5,780
Reclassification of finance lease to lease liabilities upon adoption of IFRS 16	80,992
Net additions	10,316
Principal payments of lease liabilities	(10,880)
<b>Balance, December 31, 2019</b>	<b>86,208</b>

## Credit Facilities

The Company has two demand credit facilities totalling \$112.3 million, secured by either 13 Class C long-term care homes in Ontario or the assets of the home health care business. Neither of these facilities has financial covenants but do contain normal and customary terms. As at December 31, 2019, \$38.1 million of the facilities secure the Company's defined benefit pension plan obligations, \$5.5 million was issued in connection with obligations relating to long-term care homes and retirement living communities, leaving \$68.7 million unutilized.

## 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.

Below is a summary of the deferred financing costs:

	<b>2019</b>	<b>2018</b>
Convertible unsecured subordinated debentures	<b>4,002</b>	4,774
CMHC mortgages	<b>3,122</b>	2,017
Non-CMHC mortgages	<b>1,107</b>	1,419
Lease liabilities	<b>174</b>	206
Total deferred financing costs	<b>8,405</b>	8,416
Less: current portion	<b>(1,557)</b>	(1,404)
	<b>6,848</b>	7,012

## Principal Repayments – Debentures, Mortgages and Loans

Year	<b>Amount</b>
2020	125,392
2021	15,857
2022	59,411
2023	46,444
2024	5,978
2025 and beyond	231,246
	<b>484,328</b>

## Principal Repayments – Lease Liabilities

Year	<b>Amount</b>
2020	15,236
2021	15,652
2022	14,010
2023	13,440
2024	13,175
2025 and beyond	40,008
Total undiscounted lease liabilities as at December 31, 2019	111,521
Interest on lease liabilities	(25,313)
<b>Total present value of minimum lease payment</b>	<b>86,208</b>

## Long-term Debt Continuity

	2019	2018
Balance, beginning of the year	528,970	536,068
Initial recognition of lease liabilities upon transition to IFRS 16	5,780	-
Issuance of long-term debt	45,987	159,998
New lease liabilities	10,316	-
Accretion and other	900	912
Repayments	(35,658)	(159,674)
Early redemption of the convertible debentures	-	(5,596)
Addition - deferred financing costs	(1,628)	(5,886)
Amortization of deferred financing costs and other	1,639	3,148
<b>Balance, end of the year</b>	<b>556,306</b>	<b>528,970</b>

## Interest Rates

The weighted average interest rate of all long-term debt as at December 31, 2019, was approximately 4.7% (December 31, 2018 – 4.9%). As at December 31, 2019, 88.6% of the long-term debt, including interest rate swaps, was at fixed rates (December 31, 2018 – 90.2%).

## Financial Covenants

The Company is subject to external requirements for certain of its loans on debt service coverage. The Company was in compliance with all these covenants as at December 31, 2019.

## 13. OTHER LONG-TERM LIABILITIES

	2019	2018
Accrued pension plan obligation ( <i>Note 24</i> )	32,609	33,486
Interest rate swaps ( <i>Note 10</i> )	702	523
Other	1,876	1,068
	<b>35,187</b>	<b>35,077</b>

## 14. SHARE-BASED COMPENSATION

The Company's share-based compensation, which includes deferred share units (DSUs) and performance share units (PSUs), and prior to 2019, share appreciation rights (SARs) was an expense of \$1.7 million for 2019 (2018 – \$0.2 million).

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

	2019	2018
Contributed surplus – DSUs	2,594	1,914
Contributed surplus – PSUs	1,081	792
	<b>3,675</b>	<b>2,706</b>

## Equity-settled Long-term Incentive Plan

The Company's long-term incentive plan (the "LTIP") provides for a share-based component of executive and director compensation designed to encourage a greater alignment of the interests of the Company's executives and directors with its shareholders, in the form of PSUs for employees and DSUs for 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 2019, the Company settled PSUs totalling 61,285, of which 12,223 were settled in cash to cover withholding taxes payable (\$0.1 million) and 49,062 were settled with Common Shares issued from treasury.

An aggregate of 4,338,912 Common Shares are reserved and available for issuance pursuant to the LTIP.

Subsequent to December 31, 2019, the Company settled DSUs totalling 48,234, of which 14,471 were settled in cash to cover withholding taxes payable and 33,763 were settled with Common Shares issued from treasury.

DSU and PSU activity is as follows:

	Deferred Share Units		Performance Share Units	
	2019	2018	2019	2018
Units outstanding, beginning of period	239,725	134,369	188,909	342,944
Granted	82,384	109,744	292,581	192,116
Reinvested dividend equivalents	14,920	10,498	17,889	26,007
Forfeited	–	–	(38,573)	(367,126)
Settled	–	(14,886)	(61,285)	(5,032)
Units outstanding, end of period	337,029	239,725	399,521	188,909
Weighted average fair value of units granted during the period at grant date	\$8.26	\$7.36	\$9.62	\$9.33

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

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

	2019	2018
Grant date	May 31, 2019	March 15, 2018
Vesting date	May 31, 2022	March 15, 2021
PSUs granted	292,581	192,116
Fair value of AFFO component	\$4.04	\$4.36
Fair value of TSR component	5.58	4.97
Grant date fair value	\$9.62	\$9.33
Expected volatility of the Company's Common Shares	20.49%	23.66%
Expected volatility of the Index	9.42%	12.20%
Risk-free rate	1.40%	1.84%
Dividend yield	nil	nil

## 15. SHARE CAPITAL

	2019		2018	
	Shares	Amount	Shares	Amount
Balance at beginning of year	88,489,984	492,064	88,523,290	490,881
Transactions with shareholders				
DRIP	693,466	5,423	650,361	4,928
Purchase of shares for cancellation	–	–	(703,585)	(3,903)
Share-based compensation	49,062	629	19,918	158
<b>Balance at end of year</b>	<b>89,232,512</b>	<b>498,116</b>	<b>88,489,984</b>	<b>492,064</b>

### 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 2019 and 2018, the Company declared cash dividends of \$0.48 per share.

## Dividend Reinvestment Plan

The Company has a Dividend Reinvestment Plan (DRIP) pursuant to which shareholders who are Canadian residents may elect to reinvest their cash distributions in additional Common Shares. During 2019, the Company issued 693,466 Common Shares at a value of \$5.4 million in connection with the DRIP (2018 – 650,361 Common Shares at a value of \$4.9 million).

## Normal Course Issuer Bid (NCIB)

During 2019, under the NCIB that commenced on January 15, 2019 and ended on January 14, 2020, the Company did not purchase any Common Shares. During 2018, under the NCIB 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.

In January 2020, the Company received approval from the TSX to renew its NCIB to purchase for cancellation up to 8,000,000 Common Shares (representing approximately 10% of its public float) through the facilities of the TSX, and through alternative Canadian trading systems, in accordance with TSX rules. The NCIB commenced on January 15, 2020, and provides the Company with flexibility to purchase Common Shares for cancellation until January 14, 2021, or on such earlier date as the NCIB is complete. The actual number of Common Shares purchased under the NCIB and the timing of any such purchases will be at the Company's discretion. Subject to the TSX's block purchase exception, on any trading day, purchases under the NCIB will not exceed 42,703 Common Shares.

## 16. REVENUE

	2019	2018
Long-term care	643,785	632,533
Retirement living	41,276	33,412
Home health care	422,995	431,343
Other Canadian operations	23,894	22,719
<b>Total revenue</b>	<b>1,131,950</b>	<b>1,120,007</b>

Funding for the Company's LTC homes and home health care services is regulated by provincial authorities. Revenue from provincial programs represented approximately 69% of the Company's long-term care revenue (2018 – 70%), and approximately 98% of the home health care revenue for both 2019 and 2018.

Retirement living includes accommodation revenue of approximately \$16.6 million (2018 – \$13.5 million) and services revenue of approximately \$24.7 million (2018 – \$19.9 million). Service revenue represents a combination of monthly service fees paid by the residents, including proceeds retained by the Company upon the sale of homes in the life lease community.

## 17. EXPENSES BY NATURE

	2019	2018
Employee wages and benefits	876,651	868,089
Food, drugs, supplies and other variable costs	53,872	52,181
Property based and leases	48,942	49,974
Other	61,374	55,525
<b>Total operating expenses and administrative costs</b>	<b>1,040,839</b>	<b>1,025,769</b>

## 18. OTHER EXPENSE

	2019	2018
Termination of B.C. market home health care contracts	1,429	–
Other costs	975	484
Impairment	–	16,158
Loss on early redemption of convertible debt	–	2,511
Acquisition costs	–	1,042
	<b>2,404</b>	<b>20,195</b>



## **Termination of B.C. market home health care contracts**

In the first quarter of 2019, the Company received notice from Fraser Health and Vancouver Coastal Health, both regional health authorities in British Columbia (the “Health Authorities”), that the Health Authorities will be bringing their home support services in-house, and as a result will not be renewing contracts with private sector home support agencies, including ParaMed Inc. (ParaMed), the Company’s home health care operations. Consequently, ParaMed’s contracts with the B.C. Health Authorities will expire in March 2020. The Company recognized a \$1.4 million provision in the first quarter of 2019 for costs to be incurred in connection with the contract expiration.

## **Other costs**

In the second quarter of 2019, the Company incurred other costs of \$1.0 million in connection with a representation and standstill agreement it entered into dated April 22, 2019 (the “Sandpiper Agreement”), with Sandpiper Real Estate Fund 2 Limited Partnership, Sandpiper Real Estate Fund 3 Limited Partnership, Sandpiper GP 2 Inc., and Sandpiper GP 3 Inc., (collectively, the “Sandpiper Group”).

## **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 homes (\$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 homes 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 5.56% and 8.75%, derived from a combination of third-party information and industry trends. The fair value is a Level 3 valuation (*Note 25(b)*).

## **Loss on early redemption of convertible debt**

In 2018, upon the early redemption of the 2019 Debentures, the unaccreted liability of \$1.4 million and the associated unamortized finance costs of \$1.1 million were expensed.

## **Acquisition costs**

In 2018, the Company acquired the Lynde Creek Retirement Community, and incurred transaction costs of \$1.0 million.

## **19. FOREIGN EXCHANGE AND FAIR VALUE ADJUSTMENTS**

### **Gain on Foreign Exchange and Investments**

Gains on foreign exchange and investments was \$3.3 million for 2019 (2018 – \$1.2 million). These include: FX 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 21*); gain (loss) on fair value adjustments on investments held for self-insured liabilities; 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 on certain mortgages are a loss of \$1.3 million in 2019 (2018 – loss of \$1.0 million) (*Note 10*).

## 20. EARNINGS PER SHARE

Basic earnings per share (EPS) is calculated by dividing the net earnings for the period by the weighted average number of shares outstanding during the period, including vested DSUs awarded that have not settled. Diluted EPS is calculated by adjusting the net earnings and the weighted average number of shares outstanding for the effects of all dilutive instruments. The Company's potentially dilutive instruments include the convertible debentures and equity-settled compensation arrangements. The number of shares included with respect to the PSUs is computed using the treasury stock method. The 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.

	2019	2018
<b>Numerator for Basic and Diluted Earnings per Share</b>		
<i>Earnings from continuing operations</i>		
Net earnings for basic earnings per share	28,630	31,738
Less: earnings from discontinued operations, net of tax	(11,579)	(23,654)
Earnings from continuing operations for basic earnings per share	17,051	8,084
Add: after-tax interest on convertible debt	6,117	6,681
Earnings from continuing operations for diluted earnings per share	23,168	14,765
<i>Net earnings</i>		
Net earnings for basic earnings per share	28,630	31,738
Add: after-tax interest on convertible debt	6,117	6,681
Net earnings for diluted earnings per share	34,747	38,419
<b>Denominator for Basic and Diluted Earnings per Share</b>		
Actual weighted average number of shares	88,868,741	88,233,092
DSUs	279,173	170,363
Weighted average number of shares for basic earnings per share	89,147,914	88,403,455
Shares issued if all convertible debt was converted	10,326,531	10,326,531
PSUs	64,886	22,844
Total for diluted earnings per share	99,539,331	98,752,830
<b>Basic and Diluted Earnings per Share (in dollars)</b>		
Earnings from continuing operations	0.19	0.09
Earnings from discontinued operations	0.13	0.27
Net earnings	0.32	0.36

## 21. DISCONTINUED OPERATIONS

	2019	2018
<b>Earnings from Discontinued Operations</b>		
Earnings before income taxes	11,579	17,755
Income tax recovery	–	5,899
Earnings from discontinued operations	11,579	23,654
<b>Cash Flows from Discontinued Operations</b>		
Net cash from operating activities	(12,769)	(15,237)
Net cash from investing activities	12,769	15,237
Net cash from financing activities	–	–
Effect on cash flows	–	–

Earnings from discontinued operations includes the release of a portion of the accrual for self-insured liabilities and the valuation change to the indemnification provisions of \$11.6 million and \$nil respectively in 2019 (2018 – \$14.1 million and \$3.8 million). The balance of the earnings related to the impact of discount rate adjustments on the Captive's reserves.

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).

## 22. INCOME TAXES

### Tax Recognized in Net Earnings

	2019	2018
<b>Current Tax Expense (Recovery)</b>		
Current year	8,422	8,921
Items related to discontinued operations (Note 21)	(1,314)	(11,729)
Utilization of losses	(233)	(924)
Other adjustments	98	132
	<b>6,973</b>	<b>(3,600)</b>
<b>Deferred Tax Expense (Recovery)</b>		
Origination and reversal of temporary difference	(1,520)	(4,406)
Items related to discontinued operations (Note 21)	1,314	5,830
Utilization of losses	101	629
Other adjustments	317	(117)
	<b>212</b>	<b>1,936</b>
<b>Total tax expense (recovery)</b>	<b>7,185</b>	<b>(1,664)</b>
Tax expense from continuing operations	7,185	4,235
Tax recovery from discontinued operations	–	(5,899)
	<b>7,185</b>	<b>(1,664)</b>

### Tax Recognized in Other Comprehensive Income

	2019			2018		
	Before Tax	Tax Recovery	Net of Tax	Before Tax	Tax Recovery	Net of Tax
Foreign currency translation difference for foreign operations	(2,513)	–	(2,513)	1,841	–	1,841
Defined benefit plan actuarial gains	(1,419)	376	(1,043)	(507)	134	(373)
	<b>(3,932)</b>	<b>376</b>	<b>(3,556)</b>	1,334	134	1,468

### Effective Tax Rate

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

	2019	2018
Earnings from continuing operations before income taxes	24,236	12,319
Income taxes at statutory rates of 26.5%	6,423	3,265
Income tax effect relating to the following items:		
Tax rate variance of foreign subsidiaries	(595)	610
Non-deductible items	886	517
Non-taxable income (loss)	56	(107)
Prior year adjustment	413	42
Other items	2	(92)
	<b>7,185</b>	<b>4,235</b>

## Summary of Operating and Capital Loss Carryforwards

The company's Canadian corporate subsidiaries have \$12.9 million net operating loss carryforwards available as at December 31, 2019 (2018 – \$5.7 million), which expire in the years 2036 through 2039, and capital loss carryforwards of \$41.7 million (2018 – \$42.1 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, 2019, were \$12.7 million (2018 – \$9.7 million). Net deferred tax liabilities decreased in 2019 to \$1.5 million from \$1.6 million at December 31, 2018.

## Recognized Deferred Tax Assets and Liabilities

Net deferred tax liabilities comprise the following:

	2019			2018		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Property and equipment	5,928	21,700	15,772	6,410	20,339	13,929
Intangible assets	74	5,237	5,163	73	5,933	5,860
Other assets	–	394	394	–	683	683
Deferred financing costs	63	914	851	67	1,379	1,312
Financial assets at fair value	212	422	210	–	545	545
Self-insurance reserves	250	–	(250)	254	–	(254)
Indemnification provisions	681	–	(681)	2,357	–	(2,357)
Employee benefit accruals	9,672	–	(9,672)	9,599	–	(9,599)
Operating loss carryforwards	3,445	–	(3,445)	1,519	–	(1,519)
Deferred revenue	3,287	27	(3,260)	3,348	48	(3,300)
Decommissioning provision	2,525	–	(2,525)	2,482	–	(2,482)
Other	1,119	66	(1,053)	1,335	115	(1,220)
Set-off of tax	(14,508)	(14,508)	–	(17,699)	(17,699)	–
<b>Deferred tax liabilities, net</b>	<b>12,748</b>	<b>14,252</b>	<b>1,504</b>	<b>9,745</b>	<b>11,343</b>	<b>1,598</b>

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 the Company'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, 2019	Recognized in			Change in Foreign Exchange	Balance December 31, 2019
		Recognized in Net Earnings	Other Comprehensive Income/Other	Recognized in Discontinued Operations		
Property and equipment	13,929	1,843	–	–	–	15,772
Other assets	683	(285)	–	–	(4)	394
Deferred financing costs	1,312	(461)	–	–	–	851
Financial assets at fair value	545	(335)	–	–	–	210
Self-insurance reserves	(254)	4	–	–	–	(250)
Indemnification provisions	(2,357)	288	–	1,314	74	(681)
Intangible assets	5,860	(697)	–	–	–	5,163
Employee benefit accruals	(9,599)	303	(376)	–	–	(9,672)
Operating loss carryforwards	(1,519)	(1,926)	–	–	–	(3,445)
Deferred revenue	(3,300)	40	–	–	–	(3,260)
Decommissioning provision	(2,482)	(43)	–	–	–	(2,525)
Other	(1,220)	167	–	–	–	(1,053)
<b>Deferred tax liabilities, net</b>	<b>1,598</b>	<b>(1,102)</b>	<b>(376)</b>	<b>1,314</b>	<b>70</b>	<b>1,504</b>

	Recognized in					Balance December 31, 2018
	Balance January 1, 2018	Recognized in Net Earnings	Other Comprehensive Income/Other	Recognized in Discontinued Operations	Change in Foreign Exchange	
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

## 23. COMMITMENTS AND CONTINGENCIES

### Property and Equipment Commitments

The Company has outstanding commitments of \$0.6 million at December 31, 2019, in connection with retirement communities under development in Ontario.

### Legal Proceedings and Regulatory Actions

The Company 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 homes and its provision of care to residents and seeking \$150.0 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. Since July 2019, certain individual plaintiffs have served the Company with statements of claim alleging negligence by the Company in the operation of certain of its long-term care homes and its provision of care to certain residents. 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 seeking 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 \$20.0 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. The Company 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.

## 24. EMPLOYEE BENEFITS

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

### Defined Benefit Plans

The Company 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	
	2019	2018	2019	2018	2019	2018
Fair value of plan assets	5,325	5,066	–	–	5,325	5,066
Present value of obligations	8,137	7,666	33,678	33,523	41,815	41,189
<b>Deficit</b>	<b>(2,812)</b>	<b>(2,600)</b>	<b>(33,678)</b>	<b>(33,523)</b>	<b>(36,490)</b>	<b>(36,123)</b>

### 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 last actuarial review was performed effective October 1, 2018 and completed in early 2019.

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

### DEFINED BENEFIT OBLIGATIONS

	2019	2018
<b>Present Value of Defined Benefit Obligations</b>		
Accrued benefit obligations		
Balance at beginning of year	41,189	42,081
Current service cost	98	104
Benefits paid	(2,614)	(2,680)
Interest costs	1,399	1,330
Actuarial losses	1,743	354
Balance at end of year	41,815	41,189
Plan assets		
Fair value at beginning of year	5,066	5,443
Employer contributions	159	88
Actual return on plan assets	321	(241)
Interest income on plan assets	172	172
Benefits paid	(393)	(396)
Fair value at end of year	5,325	5,066
<b>Defined benefit obligations</b>	<b>36,490</b>	<b>36,123</b>

The expected contribution to the supplementary plan for the coming year is approximately \$3.4 million.

	2019	2018
Current accrued liabilities	3,881	2,637
Other long-term liabilities (Note 13)	32,609	33,486
<b>Accrued benefit liability at end of year</b>	<b>36,490</b>	<b>36,123</b>

**EFFECT OF CHANGES TO DEFINED BENEFIT OBLIGATIONS**

	<b>2019</b>	<b>2018</b>
<b>Expense Recognized in Net Earnings</b>		
Annual benefit plan expense		
Current service cost	98	104
Interest costs	1,227	1,158
Plan benefit expense recognized in the year - included in operating expenses and administrative costs	<b>1,325</b>	1,262
<b>Actuarial Losses Recognized in Other Comprehensive Income</b>		
Amount accumulated in accumulated deficit at January 1	(10,236)	(9,863)
Actuarial loss arising from changes in liability experience and assumption changes	(1,740)	(266)
Return on assets	321	(241)
Income tax recovery on actuarial losses	376	134
Amount recognized in accumulated deficit at December 31	<b>(11,279)</b>	(10,236)

**PLAN ASSETS**

	<b>2019</b>	<b>2018</b>
Equities	47%	42%
Fixed income securities	33%	38%
Real estate / commercial mortgage	20%	20%
	<b>100%</b>	100%

**ACTUARIAL ASSUMPTIONS**

	<b>2019</b>	<b>2018</b>
Discount rate for year-end accrued obligation	3.00%	3.50%
Discount rate for period expense	3.50%	3.25%
Rate of compensation increase	–	2.00%
Income Tax Act limit increase	3.00%	3.00%
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.

The Company 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 2019 by the amounts shown below.

	Increase (Decrease) in Benefit Obligation	Increase (Decrease) in Net Earnings
Discount rate		
1% increase	(3,602)	(204)
1% decrease	4,255	263
Rate of compensation increase*		
1% increase	–	–
1% decrease	–	–
Mortality rate		
10% increase	(811)	24
10% decrease	917	(28)

\* No impact as actual salary rates are used in valuation for 2019

## Defined Contribution Plans

The Company 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 2019 and 2018 were \$17.1 million and \$16.7 million, respectively.

## 25. MANAGEMENT OF RISKS AND FINANCIAL INSTRUMENTS

### (a) Management of Risks

#### LIQUIDITY RISK

Liquidity risk is the risk that the Company will encounter difficulty in meeting its contractual obligations. The Company manages 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. In addition, since there is a risk that current borrowings and long-term debt may not be refinanced or may not be refinanced on as favourable terms or with interest rates as favourable as those of the existing debt, the Company attempts to appropriately structure the timing of contractual long-term debt renewal obligations and exposures.

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

<b>As at December 31, 2019</b>	Carrying Amount	Contractual Cash Flows	Less than 1 Year	1-2 Years	2-5 Years	More than 5 Years
Convertible debentures	120,675	161,288	6,325	6,325	18,975	129,663
CMHC mortgages	128,878	152,981	38,652	14,472	45,167	54,690
Non-CMHC mortgages	164,349	212,800	33,128	10,820	86,533	82,319
Construction loans	64,601	66,026	66,026	–	–	–
Lease liabilities	86,208	111,521	15,236	15,652	40,625	40,008
Accounts payable and accrued	136,922	136,922	136,922	–	–	–
Income taxes payable	1,606	1,606	1,606	–	–	–
	<b>703,239</b>	<b>843,144</b>	<b>297,895</b>	<b>47,269</b>	<b>191,300</b>	<b>306,680</b>

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

In addition to cash generated from its operations and cash on hand, the Company has available undrawn credit facilities totalling \$70.0 million (2018 – \$69.1 million).



**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:

	<b>Carrying Amount</b>	
	<b>2019</b>	<b>2018</b>
Cash and short-term investments	<b>94,457</b>	65,893
Restricted cash	<b>2,441</b>	2,290
Accounts receivables, net of allowance	<b>50,382</b>	50,570
Investments held for self-insured liabilities	<b>27,562</b>	67,938
Government note receivables	<b>47,854</b>	53,341
	<b>222,696</b>	240,032

***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***

The Company 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 the Company which is 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.

	<b>2019</b>	<b>2018</b>
Trade receivables	<b>38,633</b>	39,894
Other receivables	<b>11,749</b>	10,676
	<b>50,382</b>	50,570

As at December 31, 2019, receivables from government agencies represented approximately 80% of the total receivables (2018 – 85%). 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, 2019, the Company had trade receivables of \$38.6 million (2018 – \$39.9 million). All the receivables were fully performing and collectible in the amounts outlined above.

The aging analysis of these trade receivables is as follows:

	2019	2018
Current	24,538	28,889
Between 30 and 90 days	12,704	10,122
Over 90 days	3,553	2,479
Less: provision for receivable impairment	(2,162)	(1,596)
	<b>38,633</b>	<b>39,894</b>

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

	2019	2018
At January 1	1,596	1,597
Increase in provision for receivable impairment	1,941	2,910
Receivables written off as uncollectible	(1,375)	(2,911)
<b>At December 31</b>	<b>2,162</b>	<b>1,596</b>

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 \$47.9 million (2018 – \$53.3 million) of discounted amounts receivable due from government agencies. These represent amounts funded by the Ontario government for a portion of LTC home 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, 2019.

	2019	
	US\$	C\$
Assets		
Current assets	16,962	22,032
Investments held for self-insured liabilities	21,218	27,562
Liabilities		
Current liabilities	3,955	5,137
Indemnification provisions	5,717	7,426
Non-current liabilities	6,663	8,655
Net asset exposure	21,845	28,376

**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, 2019, U.S. operations have no revenue from continuing operations (2018 – less than 1%).

Every one cent strengthening of the Canadian dollar against the U.S. dollar in 2019 would favourably impact net earnings by \$0.1 million and OCI by \$0.1 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 care debt portfolio includes fixed-rate debt and variable-rate debt with interest rate swaps in place. At December 31, 2019, construction loans of \$64.6 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:

	<b>Carrying Amount</b>	
	<b>2019</b>	<b>2018</b>
Fixed-rate instruments:		
Long-term debt <sup>(1)</sup>	<b>500,110</b>	484,520
<b>Total liability in fixed-rate instruments</b>	<b>500,110</b>	484,520
Variable-rate instruments:		
Long-term debt <sup>(1)</sup>	<b>64,601</b>	52,866
	<b>64,601</b>	52,866

<sup>(1)</sup> 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, 2019, long-term debt with variable rates represented 11.4% of total debt (2018 – 9.8%). The value of the interest rate swaps is subject to fluctuations in interest rates, changes in fair value of these swaps are recognized in net earnings.

**Cash Flow Sensitivity Analysis for Variable-rate Instruments**

An increase of 100 basis points in interest rates would have decreased net earnings by \$0.5 million and a decrease of 100 basis points in interest rates would have increased net earnings by \$0.5 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**

<b>As at December 31, 2019</b>	<b>Amortized Cost</b>	<b>Fair Value through Profit and Loss</b>	<b>Total Carrying Amount</b>	<b>Fair Value</b>	<b>Fair Value Hierarchy</b>
Financial assets:					
Cash and short-term investments	94,457	–	94,457	94,471	Level 2
Restricted cash	2,441	–	2,441	2,441	
Invested assets <sup>(1)</sup>	354	–	354	354	
Accounts receivable	50,382	–	50,382	50,382	
Interest rate swaps	–	1,480	1,480	1,480	Level 2
Amounts receivable and other assets <sup>(2) (3)</sup>	47,854	–	47,854	51,950	Level 2
Investments held for self-insured liabilities	6,316	21,246	27,562	27,562	Level 1
	<b>201,804</b>	<b>22,726</b>	<b>224,530</b>	<b>228,640</b>	
Financial liabilities:					
Accounts payable	18,021	–	18,021	18,021	
Interest rate swaps	–	702	702	702	
Long-term debt excluding convertible debentures <sup>(3) (4)</sup>	444,036	–	444,036	450,382	Level 2
Convertible debentures	120,675	–	120,675	132,585	Level 1
	<b>582,732</b>	<b>702</b>	<b>583,434</b>	<b>601,690</b>	

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

<sup>(1)</sup> Included in other assets.

<sup>(2)</sup> Includes primarily amounts receivable from government.

<sup>(3)</sup> Includes current portion.

<sup>(4)</sup> 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 are based on quoted market prices. Accounts receivable are recorded at amortized cost. The carrying values of accounts receivable approximate fair values due to their short-term maturities, with the exception of the amounts receivable due from the government of Ontario, which are valued at discounted future cash flows using current applicable rates for similar instruments of comparable maturity and credit quality (*Note 10*). The fair values of convertible debentures are based on the closing price of the publicly traded convertible debentures on each reporting date, and the fair values of mortgages and other debt are estimated based on discounted future cash flows using discount rates that reflect current market conditions for instruments with similar terms and risks.

**FAIR VALUE HIERARCHY**

The Company uses a fair value hierarchy to categorize the type of valuation techniques from which fair values are derived: Level 1 – use of quoted market prices; Level 2 – internal models using observable market information as inputs; and Level 3 – internal models without observable market information as inputs.

The fair value hierarchy for the fair values of financial instruments where carrying value is not a reasonable approximation of fair value, are indicated above.

**26. CAPITAL MANAGEMENT**

The Company accesses the capital markets periodically to fund acquisitions, growth capital expenditures and certain other expenditures. The Company monitors the capital markets to assess the conditions for changes in 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. The Company manages the cash position and prepare monthly cash flow projections over the remaining and future fiscal periods, and the Company continuously monitors the level, nature and maturity dates of debt and level of leverage and interest coverage ratios to ensure our compliance with debt covenants. The Company provides information to the Board on a regular basis in order to carefully evaluate any significant cash flow decisions.

**Capital Structure**

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

	<b>2019</b>	<b>2018</b>
Current portion of long-term debt <sup>(1)</sup>	<b>133,771</b>	74,626
Long-term debt <sup>(1)</sup>	<b>422,535</b>	454,344
Total debt	<b>556,306</b>	528,970
Less: cash and short-term investments	<b>(94,457)</b>	(65,893)
Net debt	<b>461,849</b>	463,077
Share capital	<b>498,116</b>	492,064
	<b>959,965</b>	955,141

(1) Net of financing costs.

**27. RELATED PARTY TRANSACTIONS****Transactions with Key Management Personnel**

As previously disclosed, the Company's former President and Chief Executive Officer stepped down from his position on October 22, 2018. In connection therewith, the Company recorded a charge of \$1.7 million in the three months ended September 30, 2018, representing a cash payment of \$2.9 million reflected below as part of post-employment benefits, partially offset by the reversal of \$1.2 million in respect of forfeited PSUs.

**Compensation of Key Management Personnel**

The remuneration of directors and other key management personnel of the Company was as follows:

	<b>2019</b>	<b>2018</b>
Salaries and short-term benefits	<b>2,636</b>	3,318
Post-employment benefits	–	2,917
Share-based compensation	<b>1,231</b>	(106)
	<b>3,867</b>	6,129

## 28. SEGMENTED INFORMATION

The Company reports the following segments: i) long-term care; ii) retirement living; iii) home health care; iv) contract services, 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 homes that the Company owns and operates in Canada. The retirement living segment includes seven acquired retirement communities and four constructed retirement communities. The retirement communities provide accommodation and services to private-pay residents at rates set by the Company based on the services provided and market conditions. Through our wholly owned subsidiary ParaMed, ParaMed’s home health care operations provide complex nursing care, occupational, physical and speech therapy, and assistance with daily activities to accommodate those living at home.

The Company’s other Canadian operations are composed of its contract services, consulting and group purchasing divisions. Through our Extencicare Assist division, the Company provides contract services and consulting to third parties; and through our SGP Purchasing Partner Network division, the Company offers cost-effective purchasing contracts to other senior care providers for food, capital equipment, furnishings, cleaning and nursing supplies, and office products.

The Company 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.

	2019							
<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
<b>CONTINUING OPERATIONS</b>								
Revenue	643,785	41,276	422,995	23,894	–	1,131,950	–	1,131,950
Operating expenses	566,375	29,844	391,646	10,635	–	998,500	–	998,500
Net operating income	77,410	11,432	31,349	13,259	–	133,450	–	133,450
Administrative costs					41,151	41,151	1,188	42,339
Earnings (loss) before depreciation, amortization, and other expense						92,299	(1,188)	91,111
Depreciation and amortization					39,590	39,590	–	39,590
Other expense					2,404	2,404	–	2,404
Earnings (loss) before net finance costs						50,305	(1,188)	49,117
Net interest costs					26,240	26,240	648	26,888
Foreign exchange and fair value adjustments					2,081	2,081	(4,088)	(2,007)
Net finance costs (income)					28,321	28,321	(3,440)	24,881
Earnings before income taxes						21,984	2,252	24,236
Income tax expense (recovery)								
Current					8,287	8,287	–	8,287
Deferred					(1,102)	(1,102)	–	(1,102)
Total income tax expense					7,185	7,185	–	7,185
Earnings from continuing operations						14,799	2,252	17,051
<b>DISCONTINUED OPERATIONS</b>								
Earnings from discontinued operations, net of income taxes					–	–	11,579	11,579
Net earnings						14,799	13,831	28,630

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
<b>CONTINUING OPERATIONS</b>								
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
<b>Net operating income</b>	73,044	8,982	37,989	13,541	23	133,579	405	133,984
Administrative costs	–	–	–	–	38,570	38,570	1,176	39,746
<b>Earnings (loss) before depreciation, amortization, and other expense</b>						95,009	(771)	94,238
Depreciation and amortization					35,270	35,270	–	35,270
Other expense					20,195	20,195	–	20,195
<b>Earnings (loss) before net finance costs</b>						39,544	(771)	38,773
Net interest costs					25,073	25,073	1,628	26,701
Foreign exchange and fair value adjustments					(149)	(149)	(98)	(247)
Net finance costs					24,924	24,924	1,530	26,454
<b>Earnings (loss) before income taxes</b>						14,620	(2,301)	12,319
<b>Income tax expense (recovery)</b>								
Current					8,129	8,129	–	8,129
Deferred					(3,894)	(3,894)	–	(3,894)
Total income tax expense					4,235	4,235	–	4,235
<b>Earnings (loss) from continuing operations</b>						10,385	(2,301)	8,084
<b>DISCONTINUED OPERATIONS</b>								
Loss from discontinued operations, net of income taxes					–	–	23,654	23,654
<b>Net earnings</b>						10,385	21,353	31,738

## 29. SIGNIFICANT SUBSIDIARIES

The following is a list of the significant subsidiaries as at December 31, 2019, 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
Bolton Mills Retirement Community 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<sup>®</sup>

... helping people live better

#### 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 Fax: (866) 249-7775  
email: [service@computershare.com](mailto:service@computershare.com)  
[www.computershare.com](http://www.computershare.com)

#### 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.

VISIT EXTENDICARE'S WEBSITE AT [WWW.EXTENDICARE.COM](http://WWW.EXTENDICARE.COM)

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