Growing together for a bright future

2022 Annual Report

Extendicare

Helping people live better

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Kathryn Bradley Vice President, Strategy and Performance

March 28, 2023

Letter to Shareholders

Although challenging in many ways, 2022 was also a year of progress. The pandemic continued for a third year, with high rates of community infection despite widespread adoption of vaccines. Although serious illness was much less frequent in those who were vaccinated, the sheer number of cases continued to put stress on the health system and drove continued spending on COVID-19 prevention and containment.

Over the course of the year, we remained focused on providing high-quality care for our long-term care ("LTC") residents and home health care clients. Best practices that help prevent infection and mitigate its impact have made COVID-19 outbreaks shorter and less harmful to our residents.

Unfortunately, as the clinical consequences of the pandemic begin to wane, its economic impacts are still being felt. High inflation, rising interest rates and very tight labour markets challenge us and the whole health-care sector, as the system struggles to address care backlogs that built up over the course of the pandemic. The resulting headwinds delayed a return to more normal operations for our home health care and LTC segments and strained our financial performance in 2022. Pandemic-related costs remained elevated, and although various provincial governments continued to support the sector, funding increases lagged inflation.

Fortunately, as these economic trends moderate and the pandemic recovery continues, Extendicare is well positioned to execute on its growth and transformation agenda.

Advancing our Strategic Transformation

We made great progress in 2022 on advancing the strategic transformation of our business to accelerate growth and enhance shareholder value. We are now focused entirely on long-term care and home health care, where we can leverage our deep expertise and scale using a less capital intensive, higher margin business model.

We completed the sale of our retirement living communities, directing funds from the sale to advance our LTC redevelopment program and return value to shareholders through our share buy-back program. Last year, we purchased approximately five million shares, or 5.6% of our outstanding shares, returning $35.0 million to shareholders.

We also announced key strategic agreements with Revera and Axium Infrastructure. Once approved, these agreements will result in Extendicare operating an additional 56 LTC homes in Ontario and Manitoba, adding approximately 7,000 beds to our higher margin managed services segment and acquiring a 15% managed interest in 24 of these LTC homes through a joint venture with Axium. Separately, we have entered into a joint venture partnership with Axium to enable a more capital efficient business model for our existing redevelopment plans and to give us the ability to grow through new LTC builds and acquisitions.

And we continue to meaningfully invest in technology to offer a superior employee experience and leverage the scale of operations to drive efficiencies and ultimately stronger margins across all our businesses.

Long-Term Care

Throughout 2022, occupancy rates in our LTC operations showed steady improvement, though costs remained elevated due to the pandemic, and our cumulative unfunded COVID costs grew to $15.5 million. However, as the pandemic recedes and with improvements in inflation and the labour market, we anticipate costs will trend downwards and some portion of our unfunded COVID costs will be recovered in 2023.

Our redevelopment program received a much-needed boost with the announcement of a time-limited enhancement to the capital funding program from the Ontario government late in 2022. As a result of this supplemental funding, we are targeting to break ground on up to four projects in 2023. In total we have 20 redevelopment projects, comprising 4,248 new or replacement beds. Three are already under construction, with occupancy planned between Q3-23 and Q1-24.

We continue to develop innovative care models to improve seniors' care through collaborative partnerships with hospitals. In partnership with the Scarborough Health Network, we opened a Behavioural Support Unit ("BSU") at one of our LTC homes to provide specialized care for residents with complex needs. Clinical experts provide enhanced care for residents with a primary diagnosis of dementia who can no longer be cared for safely in other settings.

In 2022, we doubled the capacity of our Transitional Care Unit, originally established in 2021 in partnership with The Ottawa Hospital. The unit has helped hundreds of people successfully transition from hospital into the community, bridging care gaps by providing restorative and rehabilitative care to patients in a more comfortable, home-like setting.

Home Health Care

We were delighted when ParaMed retained its status as a nationally accredited service provider with Exemplary Standing – the highest level an organization can achieve – after a review by Accreditation Canada. This designation reflects the efforts of our dedicated team members, our high-quality programs and our commitment to service excellence. It is a true testament to the exceptional care our home health staff provide to our patients and clients each and every day.

We were also pleased to see ParaMed return to growth in the fourth quarter as pandemic impacts on absenteeism receded. We continue to focus on building capacity through large scale recruiting and new retention programs, safe return to work protocols and an expansion of our caregiver workforce through in-house training programs. We are hopeful that these efforts will meet continued strong demand and alleviate the constraints on growth and operating margins we experienced in 2022.

Managed Services

Our managed services continued to grow despite the continuing pandemic challenges. Our SGP customer base grew 17.7% from the prior year and the pending addition of the Revera long-term care portfolio will substantially increase the size of our managed services segment. Through the Axium partnership, we will transition our redeveloped LTC homes into a less capital intensive joint venture structure, thereby growing higher margin revenues in our managed service segment.

Long-term care

53

Long-term care homes owned

Extendicare

Home health care

9.2M

Home health care hours delivered (TTM)

ParaMed Redefining Care

Management and consulting services

50

Homes under contract

Extendicare assist Management & Consulting Services

Group purchasing services

110K

Third-party residents served

SGP Purchasing Partner Network

Better all together


ParaMed
Redefining Care





Quality Care is all About our People

Our success in delivering seniors' care depends on a motivated, well-trained, and highly engaged team of care professionals. Accordingly, we continue to build supports for our staff to ensure they have the tools and resources they need to focus on our residents, patients and clients.

To that end, we are working to shift more of our care team to full-time roles to improve engagement and retention. Last year, we launched a pilot program in partnership with the Service Employees International Union to add more full-time positions for Registered Practical Nurses ("RPNs"). We created new scheduling options for RPNs at a number of LTC homes that allowed us to convert part-time roles to full time. This approach proved very popular, and based on its success, we are working to expand this program to other homes and other professional groups across the organization.

Moreover, our national Care Champion program continues to recognize the exceptional care provided by our team members across Extendicare and ParaMed. Nominated by residents, patients, clients, their families or by peers, our Care Champions demonstrate dedication and professionalism that improves the quality of life for people in our care. We are proud to recognize these individuals for their extraordinary contributions to further our mission to help people live better.

Growing Together

The care needs of the aging demographic will necessitate steady growth in both long-term care and home health care in the coming years. Our core customer demographic of people over age 75 will experience 4-5% annual growth until 2040. The pandemic has frustrated capacity growth for three years, resulting in a significant care gap that must be filled. As the pandemic recedes, we believe this market opportunity will more clearly come back into view.

Government funding must keep pace with costs or growth will not occur. Over the past few years, funding increases have not kept pace with escalating costs, which is not surprising given the degree of economic turbulence that has buffeted the economy during the pandemic. Historically, in the seniors' care sector, changes in government funding have generally and eventually followed changes in costs.

Recent provincial budget announcements of major investments in home health care and long-term care are helping to return us to historical norms, supported by new funding from the federal level. Extendicare is ideally positioned to partner with them to meet the challenge.

We extend our deepest gratitude to our care professionals and the many teams who support them for their unwavering commitment to our mission to help people live better.

We thank our strategic partners and shareholders for your continued support and belief in our growth potential as we continue to serve our communities across Canada.

On behalf of the team,

Dr. Michael Guerriere
President & CEO

Alan Torrie
Chairman

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year ended December 31, 2022

Extendicare Inc.
Dated: March 2, 2023

Management's Discussion and Analysis

Year ended December 31, 2022
Dated: March 2, 2023

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BASIS OF PRESENTATION

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

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

In May 2022, the Company completed the previously announced sale of its retirement living operations composed of 11 retirement communities (1,050 suites), located in Ontario and Saskatchewan, to Sienna-Sabra LP, a partnership formed between Sienna Senior Living Inc. and SABRA Healthcare REIT, for an aggregate purchase price of $307.5 million (the "Retirement Living Sale"). The definitive agreement was entered into in February 2022, accordingly, the Company classified its retirement living segment as discontinued in Q1 2022 and re-presented its comparative consolidated statement of earnings, including the comparative financial information presented in this MD&A (refer to the discussion under "Discontinued Operations – Retirement Living Sale" and *Note 18* of the audited consolidated financial statements).

In October 2022, the Company completed the previously announced transition of operations and ownership of the Company's five LTC homes in Saskatchewan (the "Saskatchewan LTC Homes") to the Saskatchewan Health Authority ("SHA") for an aggregate purchase price of $13.1 million (the "Saskatchewan LTC Home Sale") (refer to "Significant Developments – Completed Transition and Sale of Saskatchewan LTC Homes"). The definitive agreement was entered into in October 2021, accordingly, the Company classified its Saskatchewan LTC Homes as discontinued in Q4 2021 and re-presented its comparative consolidated statement of earnings, including the comparative financial information presented in this MD&A (refer to the discussion under "Discontinued Operations – Saskatchewan LTC Home Sale" and *Note 18* of the audited consolidated financial statements).

In This MD&A

This MD&A has been prepared to provide information to current and prospective investors of the Company to assist them to understand the Company's financial results for the year ended December 31, 2022. This MD&A should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2022 and the year ended December 31, 2021, and the notes thereto, prepared in accordance with International Financial Reporting Standards ("IFRS").

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

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

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

This MD&A is dated as of March 2, 2023, the date this report was approved by the Company's board of directors (the "Board of Directors" or "Board"), and is based upon information available to management as of that date. This MD&A should not be considered all-inclusive, as it does not include all changes that may occur in general economic, political and environmental conditions. Additionally, other events may or may not occur, which could affect the Company in the future.

ADDITIONAL INFORMATION

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

FORWARD-LOOKING STATEMENTS

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

Although forward-looking statements are based upon estimates and assumptions that the Company believes are reasonable based upon information currently available, these statements are not representations or guarantees of future results, performance or achievements of the Company and are inherently subject to significant business, economic and competitive uncertainties and contingencies. In addition to the assumptions and other factors referred to specifically in connection with these forward-looking statements, the risks, uncertainties and other factors that could cause the actual results, performance or achievements of the Company to differ materially from those expressed or implied by the forward-looking statements, include, without limitation, those described under "Risks and Uncertainties" in this MD&A and those other risks, uncertainties and other factors identified in the Company's other public filings with the Canadian securities regulators available on SEDAR's website at www.sedar.com under the Company's issuer profile. These risks and uncertainties include the following: the occurrence of a pandemic, epidemic or outbreak of a contagious illness, such as COVID-19; changes in the overall health of the economy and changes in government; the availability and ability of the Company to attract and retain qualified personnel; changes in the health care industry in general and the long-term care industry in particular because of political, legal and economic influences; changes in applicable accounting policies; changes in regulations governing the health care and long-term care industries and the compliance by the Company with such regulations; changes in government funding levels for health care services; the ability of the Company to renew its government licenses and customer contracts; changes in labour relations, employee costs and pay equity; changes in tax laws; resident care and class action litigation, including the Company's exposure to punitive damage claims, increased insurance costs and other claims; the ability of the Company to maintain and increase resident occupancy levels and business volumes; changes in competition; changes in demographics and local environment economies; changes in interest rates; changes in the financial markets, which may affect the ability of the Company to refinance debt; and the availability and terms of capital to the Company to fund capital expenditures and acquisitions; changes in the anticipated outcome and benefits of proposed or actualized dispositions, acquisitions and development projects, including risks relating to the actual completion of proposed transactions.

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

SIGNIFICANT DEVELOPMENTS

We made significant progress in 2022 in advancing our strategic transformation while managing the challenges caused by the persistent COVID-19 pandemic and its impacts, including inflationary pressures, rising interest rates and a challenging labour market. We successfully completed the sale of our retirement living segment in May 2022 and the sale of our Saskatchewan LTC Homes to the SHA in October 2022, while returning capital to our shareholders through our normal course issuer bid ("NCIB"). We continue to advance the regulatory approvals and integration planning for the Revera and Axium transactions announced in March 2022. And we continue to pursue our LTC redevelopment program with three new homes under construction and another 17 in various stages of planning. Enhancements to Ontario's LTC capital development funding program announced by the government in November 2022 provide us with an opportunity to commence construction on up to four new LTC homes in 2023.

Collectively, these transactions support our strategic transformation to focus on long-term care and home health care, leveraging our deep expertise and scale to drive growth using a less capital-intensive business model. The Company will focus its growth on operating and building new LTC homes, while substantially reducing the amount of Extendicare's capital required to redevelop the "Class C" portfolio. This strategic shift will drive growth in higher margin, managed services revenue, which will enable the Company to deploy capital more efficiently and provide greater flexibility to allocate capital to growth initiatives, including acquisitions.

COVID-19 Virus Continues to be Prevalent in the Community; Persistent Level of Outbreak Activity Continues Across our LTC Homes

High levels of COVID infections persist across the country and many of the restrictions that were once in place to limit transmission in the community have been dropped, including vaccine mandates and masking in all but the highest-risk settings. As we have seen in recent waves, outbreak activity within our LTC homes and staff absenteeism due to COVID exposure are highly correlated with the prevalence of virus transmission in the community. Approximately 80% of our owned homes experienced a COVID-19 outbreak in Q4 2022, though the virus is having a significantly milder impact on our residents than earlier in the pandemic.

Vaccinations continue to be highly effective, reducing the incidence of serious illness and hospitalization among our residents and generally leading to milder symptoms in family caregivers and those we employ. The introduction of bivalent vaccines in the fall of 2022 and the seasonal focus on flu vaccination provided a catalyst to further encourage all those eligible to receive regular boosters. We continue to focus on key prevention and containment measures to minimize the spread of the virus, with the knowledge that even milder variants pose a risk to the most vulnerable members of our community, particularly among LTC residents.

LTC Occupancy Improved in Q4 2022; COVID Impacts Prevented a Small Number of Homes From Achieving Full-funding Occupancy Levels in 2022

Despite the prevalence of community infections and outbreaks in Q4 2022, our LTC homes experienced a sequential improvement in average occupancy of 100 bps to 94.5% in Q4 2022 from 93.5% in Q3 2022, and increased by 240 bps from Q4 2021.

Throughout the pandemic, the sector has received full funding for the third and fourth ward-style beds no longer in service. In April 2022, the Ontario Ministry of Long-Term Care ("MLTC") confirmed that the sector will not be reopening ward-style rooms, and in August 2022, the MLTC announced that it intends to phase out all funding for ward-style beds no longer in service by April 1, 2025. The first phase of the funding reduction was to have taken effect on January 1, 2023, however, the MLTC has delayed the implementation until April 1, 2023 to allow more time to consider possible amendments to the phase-out plan. The Company's Ontario LTC homes have 185 closed ward-style beds, of which 84 beds will be re-opened as private and semi-private rooms in our three redevelopment projects currently under construction.

In Ontario, occupancy targets were reinstated on February 1, 2022, requiring LTC homes to achieve average occupancy of 97%, adjusted to exclude the third and fourth ward-style beds and isolation beds, in order to maintain full funding. The continuing prevalence of LTC outbreaks throughout 2022 slowed our occupancy recovery and ability to achieve the required 97% occupancy in all of our Ontario LTC homes, lowering our LTC net operating income[(1)] ("NOI") by approximately $0.7 million for the year ended December 31, 2022 (refer to the discussion under "Key Performance Indicators – Long-term Care").

Inflation Impacts and Elevated Staffing Costs Weigh on LTC NOI Margins as Rate Increases Have Not Kept Pace With Inflation

In our LTC operations we have experienced significant increases in insurance, utilities, food and supply costs in 2022. An overheated economy and significant expansions in health care employment have resulted in a very tight labour market for health human resources and in turn higher staff wage rates and an increased use of agency staffing, which carries a significant cost premium over regular staffing rates. Over the long term, LTC NOI margins have been reliably stable, however, recent rate increases have not kept pace with higher inflation, resulting in a decline in our LTC NOI margins in Q4 2022 and full year 2022. We are working with other sector participants and the Ontario government to ensure funding realigns with the significant inflationary and other cost pressures the sector is experiencing.

Sequential Improvement of 2.0% in Home Health Care ADV From Q3 2022; Health Sector Workforce Shortages Continue to Weigh on Home Health Care Volumes

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

Staff absenteeism in the home health care segment varied throughout 2022, correlated with the waves of COVID-19 variants and the associated prevalence of the virus in the community. We experienced a modest easing of staff absenteeism in Q4 2022 as compared to Q3 2022, which contributed to a 2.0% increase in our Q4 2022 ADV to 25,542 from Q3 2022, although still below Q4 2021 by 1.0%.

We continue to focus on building staffing capacity through large scale recruiting and new retention programs, safe return to work protocols for staff impacted by COVID-19 and hiring through our personal support worker ("PSW") college partnerships and in-house home support worker training programs. While we anticipate that our ability to increase our staffing capacity and drive ADV recovery will resume as the pandemic and its effects recede and labour market conditions improve, the timing and duration of the expected recovery is difficult to predict.

COVID-19 Related Expenses and Funding

Our provincial prevention and containment funding declined by $6.7 million to $15.3 million in Q4 2022 as compared to Q3 2022, and included $1.6 million received this quarter related to the recovery of previously unfunded COVID-19 costs. Our estimated COVID-19 expenses increased by $1.3 million to $23.8 million in Q4 2022, resulting in an $8.1 million decline in our consolidated NOI(1) and an $8.0 million decline in our Adjusted EBITDA(1) as compared to Q3 2022.

The timing of COVID-19 funding announcements and receipt of any reimbursements continues to create volatility in our financial results. For the year ended December 31, 2022, our LTC continuing operations recognized $17.6 million in prevention and containment funding related to the recovery of unfunded COVID-19 costs incurred in prior years.

As summarized in the table below, during 2022 we incurred an estimated $110.3 million of pandemic-related operating expenses ($26.0 million associated with government funded temporary pandemic pay programs) and $0.3 million in COVID-19 related administrative costs. These costs were largely offset by funding of $109.5 million from various provincial governments, resulting in declines in our consolidated NOI and Adjusted EBITDA of approximately $0.8 million and $1.1 million, respectively. Excluding the impact of $17.6 million in funding received related to costs incurred in prior years, our consolidated NOI and Adjusted EBITDA for the year ended December 31, 2022, were impacted by unfunded COVID costs of $18.4 million and $18.7 million, respectively. Additionally, our discontinued operations were impacted by an estimated $4.7 million of unfunded COVID-19 costs for the year ended December 31, 2022.

Since the beginning of the pandemic in Q1 2020, in addition to $116.8 million associated with government funded temporary pandemic pay programs, we have incurred estimated cumulative pandemic-related operating expenses of $257.7 million and $6.7 million in COVID-19 related administrative costs. These additional costs were partially offset by funding of $233.0 million from various provincial governments, resulting in cumulative reductions in our consolidated NOI and Adjusted EBITDA of approximately $24.7 million and $31.4 million, respectively. In addition, our discontinued operations incurred an estimated $12.8 million of cumulative unfunded COVID-19 costs.

In April 2022, the Government of Ontario announced additional COVID-19 prevention and containment funding of $278.0 million for April 1, 2022 through to March 31, 2023, which was fully allocated in Q2 and Q3 2022. In December 2022, the Government of Ontario announced a further $180.0 million in funding to assist with COVID-19 related costs through to March 31, 2023, which was partially allocated in December 2022. Given the ongoing outbreak activity in our LTC homes, we expect to continue to incur costs associated with the pandemic into 2023 as we invest the resources required to help protect our residents, clients and staff. We anticipate the Government of Ontario will distribute the balance of the $180.0 million announced in December, and potentially add further prevention and containment funding to the sector as it continues to monitor the pandemic; however, no formal announcements have been made to date. Presently, the Manitoba and Alberta governments have indicated their intention to continue to provide funding support for prevention and containment measures until at least March 31 and June 30, 2023, respectively.

We are grateful to receive the ongoing financial support for our LTC operations from provincial governments to offset some of our COVID-19 related expenses. However, we expect the timing of costs and funding relating to the pandemic will continue to cause volatility in our operating and financial results in 2023. The financial impacts of COVID-19 will largely subside as we emerge from the pandemic; however, there is no guarantee as to how soon that may be or that another pandemic, epidemic or outbreak will not have a material adverse effect on the business, results of operations and financial condition of the Company.

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

Estimated COVID-19 Revenue, Operating Expenses and Administrative Costs											
					2022					**2021**	**2020**
(millions of dollars)	**Q4**	**Q3**	**Q2**	**Q1**	**Year**	**Q4**	**Q3**	**Q2**	**Q1**	**Year**	**Year**
Revenue											
Long-term care[(i)]	**14.4**	**18.7**	**17.0**	**43.1**	**93.2**	27.4	23.3	24.7	45.8	121.2	62.5
Home health care	**0.9**	**3.3**	**4.5**	**7.6**	**16.3**	8.7	7.7	7.8	8.8	33.0	23.6
Revenue impact	**15.3**	**22.0**	**21.5**	**50.7**	**109.5**	36.1	31.0	32.5	54.6	154.2	86.1
Operating Expenses											
Long-term care	**22.1**	**18.4**	**16.1**	**32.3**	**88.9**	21.3	21.9	30.1	44.9	118.2	85.3
Home health care	**1.7**	**4.0**	**5.9**	**9.8**	**21.4**	9.8	8.2	8.8	9.0	35.8	24.9
Operating expenses impact	**23.8**	**22.4**	**22.0**	**42.1**	**110.3**	31.1	30.1	38.9	53.9	154.0	110.2
NOI											
Long-term care	**(7.7)**	**0.3**	**0.9**	**10.8**	**4.3**	6.1	1.4	(5.4)	0.9	3.0	(22.8)
Home health care	**(0.8)**	**(0.7)**	**(1.4)**	**(2.2)**	**(5.1)**	(1.1)	(0.5)	(1.0)	(0.2)	(2.8)	(1.3)
NOI impact	**(8.5)**	**(0.4)**	**(0.5)**	**8.6**	**(0.8)**	5.0	0.9	(6.4)	0.7	0.2	(24.1)
Administrative costs	**—**	**0.1**	**0.1**	**0.1**	**0.3**	0.1	0.8	1.1	0.9	2.9	3.5
Adjusted EBITDA impact	**(8.5)**	**(0.5)**	**(0.6)**	**8.5**	**(1.1)**	4.9	0.1	(7.5)	(0.2)	(2.7)	(27.6)
Discontinued operations impact	**—**	**(0.5)**	**(1.0)**	**(3.2)**	**(4.7)**	(0.7)	(0.8)	(2.0)	(2.1)	(5.6)	(2.5)
Total impact	**(8.5)**	**(1.0)**	**(1.6)**	**5.3**	**(5.8)**	4.2	(0.7)	(9.5)	(2.3)	(8.3)	(30.1)

(i) 2022 includes funding of $17.6 million towards costs incurred in prior years: Q4 2022 of $1.6 million; Q3 2022 of $1.1 million; Q2 2022 of $1.6 million; and Q1 2022 of $13.3 million. Q1 2021 includes funding of $18.8 million towards costs incurred in 2020; and Q3 2021 and Q4 2021 include funding of $5.1 million and $11.9 million, respectively, towards costs incurred in Q1 2021.

Enhancements to the Government of Ontario Capital Funding Program Announced in Q4 2022; Focused on Advancing New Projects to Commence Construction in 2023

Since the introduction of the Long-Term Care Home Capital Development Funding program in 2020 (the "Capital Funding Program"), the MLTC has awarded more than 58,000 new and replacement beds to address the aging infrastructure within long-term care and improve access to care for the growing numbers of seniors that need it. We have been awarded 4,248 new or replacement beds across 20 redevelopment projects, which would replace all of our 3,285 existing Class C beds, of which three projects are currently under construction.

Rising construction costs and interest rates, labour disruptions and supply chain issues experienced throughout the construction industry are making it challenging to begin construction on additional homes. In November 2022, the MLTC introduced new time-limited funding in order to stimulate construction starts. This supplemental funding provides an additional $35 per bed per day to the base capital funding subsidy ("CFS") and is available to eligible applicants who receive approval from the government to construct before August 31, 2023. We are targeting to break ground on up to four new projects in 2023 under the enhanced CFS, with tendered construction costs and receipt of applicable regulatory approvals largely determining if and when they proceed.

We continue to advance the balance of our redevelopment portfolio to be well positioned to make use of any future enhancements to the Capital Funding Program that may be made available beyond August 2023. We continue to work collaboratively with our industry partners and the government to make as many of these projects as possible economically feasible, including the need to address the particular challenges faced by projects in the Greater Toronto Area and in smaller rural markets.

The Company's three homes under construction in Sudbury, Kingston and Stittsville, Ontario continue to progress toward completion between Q3 2023 and Q1 2024. The three projects will replace a total of 662 Class C LTC beds with 704 new beds and represent a net investment of $184.2 million. The homes are being constructed exclusively with private and semi-private rooms, the latter of which consist of single resident bedrooms with a shared bathroom. For more information refer to the discussion under "Key Performance Indicators – LTC Projects Under Construction".

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

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

HIGHLIGHTS OF THE TRANSACTIONS

- Adds 56 LTC homes to the Extendicare Assist portfolio of managed homes, bringing the total homes owned and/or managed to 159
- Extendicare to acquire Revera's 15% managed interest in a portfolio of 24 LTC homes owned in partnership with Axium, and an opportunity to purchase future Revera redevelopment projects

- The 56 LTC homes will also join SGP, representing approximately 7,000 additional beds for the purchasing partnership
- Revera's LTC operations team to join Extendicare to advance the delivery of high-quality care and services across all of our homes
- Extendicare to form a joint venture with Axium for the redevelopment of "Class C" homes owned by Extendicare

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

THE REVERA TRANSACTIONS

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

On closing of the Revera Acquisition, the Company will enter into management contracts with Revera to manage all of Revera's other LTC homes, which comprise 31 Class C homes located in Ontario and one personal care home located in Manitoba, and will offer employment to Revera's head office LTC personnel. These 32 homes consist of approximately 3,100 funded LTC beds (adjusted to exclude approximately 700 ward-style beds taken out of service, which are eligible to be reinstated upon redevelopment) and 880 private pay assisted living beds. The management agreements are on customary terms for agreements of this type. In addition, the Company will enter into development arrangement agreements with Revera in respect of the potential redevelopment of the Revera managed Class C homes in Ontario into new homes (collectively with the Revera Acquisition, the "Revera Transactions").

Pursuant to the development arrangement agreements, Revera will grant Extendicare (either alone or with Axium) a right to participate in any redevelopment of Revera's 31 Class C homes in Ontario should Revera determine to pursue redevelopment of any of those homes into new LTC homes. If Extendicare determines, in its discretion, to participate in any such redevelopment project, Revera will act as development and construction manager and will be paid customary development and construction management fees. Upon completion of any approved redevelopment project, the home would be acquired by Extendicare (either alone or with Axium) and Extendicare would operate the homes on the same terms as it will operate the homes to be acquired in the Revera Acquisition. There are currently four Class C homes comprising an aggregate of approximately 700 funded LTC beds that are in advanced stages of redevelopment, one of which is currently under construction, that Extendicare expects it will participate in along with Axium, subject to customary conditions. However, no assurance can be given as to whether those projects, or any other redevelopment projects, will ultimately proceed or be acquired by Extendicare.

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

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

Based on the anticipated revenue of the 56 managed LTC homes and the Company's incremental costs in respect of such management, the Revera Transactions would have generated for 2022 approximately $17.0 million in incremental annual revenue in our managed services segment and, excluding integration costs, NOI(1) and AFFO(1) of approximately $7.6 million and $4.3 million ($0.042 AFFO per basic share), respectively.

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

THE AXIUM TRANSACTION

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

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

Pursuant to the Axium MDA and a limited partnership agreement between affiliates and/or subsidiaries of Extendicare and Axium, the parties entered into a purchase and sale agreement whereby the limited partnership has agreed to purchase three Class C home redevelopment projects from the Company comprising an aggregate of 704 funded LTC beds currently under construction in Sudbury, Kingston and Stittsville, Ontario. Based upon the estimated Stabilized NOI, annual construction funding subsidy and estimated Adjusted Development Costs of the three Class C home redevelopment projects, as adjusted for delays in the scheduled opening dates for certain projects and increased Adjusted Development Costs, the estimated implied realized capitalization rate on the sale is approximately 7.00%-7.25% (see "Key Performance Indicators – LTC Projects Under Construction").

The Axium Transaction is subject to customary closing conditions, including receipt of regulatory approvals from the MLTC, and is not conditional on financing or due diligence. All required regulatory submissions have been filed.

Normal Course Issuer Bid

As at March 2, 2023, the Company had purchased for cancellation 5,011,180 Common Shares at a cost of $35.0 million, representing a weighted average price per share of $6.99 under its NCIB established in June 2022 (see "Liquidity and Capital Resources – Normal Course Issuer Bid"). The Company's board of directors authorized the NCIB subsequent to the sale of the retirement living segment completed in May 2022, as a way to provide the Company with additional flexibility to manage capital, because it believes that, from time to time, the market price of the Common Shares may be such that their purchase may be an attractive and appropriate use of corporate funds. Decisions regarding the timing of future purchases of Common Shares will be based on market conditions, share price and the outlook for capital needs, which includes the impact of the announced strategic transactions with Revera and Axium.

Completed Sale of Retirement Living Portfolio

On May 16, 2022, the Company completed the previously announced sale of its retirement living operations composed of 11 retirement communities (1,050 suites), located in Ontario and Saskatchewan, to Sienna-Sabra LP for an aggregate purchase price of $307.5 million, representing an implied realized capitalization rate on the stabilized NOI of approximately 6.0%.

Following the assumption and repayment of debt of the retirement communities, proceeds realized from the sale, net of taxes, certain closing adjustments and transactions costs, were approximately $128.0 million. The Company recorded a gain on sale of $67.9 million net of taxes, other adjustments and transaction costs, through discontinued operations. These operations contributed $0.9 million to AFFO(1) ($0.01 AFFO per basic share) for the year ended December 31, 2022 and $7.1 million ($0.08 AFFO per basic share) for the year ended December 31, 2021 (refer to the discussion under "Discontinued Operations" and *Note 18* of the audited consolidated financial statements).

Completed Transition and Sale of Saskatchewan LTC Homes

On October 9, 2022, the SHA and the Company completed the previously announced transition of operations of long-term care services at the Company's five LTC homes to the SHA, including the sale of the homes, certain other assets and assumption of certain liabilities by the SHA, for an aggregate purchase price of $13.1 million and recorded a gain on sale of $6.3 million net of taxes, other adjustments and transaction costs, through discontinued operations. These operations contributed a loss of $2.3 million to AFFO(1) ($0.03 AFFO loss per basic share) for the year ended December 31, 2022 and a loss of $1.4 million ($0.02 AFFO loss per basic share) for the year ended December 31, 2021 (refer to the discussion under "Discontinued Operations" and *Note 18* of the audited consolidated financial statements).

Regulatory Developments

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

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

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

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

The Government of Ontario's *Fixing Long-Term Care Act, 2021* (formerly Bill 37), received Royal Assent on December 9, 2021 and came into effect on April 11, 2022, along with the first tranche of accompanying regulations. The act replaces the *Long-Term Care Homes Act, 2007* and emphasizes improving staffing and care; protecting residents through better accountability, enforcement and transparency; and building modern, safe comfortable homes for seniors. Among other things, the act includes a target to increase average hours of direct care per resident per day to four hours by March 31, 2025 (with phased-in funding that started in November 2021) (the "LTC Staffing Plan"), doubles fines as a financial deterrent for non-compliance and allows the Minister to establish policy that would be used in lieu of individual licensing determinations, thus streamlining the approval process. On February 3, 2023, additional regulations under the *Fixing Long-Term Care Act, 2021* were issued for consultation and proposed to come into effect on April 11, 2023. The additional regulations address staffing qualifications, medication management and drug administration, resident experience and various other operational requirements.

On January 31, 2023, Health Standards Organization ("HSO") released their national standards for long-term care. These standards were complementary to those released by the Canadian Standards Association in December 2022. The HSO standards consist of high-level objectives and guidelines to support governments and LTC homes in developing policies and procedures rather than a more prescriptive approach. With the release, the Government of Canada stated that the standards are not mandatory, and the $4 billion in federal funding for long-term care would be directed to supporting the provinces and territories in their efforts to improve LTC in their respective jurisdictions rather than being used to implement the new standards. At this time, no provincial or territorial government has signalled an intent to adopt these standards in their jurisdiction.

BUSINESS OVERVIEW

As at December 31, 2022, the Company owned and operated 53 LTC homes and provided management services to 50 LTC homes and retirement communities for third parties through Extendicare Assist. In total, Extendicare operated or provided management services to a network of 103 LTC homes and retirement communities across four provinces in Canada, with capacity for 13,258 residents. The majority of these homes are in Ontario and Alberta, which accounted for approximately 80% and 13% of residents served, respectively. This overview excludes the retirement living segment and the Saskatchewan LTC Homes that were sold in May and October 2022, respectively, both of which have been classified as discontinued operations, refer to "Discontinued Operations".

In addition to providing group purchasing services to the Company's own operations, SGP supports third-party clients representing approximately 109,700 beds across Canada, as at December 31, 2022.

The Company's home health care operations, ParaMed, delivered approximately 9.2 million hours of home health care services for the trailing twelve months ended December 31, 2022. The majority of ParaMed's volumes are generated in Ontario and Alberta, representing 93% and 4% of the total, respectively.

The Company reports on the following segments: i) long-term care; ii) home health care; iii) managed services, which include management and consulting services and group purchasing services; and iv) the corporate functions and any intersegment eliminations as "corporate".

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

	Year ended December 31,			
	2022		**2021**	
Operating Segments as % of	**Revenue**	**NOI**	**Revenue**	**NOI**
Long-term care	**62.8 %**	**63.2 %**	62.4 %	50.6 %
Home health care	**34.5 %**	**20.7 %**	35.2 %	37.3 %
Managed services	**2.7 %**	**16.1 %**	2.4 %	12.1 %
Total	**100.0 %**	**100.0 %**	100.0 %	100.0 %

The following describes the operating segments of the Company.

Long-term Care

The Company owns and operates 53 LTC homes with capacity for 7,299 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 addition, the Company has 185 ward-style beds in Ontario LTC homes that are currently not in service and which form part of the Company's 3,285 Class C Beds that are eligible to be reinstated upon redevelopment under the Ontario government's Capital Funding Program.

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

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

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

ONTARIO LTC FUNDING CHANGES

Effective April 28, 2022, the Government of Ontario made permanent the $3/hour wage enhancement that PSWs working in LTC homes had been receiving since October 1, 2020. The Company estimates that this increase will result in additional annual funding of approximately $17.0 million to support the associated increased labour costs.

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

In November 2021, the MLTC implemented the first phase of its LTC Staffing Plan to increase the level of direct care for LTC residents over four years through increased funding of the nursing and program flow-through envelopes, where any funding not spent on resident care is returned to the government. During 2022, the Company recognized approximately $42.8 million in revenue through the flow-through envelopes to support the increased hours of direct care. The next phase of the LTC Staffing Plan takes effect on April 1, 2023, and the Company estimates that it will provide incremental revenue of approximately $20.0 to $25.0 million in 2023 over 2022 to support the incremental hours of direct care. While there is no impact on NOI from this increase in flow-through funding, it does have the affect of compressing the NOI margin as a percentage of revenue.

In respect of the preferred accommodation premiums paid for by residents to LTC providers for private and semi-private accommodation, the MLTC implemented increases on July 1, 2020 and July 1, 2021 of 1.9% and 0.6%, respectively. To provide relief to families experiencing challenges due to COVID-19, the aggregate 2.5% increase to residents was deferred until October 1, 2022, and LTC providers were compensated directly by the MLTC in the interim. For older LTC beds that are not classified as "New" or "A" beds, the maximum daily preferred accommodation premiums are $8.74 and $19.65 for semi-private and private rooms, respectively. For newer LTC beds that are classified as "New" or "A" beds, the maximum daily preferred accommodation premiums are $13.10 and $27.31 for semi-private and private rooms, respectively.

ALBERTA LTC FUNDING CHANGES

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

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

MANITOBA LTC FUNDING CHANGES

As part of the Government of Manitoba's initiatives to support the recommendations to strengthen and enhance Manitoba's long-term care system outlined in the *Maples Personal Care Home COVID-19 Outbreak: External Review Final Report*, a series of government-funded initiatives were announced during the latter part of 2022 that will enhance infection prevention and control, housekeeping, allied health and technology in long-term care homes. The Company estimates these initiatives will result in incremental annual revenue and corresponding costs in 2023 of up to $4.6 million, which will have no impact on NOI.

In December 2022, Manitoba Health implemented a 1.3% global funding increase for LTC operators retroactive to April 1, 2022, representing additional annual revenue of approximately $0.7 million. As a result, the Company recognized approximately $0.4 million of incremental revenue in Q4 2022 related to prior quarters.

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

Home Health Care

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

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

HOME HEALTH CARE FUNDING CHANGES

Effective April 28, 2022, the Government of Ontario made permanent the $3/hour wage enhancement that PSWs providing publicly funded services in home and community care had been receiving since October 1, 2020. The impact of this change is estimated to increase annual revenue by approximately $25.5 million, based on ADV and mix of home health care services provided for the trailing twelve months ended December 31, 2022. Given the flow-through nature of the wage enhancement this adjustment will have no impact on NOI.

Effective April 1, 2022, the Government of Ontario increased home health care billing rates by 3% for personal support contracts and 5% for nursing and allied health contracts. Based on ADV and mix of home health care services provided for the trailing twelve months ended December 31, 2022, these rate increases are estimated to increase annual revenue by approximately $13.0 million and help offset wage and benefit increases and increased recruitment costs in the home health division.

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

Managed Services

The Company leverages its size, scale and operational expertise in the senior care industry to provide managed services to third parties through its Extendicare Assist and SGP divisions.

MANAGEMENT AND CONSULTING SERVICES

Through its Extendicare Assist division, the Company provides a wide range of management and consulting services to third parties. Extendicare Assist provides services to not-for-profit and for-profit organizations, hospitals and municipalities seeking to improve their management practices, quality of care practices and operating efficiencies. Extendicare Assist provides a broad range of services aimed at meeting the needs of its clients, including: financial administration, record keeping, regulatory compliance and purchasing. In addition, Extendicare Assist provides consulting services to third parties for the development and redevelopment of LTC homes. Extendicare Assist's management services portfolio consisted of 50 LTC homes and retirement communities with capacity for 5,959 residents as at December 31, 2022.

GROUP PURCHASING SERVICES

Through its SGP division, the Company offers cost-effective purchasing contracts to other senior care providers for food, capital equipment, furnishings, cleaning and nursing supplies and office products. SGP negotiates long-term, high volume contracts with suppliers that provide members with preferred pricing, thereby providing a cost-effective means to secure quality national brand-name products, along with a range of innovative services. As at December 31, 2022, SGP provided services to third parties representing approximately 109,700 beds across Canada.

KEY PERFORMANCE INDICATORS

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

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

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

"Occupancy" is measured as the percentage of the number of earned resident days relative to the total available resident days. Total available resident days is the number of beds available for occupancy multiplied by the number of days in the period.

Long-term Care

The following table provides the average occupancy levels of the LTC operations, excluding the Saskatchewan LTC Homes that have been classified as held for sale, for the past eight quarters. The LTC average occupancies for the periods presented have been restated to exclude 190 ward-style beds (185 in Ontario LTC) that have not been in use since 2020 and will not be returned to service.

Long-term Care Homes					**2022**					**2021**
Average Occupancy *(%)*	**Q4**	**Q3**	**Q2**	**Q1**	**Year**	**Q4**	**Q3**	**Q2**	**Q1**	**Year**
Total LTC	**94.5%**	**93.5%**	**92.5%**	**90.8%**	**92.9%**	92.1%	90.9%	87.9%	85.5%	89.1%
Change over prior year period (bps)	**240**	**260**	**460**	**530**	**380**	240	(110)	(590)	(1,150)	(410)
Sequential quarterly change (bps)	**100**	**100**	**170**	**(130)**		120	300	240	(420)	
Ontario LTC										
Total ON LTC	**94.8%**	**93.4%**	**92.1%**	**90.5%**	**92.7%**	91.1%	89.9%	86.0%	83.3%	87.6%
Preferred Accommodation[(i)]										
"New" homes – private	**87.9%**	**86.3%**	**86.4%**	**85.9%**	**86.6%**	87.9%	85.6%	83.6%	82.6%	84.9%
"C" homes – private	**90.7%**	**87.2%**	**85.8%**	**83.5%**	**86.7%**	83.9%	79.9%	81.0%	76.6%	80.3%
"C" homes – semi-private	**55.3%**	**52.6%**	**54.3%**	**53.1%**	**53.8%**	54.1%	51.3%	49.3%	50.0%	51.2%

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

The Company's LTC occupancy levels have been negatively impacted by COVID-19 since March 2020. In the last half of 2021, average occupancy levels improved following the success of the vaccination program and easing of restrictions during that period. However, a combination of seasonal factors and the surge of COVID-19 related outbreaks driven by the initial Omicron variant slowed the pace of occupancy recovery and contributed to a sequential decline in Q1 2022. Subsequent to Q1 2022, occupancy has improved; however, the emergence of new Omicron variants continue to weigh on the pace of the recovery. Although COVID-19 continued to impact our LTC homes in Q4 2022, our average occupancy improved to 94.5%, up 240 bps from Q4 2021 and up 100 bps from Q3 2022.

In Ontario, overall government funding is occupancy-based, but once the average occupancy level of 97% or higher for the calendar year is achieved, operators receive government funding based on 100% occupancy. In the event of closure to admissions related to an outbreak, which is not unusual during the winter months, full funding is preserved in Ontario, otherwise referred to as occupancy protection funding. Prior to the onset of COVID-19 in 2020, the Company's Ontario LTC homes generally averaged above the 97% occupancy threshold, with all but one having done so in 2019. In response to financial pressures caused by the impacts of COVID-19 on occupancy levels, the Government of Ontario provided basic occupancy protection funding for all LTC homes for 2020 and through to the end of January 2022, including for third and fourth beds in ward rooms taken out of service and isolation beds. The average occupancy of our Ontario LTC homes, further adjusted to exclude the impact of isolation beds, was 98.1% and 96.9% for the three and eleven months ended December 31, 2022, respectively, up from 96.5% for the eight months ended September 30, 2022. The continuing incidence of LTC outbreaks impacted our occupancy recovery progress and our ability to achieve the required 97% occupancy in all of our Ontario LTC homes, lowering our LTC NOI by approximately $0.7 million for the year ended December 31, 2022. Occupancy protection does not compensate for the loss of preferred accommodation premiums from private and semi-private room vacancies. Our preferred accommodation premium revenue for the year ended December 31, 2022, improved slightly over 2021 by approximately $0.4 million, although it remains below 2019 levels by approximately $1.4 million, as we continue to work towards returning to pre-pandemic levels.

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

LTC Projects Under Construction

The construction industry across Ontario is experiencing significant inflationary cost increases, disruptions in the labour forces across various trades and supply chain issues. Since breaking ground, we have experienced labour disruptions, including strike actions of selected trades, and supply chain issues across our current construction projects, which are impacting projected completion and opening dates. In addition, rising interest rates are also impacting the costs of our LTC projects under construction. The impact of these delays and rising interest rates have resulted in estimated aggregate cost increases of $3.0 million outside of the contingency levels included in our estimated Adjusted Development Costs. We continue to work with our general contractors and construction partners to mitigate the impacts of these factors on schedules and costs.

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

LTC Project	# of Beds	Construction Commenced	Expected Opening	Estimated Adjusted Development Costs(1) ($ millions)	Adjusted Development Costs(1) Incurred as at December 31, 2022 ($ millions)	Annual CFS(i) ($ millions)	Estimated Stabilized NOI(1) ($ millions)	Expected NOI Yield(1)
Sudbury	256	Q4-20	Q3-23	66.4	44.4	1.9	3.1	7.5 %
Kingston	192	Q2-21	Q1-24	48.3	22.2	1.4	2.3	7.7 %
Stittsville	256	Q4-21	Q1-24	69.5	32.8	2.2	3.0	7.6 %
	704			**184.2**	**99.4**	**5.5**	**8.4**	**7.6 %**

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

Home Health Care

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

The peak impact of COVID-19 on ParaMed's ADV occurred in April 2020, after which we saw a steady recovery in our ADV levels through to the end of 2021. Despite the various COVID-19 lockdowns and traditional seasonal impacts, recovery of our workforce capacity throughout 2021 allowed our ADV levels to return to pre-pandemic levels by Q2 2021 and remained at those levels through the balance of 2021. Referral activity remains above pre-COVID-19 levels as strong demand for home health care services continues. However, our progress has been constrained by the dramatic impact of Omicron and its sub-variants on our workforce capacity, exacerbated by an increasingly tight labour market. We had as many as 900 staff on medical leave due to COVID-19 at the peak of the Omicron wave in late January 2022, which continued to varying degrees through much of 2022 as newer sub-variants gave rise to higher levels of infection, community transmission and labour market constraints (refer to the discussion under "Significant Developments – Sequential Improvement of 2.0% in Home Health Care ADV From Q3 2022; Health Sector Workforce Shortages Continue to Weigh on Home Health Care Volumes"). Home health care operations returned to growth in Q4 2022, with ADV of 25,542 up 2.0% from Q3 2022, although still below Q4 2021 by 1.0%.

Home Health Care					2022					2021
Service Volumes	**Q4**	**Q3**	**Q2**	**Q1**	**Year**	**Q4**	**Q3**	**Q2**	**Q1**	**Year**
Hours of service *(000's)*	**2,349.8**	**2,304.7**	**2,290.9**	**2,209.7**	**9,155.1**	2,373.2	2,331.7	2,299.0	2,191.7	9,195.7
ADV	**25,542**	**25,051**	**25,174**	**24,552**	**25,082**	25,796	25,345	25,264	24,352	25,194
Change over prior year period	**(1.0)%**	**(1.2)%**	**(0.4)%**	**0.8 %**	**(0.4)%**	7.7 %	11.4 %	24.0 %	(1.3)%	9.8 %
Sequential quarterly change	**2.0 %**	**(0.5)%**	**2.5 %**	**(4.8)%**		1.8 %	0.3 %	3.7 %	1.7 %	

Managed Services

The following table provides information in respect of the third-party clients receiving services from Extendicare Assist and SGP at the end of each period for the past eight quarters. The reduction in Extendicare Assist's management services portfolio during 2021 reflects changes resulting from homes that were either closed or sold. At December 31, 2022, Extendicare Assist was providing management services to third parties representing 50 LTC homes and retirement communities with capacity for 5,959 senior residents, reflecting a decline of 304 beds from Q3 2022 for ward-style beds no longer in service. SGP continues to grow its market share, increasing its third-party beds served by 17.7% at the end of Q4 2022 from Q4 2021, and by 2.6% from Q3 2022.

				2022				2021
Managed Services	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Extendicare Assist								
Homes at period end	**50**	**50**	**50**	**50**	50	51	51	51
Resident capacity	**5,959**	**6,263**	**6,263**	**6,263**	6,263	6,359	6,359	6,359
Change over prior year period	**(4.9)%**	**(1.5)%**	**(1.5)%**	**(1.5)%**	(1.8)%	(2.8)%	(2.8)%	(3.7)%
Sequential quarterly change	**(4.9)%**	**— %**	**— %**	**— %**	(1.5)%	— %	— %	(0.3)%
SGP Clients								
Third-party beds	**109,725**	**106,989**	**102,219**	**98,845**	93,208	88,431	83,511	81,110
Change over prior year period	**17.7 %**	**21.0 %**	**22.4 %**	**21.9 %**	18.1 %	11.4 %	11.1 %	11.3 %
Sequential quarterly change	**2.6 %**	**4.7 %**	**3.4 %**	**6.0 %**	5.4 %	5.9 %	3.0 %	2.8 %

SELECT ANNUAL INFORMATION

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

(thousands of dollars unless otherwise noted)	**2022**	**2021**(3)	**2020**(3)
Financial Results			
Revenue	**1,221,577**	1,166,987	1,055,743
Adjusted EBITDA(1)	**57,454**	80,539	118,303
(Loss) earnings from continuing operations	**(4,511)**	7,504	46,373
per basic and diluted share *($)*	**(0.05)**	0.08	0.52
(Loss) earnings from operating activities of discontinued operations	**(172)**	4,000	7,816
Gain on sale of discontinued operations, net of income taxes	**74,237**	—	—
Net earnings	**69,554**	11,504	54,189
per basic share *($)*	**0.78**	0.13	0.60
per diluted share *($)*	**0.76**	0.13	0.60
AFFO(1)	**26,143**	53,721	79,167
per basic share *($)*	**0.29**	0.60	0.88
per diluted share *($)*	**0.29**	0.58	0.83
Cash dividends declared	**42,363**	42,994	42,963
per share *($)*	**0.480**	0.480	0.480
Financial Position *(at year end)*			
Total assets	**781,579**	900,323	963,127
Total non-current liabilities	**405,893**	516,488	555,418
Long-term debt	**364,735**	463,274	493,207
Long-term debt, including current portion	**383,974**	536,851	564,597

Financial Results – The selected information provided for each of the years under the heading "Financial Results" reflects the classification of the respective dispositions of the retirement living segment and Saskatchewan LTC Homes and the wind-up of the Company's captive insurance company following the sale of the Company's U.S. operations as discontinued (refer to the discussion under "Discontinued Operations").

The financial results for 2021 reflect a $38.9 million decline in earnings from continuing operations in comparison to 2020, largely driven by the year-over-year impact of lower CEWS received by the home health care segment ($73.8 million, or $54.2 million net of tax), an unfavourable net change in other expense of $12.5 million ($10.0 million net of tax) related primarily to an impairment charge for certain LTC homes in Manitoba and Alberta recorded in 2021, and higher administrative costs of $4.1 million, partially offset by a decline in estimated unfunded COVID-19 costs ($24.9 million, or $18.3 million net of tax), and an improvement in NOI of $15.1 million (excluding the impact of CEWS and unfunded COVID-19 costs). The improvement in NOI was largely due to growth in ADV of 9.8% and billing rate increases in home health care operations, partially offset by increased costs of resident care and lower preferred accommodation in LTC operations.

Financial Position – Total assets declined by $62.8 million at the end of 2021 from 2020, largely due to a decline in cash and cash equivalents of $75.3 million and increase in property and equipment. The decline in cash and cash equivalents reflected the decrease in earnings, impact of timing of income tax payments made in 2021 related to CEWS received in 2020, and increase in growth capital expenditures, primarily associated with the LTC redevelopment projects and investments in technology. The decline in non-current liabilities at the end of 2021 from 2020 was largely due to a decrease in long-term debt and accrued pension and benefits obligation. Long-term debt, including the current portion, decreased by $27.7 million at the end of 2021 as compared to 2020, and included scheduled debt repayments of $32.3 million, partially offset by draws on construction loans of $2.3 million and an increase in lease liabilities.

A comparison between the 2022 and 2021 financial results and financial position of the Company is provided in the discussion under the headings "2022 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.

				2022[2]				**2021[3]**
(thousands of dollars unless otherwise noted)	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Revenue	**310,393**	**308,889**	**296,585**	**305,710**	306,162	284,271	281,693	294,861
Net operating income[1]	**21,686**	**23,526**	**30,341**	**32,976**	38,742	29,009	28,900	36,319
NOI margin[1]	***7.0%***	***7.6%***	***10.2%***	***10.8%***	*12.7%*	*10.2%*	*10.3%*	*12.3%*
Adjusted EBITDA[1]	**9,160**	**10,034**	**18,057**	**20,203**	24,506	16,789	15,466	23,778
Adjusted EBITDA margin[1]	***3.0%***	***3.2%***	***6.1%***	***6.6%***	*8.0%*	*5.9%*	*5.5%*	*8.1%*
(Loss) earnings from continuing operations	**(7,704)**	**(4,362)**	**3,510**	**4,045**	(4,483)	2,812	1,663	7,512
per basic and diluted share *($)*	**(0.09)**	**(0.04)**	**0.04**	**0.04**	(0.06)	0.03	0.02	0.08
(Loss) earnings from operating activities of discontinued operations	**(306)**	**96**	**(37)**	**75**	661	3,231	(703)	811
Gain on sale of discontinued operations, net of income taxes	**6,317**	**—**	**67,920**	**—**	—	—	—	—
Net (loss) earnings	**(1,693)**	**(4,266)**	**71,393**	**4,120**	(3,822)	6,043	960	8,323
per basic share *($)*	**(0.02)**	**(0.04)**	**0.79**	**0.04**	(0.04)	0.07	0.01	0.09
per diluted share *($)*	**(0.02)**	**(0.04)**	**0.72**	**0.04**	(0.04)	0.07	0.01	0.09
AFFO[1]	**1,889**	**2,112**	**9,624**	**12,518**	16,530	9,573	8,073	19,545
per basic share *($)*	**0.02**	**0.02**	**0.11**	**0.14**	0.18	0.11	0.09	0.22
per diluted share *($)*	**0.02**	**0.02**	**0.11**	**0.13**	0.17	0.11	0.09	0.21
Maintenance capex	**6,630**	**4,240**	**2,700**	**1,412**	5,472	3,833	3,746	1,033
Cash dividends declared	**10,275**	**10,584**	**10,754**	**10,750**	10,746	10,752	10,744	10,752
per share *($)*	**0.120**	**0.120**	**0.120**	**0.120**	0.120	0.120	0.120	0.120
Weighted Average Number of Shares *(000's)*								
Basic	**86,678**	**89,178**	**90,139**	**90,075**	90,040	90,009	89,980	89,929
Diluted	**97,604**	**100,079**	**101,102**	**101,190**	100,953	100,786	100,615	100,520

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

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

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

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

Reconciliations of Adjusted EBITDA and Net Operating Income

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

					2022[2]					2021[3]
(thousands of dollars)	**Q4**	**Q3**	**Q2**	**Q1**	**Year**	**Q4**	**Q3**	**Q2**	**Q1**	**Year**
(Loss) earnings from continuing operations before income taxes	**(10,364)**	**(5,042)**	**4,646**	**6,264**	**(4,496)**	(3,556)	4,196	2,695	10,650	13,985
Add:										
Depreciation and amortization	**7,692**	**7,558**	**8,058**	**8,251**	**31,559**	7,845	7,829	7,431	7,726	30,831
Net finance costs	**3,081**	**3,931**	**4,378**	**5,048**	**16,438**	5,248	4,764	5,340	5,402	20,754
Other expense	**8,751**	**3,587**	**975**	**640**	**13,953**	14,969	—	—	—	14,969
Adjusted EBITDA	**9,160**	**10,034**	**18,057**	**20,203**	**57,454**	24,506	16,789	15,466	23,778	80,539
Administrative costs	**12,526**	**13,492**	**12,284**	**12,773**	**51,075**	14,236	12,220	13,434	12,541	52,431
Net operating income	**21,686**	**23,526**	**30,341**	**32,976**	**108,529**	38,742	29,009	28,900	36,319	132,970

STATEMENT OF EARNINGS

The following provides the consolidated statement of earnings for the periods ended December 31, 2022 and 2021.

	Three months ended December 31,			Year ended December 31,		
(thousands of dollars unless otherwise noted)	**2022**	**2021**[3]	**Change**	**2022**	**2021**[3]	**Change**
Revenue	**310,393**	306,162	4,231	**1,221,577**	1,166,987	54,590
Operating expenses	**288,707**	267,420	21,287	**1,113,048**	1,034,017	79,031
Net operating income[1]	**21,686**	38,742	(17,056)	**108,529**	132,970	(24,441)
Administrative costs	**12,526**	14,236	(1,710)	**51,075**	52,431	(1,356)
Adjusted EBITDA[1]	**9,160**	24,506	(15,346)	**57,454**	80,539	(23,085)
Depreciation and amortization	**7,692**	7,845	(153)	**31,559**	30,831	728
Other expense	**8,751**	14,969	(6,218)	**13,953**	14,969	(1,016)
(Loss) earnings before net finance costs and income taxes	**(7,283)**	1,692	(8,975)	**11,942**	34,739	(22,797)
Interest expense (net of capitalized interest)	**5,215**	5,448	(233)	**20,612**	21,429	(817)
Interest revenue	**(2,341)**	(477)	(1,864)	**(5,018)**	(1,867)	(3,151)
Accretion	**310**	308	2	**1,227**	1,212	15
Foreign exchange and fair value adjustments	**(103)**	(31)	(72)	**(383)**	(20)	(363)
Net finance costs	**3,081**	5,248	(2,167)	**16,438**	20,754	(4,316)
(Loss) earnings from continuing operations before income taxes	**(10,364)**	(3,556)	(6,808)	**(4,496)**	13,985	(18,481)
Income Tax (Recovery) Expense						
Current	**(1,885)**	1,895	(3,780)	**3,150**	8,369	(5,219)
Deferred	**(775)**	(968)	193	**(3,135)**	(1,888)	(1,247)
Total income tax (recovery) expense	**(2,660)**	927	(3,587)	**15**	6,481	(6,466)
(Loss) earnings from continuing operations	**(7,704)**	(4,483)	(3,221)	**(4,511)**	7,504	(12,015)
(Loss) earnings from operating activities of discontinued operations	**(306)**	661	(967)	**(172)**	4,000	(4,172)
Gain on sale of discontinued operations, net of income taxes	**6,317**	—	6,317	**74,237**	—	74,237
Net (loss) earnings	**(1,693)**	(3,822)	2,129	**69,554**	11,504	58,050
(Loss) earnings from continuing operations	**(7,704)**	(4,483)	(3,221)	**(4,511)**	7,504	(12,015)
Add (Deduct)[i]**:**						
Foreign exchange and fair value adjustments	**(75)**	(31)	(44)	**(291)**	(20)	(271)
Other expense	**6,417**	12,520	(6,103)	**10,248**	12,520	(2,272)
(Loss) earnings from continuing operations before separately reported items, net of taxes[1]	**(1,362)**	8,006	(9,368)	**5,446**	20,004	(14,558)

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

2022 FOURTH QUARTER FINANCIAL REVIEW

The following is an analysis of the consolidated results from operations for Q4 2022, as compared to Q4 2021. Refer to the discussion that follows under "Summary of Results of Operations by Segment" for an analysis of the revenue and net operating income by operating segment.

Revenue

Revenue of $310.4 million for Q4 2022 increased by $4.2 million or 1.4% from $306.2 million in Q4 2021. Improvements in revenue were driven primarily by LTC flow-through funding enhancements, timing of spend under the flow-through care envelopes, prior period LTC funding adjustments of $2.2 million, home health care billing rate increases and growth from managed services, partially offset by lower COVID-19 funding of $20.8 million, the impact of home health care retroactive billing rate increases of $3.5 million received in Q4 2021 and a decline in home health care ADV of 1.0%.

Operating Expenses

Operating expenses of $288.7 million for Q4 2022 increased by $21.3 million or 8.0% from Q4 2021. The increase in operating expenses was driven by increased costs related to labour (including increased hours of care supported by increased flow-through funding, labour rate increases and agency costs), utilities, technology, supplies and insurance across the business segments, partially offset by lower estimated costs related to COVID-19 and funded pandemic pay programs of $7.3 million.

Net Operating Income

Net operating income of $21.7 million for Q4 2022 declined by $17.1 million or 44.0% from $38.7 million for Q4 2021 and represented 7.0% of revenue as compared to 12.7% for Q4 2021. The decrease in NOI was impacted by the net increase in estimated unfunded COVID-19 costs of $13.5 million, higher operating costs across all segments, the home health care retroactive billing rate increase of $3.5 million received in Q4 2021 and lower home health care ADV, partially offset by the benefit in the LTC operations of prior period funding adjustments of $2.2 million and workers compensation rebates of $0.3 million.

Administrative Costs

Administrative costs declined by $1.7 million to $12.5 million for Q4 2022, primarily due to lower transaction related professional fees, partially offset by higher technology costs.

Adjusted EBITDA

Adjusted EBITDA declined by $15.3 million to $9.2 million for Q4 2022 from $24.5 million for Q4 2021 and represented 3.0% of revenue as compared to 8.0%, respectively, reflecting the decline in NOI, partially offset by lower administrative costs.

Depreciation and Amortization

Depreciation and amortization costs declined by $0.2 million to $7.7 million for Q4 2022.

Other Expense

Other expense of $8.8 million recorded in Q4 2022 reflects an impairment charge of $4.9 million in respect of certain LTC homes in Manitoba and Alberta, and costs incurred of $3.9 million related to the strategic transformation of the Company in connection with the Revera and Axium Transactions. The strategic transformation costs include transaction, legal, regulatory, IT integration and management transition costs. Refer to the discussion under “Significant Developments – Advancing Regulatory Approvals and Integration Planning for Strategic Transactions With Revera and Axium to Expand Long-term Care”. Other expense of $15.0 million recorded in Q4 2021 relates to an impairment charge in respect of certain LTC homes in Manitoba and Alberta.

Net Finance Costs

Net finance costs declined by $2.2 million for Q4 2022, primarily due to increased interest revenue from cash on hand and lower interest expense.

Income Taxes

The income tax recovery of $2.7 million for Q4 2022, represented an effective tax rate of 25.7%, as compared to a tax provision of $0.9 million and an effective tax rate of (26.1)% for Q4 2021, largely due to a change in taxable income of certain of the legal entities and the impact of the non-deductible portion ($5.8 million) of the impairment charge incurred in 2021.

(Loss) Earnings From Continuing Operations

The Company reported a loss from continuing operations of $7.7 million ($0.09 loss per basic share) for Q4 2022 as compared to a loss of $4.5 million ($0.05 loss per basic share) for Q4 2021. The increase in loss of $3.2 million resulted from the decline in Adjusted EBITDA of $15.3 million, partially offset by a decrease in other expense by $6.2 million ($6.1 million net of tax), and lower net finance costs and depreciation and amortization. The year-over-year decline in earnings includes the net increase in estimated unfunded COVID-19 costs of $13.4 million ($9.8 million net of tax, or $0.11 loss per basic share).

Summary of Results of Operations by Segment

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

Three months ended December 31 *(thousands of dollars unless otherwise noted)*	**Long-term Care**	**Home Health Care**	**Managed Services**	**Total**
2022				
Revenue	**193,353**	**108,444**	**8,596**	**310,393**
Operating expenses	**182,870**	**102,056**	**3,781**	**288,707**
Net operating income(1)	**10,483**	**6,388**	**4,815**	**21,686**
NOI margin(1)	***5.4%***	***5.9%***	***56.0%***	***7.0%***
2021(3)				
Revenue	189,477	109,753	6,932	306,162
Operating expenses	165,955	98,863	2,602	267,420
Net operating income(1)	23,522	10,890	4,330	38,742
NOI margin(1)	*12.4%*	*9.9%*	*62.5%*	*12.7%*
Change				
Revenue	3,876	(1,309)	1,664	4,231
Operating expenses	16,915	3,193	1,179	21,287
Net operating income(1)	(13,039)	(4,502)	485	(17,056)

LONG-TERM CARE OPERATIONS

Revenue from LTC operations grew by $3.9 million or 2.0% to $193.4 million for Q4 2022, largely driven by funding enhancements and timing of spend, including $13.3 million in Ontario flow-through funding and $2.2 million of prior period funding adjustments, partially offset by reduced funding of $13.0 million to support the costs associated with COVID-19 and pandemic pay programs. Prior period funding adjustments include the release of prior year clawback provisions of $1.8 million and $0.4 million in Manitoba funding increases retroactive to April 1, 2022.

Net operating income from LTC operations declined by $13.0 million or 55.4% to $10.5 million for Q4 2022 as compared to $23.5 million for Q4 2021, with NOI margins of 5.4% and 12.4%, respectively. The decline was driven by an increase in estimated unfunded COVID-19 costs of $13.8 million (refer to "Significant Developments – COVID-19 Related Expenses and Funding"). Excluding the net impact of unfunded COVID-19 costs, NOI increased by $0.8 million, which included the benefit of prior period funding adjustments of $2.2 million and workers compensation rebates of $0.3 million, partially offset by increased operating costs.

HOME HEALTH CARE OPERATIONS

Revenue from home health care operations declined by $1.3 million or 1.2% to $108.4 million for Q4 2022 from $109.8 million for Q4 2021 due to reduced funding of $7.8 million to support the costs associated with COVID-19 and pandemic pay programs. Revenue otherwise improved by $6.5 million, reflecting billing rate increases and $6.8 million in additional funding to support government wage enhancements, partially offset by a $3.5 million retroactive billing rate increase received in Q4 2021 and 1.0% lower ADV.

Net operating income from home health care operations declined by $4.5 million or 41.3% to $6.4 million for Q4 2022 from $10.9 million for Q4 2021, with NOI margins of 5.9% and 9.9%, respectively. The decline in NOI reflected higher wages and benefits, travel and technology costs, including increased costs associated with recruitment, retention and training to address staffing capacity challenges.

MANAGED SERVICES

Revenue from managed services increased by $1.7 million or 24.0% to $8.6 million in Q4 2022 compared to Q4 2021, largely due to timing and mix of Assist services and growth in SGP clients.

Net operating income from managed services increased by $0.5 million or 11.2% to $4.8 million for Q4 2022 compared to Q4 2021, reflecting revenue growth, partially offset by increased staff and technology costs in support of growth initiatives.

2022 FINANCIAL REVIEW

The following is an analysis of the consolidated results from operations for the year ended December 31, 2022, as compared to the same period in 2021. Refer to the discussion that follows under "Summary of Results of Operations by Segment" for an analysis of the revenue and net operating income by operating segment.

Revenue

Revenue of $1,221.6 million for the year ended December 31, 2022, increased by $54.6 million or 4.7% from the twelve months ended December 31, 2021. Improvements in revenue were driven primarily by LTC flow-through funding enhancements, prior period funding adjustments of $4.7 million, home health care billing rate increases and growth from managed services, partially offset by lower COVID-19 funding of $44.7 million and the impact of timing of spend under the flow-through care envelopes.

Operating Expenses

Operating expenses of $1,113.0 million for the year ended December 31, 2022, increased by $79.0 million or 7.6% from the year ended December 31, 2021. Excluding the year-over-year impact on operating expenses from CEWS ($17.4 million) received by the home health care segment in 2021, operating expenses increased by $61.6 million or 5.9% to $1,113.0 million for the year ended December 31, 2022, from $1,051.4 million in the prior year. The increase in operating expenses was driven by increased costs related to labour (including increased hours of care supported by increased flow-through funding, labour rate increases and agency costs), utilities, technology, supplies, and insurance across the business segments, partially offset by workers compensation rebates of $4.2 million received in 2022, and lower estimated costs related to COVID-19 and funded pandemic pay programs of $43.7 million.

Net Operating Income

Net operating income declined by $24.4 million to $108.5 million for the year ended December 31, 2022, and represented 8.9% of revenue as compared to 11.4% for the year ended December 31, 2021. Excluding the impact of CEWS ($17.4 million) received by the home health care segment in 2021, NOI decreased by $7.0 million to $108.5 million for the year ended December 31, 2022, from $115.6 million in the prior year, representing 8.9% and 9.9% of revenue, respectively. The decrease in NOI was driven by higher operating costs across all segments, the impact of the loss of occupancy protection for Ontario LTC homes, and the net increase in estimated unfunded COVID-19 costs of $1.0 million, partially offset by rate increases, prior period LTC funding adjustments of $4.7 million and workers compensation rebates of $4.2 million.

Administrative Costs

Administrative costs declined by $1.4 million or 2.6% to $51.1 million for the year ended December 31, 2022, primarily due to lower costs related to COVID-19 of $2.6 million and transaction related professional fees, partially offset by higher technology costs.

Adjusted EBITDA

Adjusted EBITDA declined by $23.1 million to $57.5 million for the year ended December 31, 2022, from $80.5 million for the year ended December 31, 2021, and represented 4.7% of revenue as compared to 6.9% in the prior year. Excluding the impact of CEWS ($17.4 million) received by the home health care segment in 2021, Adjusted EBITDA declined by $5.6 million to $57.5 million for the year ended December 31, 2022 from $63.1 million in the prior year, representing 4.7% and 5.4% of revenue, respectively, reflecting the decline in NOI, partially offset by lower administrative costs.

Depreciation and Amortization

Depreciation and amortization costs increased by $0.7 million to $31.6 million for year ended December 31, 2022, due to higher capital expenditures.

Other Expense

Other expense of $14.0 million recorded for the year ended December 31, 2022, reflects an impairment charge of $4.9 million in respect of certain LTC homes in Manitoba and Alberta, and costs incurred of $9.0 million related to the strategic transformation of the Company in connection with the Revera and Axium Transactions. The strategic transformation costs include transaction, legal, regulatory, IT integration and management transition costs. Refer to the discussion under “Significant Developments – Advancing Regulatory Approvals and Integration Planning for Strategic Transactions With Revera and Axium to Expand Long-term Care”. Other expense of $15.0 million recorded for the year ended December 31, 2021, relates to an impairment charge in respect of certain LTC homes in Manitoba and Alberta.

Net Finance Costs

Net finance costs decreased by $4.3 million for the year ended December 31, 2022, reflecting increased interest revenue from cash on hand, lower interest expense and a net favourable change of $0.4 million in foreign exchange and fair value adjustments related to interest rate swaps. Interest expense of $20.6 million declined by $0.8 million, reflecting lower debt levels.

Income Taxes

The income tax provision was nil on a loss of $4.5 million for the year ended December 31, 2022, as compared to $6.5 million and an effective tax rate of 46.3% for the year ended December 31, 2021. Both periods were impacted by changes in taxable income of certain of the legal entities and the non-deductible portion ($5.8 million) of the impairment charge incurred in 2021. The income tax provision for 2021 included $4.6 million of current income taxes payable on CEWS ($17.4 million) received by the home health care segment.

(Loss) Earnings From Continuing Operations

The Company reported a loss from continuing operations of $4.5 million ($0.05 loss per basic share) for the year ended December 31, 2022, as compared to earnings of $7.5 million ($0.08 per basic share) for the year ended December 31, 2021. The decrease in earnings of $12.0 million resulted from the decline in Adjusted EBITDA of $23.1 million and higher depreciation and amortization, partially offset by a decrease in other expense by $14.0 million ($10.2 million net of tax), and lower net finance costs. The year-over-year decline in earnings included the impact of CEWS ($17.4 million) received by the home health care segment in 2021 ($12.8 million net of tax, or $0.14 per basic share), partially offset by the decline in estimated unfunded COVID-19 costs ($1.2 million net of tax, or $0.01 per basic share).

Summary of Results of Operations by Segment

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

Year ended December 31, 2022 *(thousands of dollars unless otherwise noted)*	**Long-term Care**	**Home Health Care**	**Managed Services**	**Total**
2022				
Revenue	**767,095**	**421,647**	**32,835**	**1,221,577**
Operating expenses	**698,548**	**399,152**	**15,348**	**1,113,048**
Net operating income(1)	**68,547**	**22,495**	**17,487**	**108,529**
NOI margin(1)	***8.9%***	***5.3%***	***53.3%***	***8.9%***
2021(3)				
Revenue	728,655	410,559	27,773	1,166,987
Operating expenses	661,368	361,002	11,647	1,034,017
Net operating income(1)	67,287	49,557	16,126	132,970
NOI margin(1)	*9.2%*	*12.1%*	*58.1%*	*11.4%*
Change				
Revenue	38,440	11,088	5,062	54,590
Operating expenses	37,180	38,150	3,701	79,031
Net operating income(1)	1,260	(27,062)	1,361	(24,441)

LONG-TERM CARE OPERATIONS

Revenue from LTC operations grew by $38.4 million or 5.3% to $767.1 million for the year ended December 31, 2022, largely driven by funding enhancements, including $56.6 million in Ontario flow-through funding and timing of spend under the care envelopes, partially offset by reduced funding of $28.0 million to support the costs associated with COVID-19 and pandemic pay programs. Revenue for 2022 also benefited from the release of prior year clawback provisions of $1.8 million and $2.9 million in Manitoba retroactive funding increases.

Net operating income from LTC operations increased by $1.3 million to $68.5 million for the year ended December 31, 2022, from $67.3 million for the year ended December 31, 2021, with NOI margins of 8.9% and 9.2%, respectively, due largely to higher estimated net COVID-19 recoveries of $1.3 million (refer to "Significant Developments – COVID-19 Related Expenses and Funding"). Excluding the net change in COVID-19 recoveries, NOI was unchanged, reflecting the loss of occupancy protection funding for Ontario LTC homes and funding increases from the various provincial governments that were insufficient to address rising operating costs, including in respect of labour, utilities, technology, supplies, insurance and repairs and maintenance, partially offset by the benefit of prior year funding adjustments of $4.7 million and workers compensation rebates of $2.1 million received in 2022.

HOME HEALTH CARE OPERATIONS

The following discussion of the home health care operations excludes CEWS of $17.4 million received for the year ended December 31, 2021 (refer to the discussion under "Select Quarterly Financial Information").

Revenue from home health care operations increased by $11.1 million or 2.7% to $421.6 million for the year ended December 31, 2022, from $410.6 million in the prior year, reflecting billing rate increases and approximately $17.8 million to support government funded wage enhancements, partially offset by reduced funding of $16.7 million to support the costs associated with COVID-19 and pandemic pay programs and a decline in ADV of 0.4%.

Net operating income from home health care operations decreased by $9.7 million to $22.5 million for the year ended December 31, 2022, from $32.2 million for the year ended December 31, 2021, with NOI margins of 5.3% and 7.8%, respectively. The decline in NOI reflected billing rate increases and a workers compensation rebate of $2.1 million received in 2022, offset by higher wages and benefits, travel and technology costs, including increased costs associated with recruitment, retention and training to address staffing capacity challenges, and an increase in unfunded COVID-19 costs of $2.3 million (refer to the discussion under "Significant Developments – COVID-19 Related Expenses and Funding").

MANAGED SERVICES

Revenue from managed services increased by $5.1 million or 18.2% to $32.8 million for the year ended December 31, 2022, largely due to timing and mix of Assist services and growth in SGP clients.

Net operating income from managed services increased by $1.4 million or 8.4% to $17.5 million for the year ended December 31, 2022, with revenue growth offset by increased staff and technology costs in support of growth initiatives.

FUNDS FROM OPERATIONS AND ADJUSTED FUNDS FROM OPERATIONS

Reconciliations of FFO to Net Earnings

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

	Three months ended December 31,			Year ended December 31,		
(thousands of dollars unless otherwise noted)	**2022**	**2021**(3)	**Change**	**2022**(2)	**2021**(3)	**Change**
(Loss) earnings from continuing operations	**(7,704)**	(4,483)	(3,221)	**(4,511)**	7,504	(12,015)
Add (Deduct):						
Depreciation and amortization	**7,692**	7,845	(153)	**31,559**	30,831	728
Depreciation for FFEC (maintenance capex)	**(2,137)**	(1,756)	(381)	**(8,900)**	(7,044)	(1,856)
Depreciation for office leases	**(778)**	(668)	(110)	**(2,959)**	(2,741)	(218)
Other expense	**8,751**	14,969	(6,218)	**13,953**	14,969	(1,016)
Foreign exchange and fair value adjustments	**(103)**	(31)	(72)	**(383)**	(20)	(363)
Current income tax expense (recovery) on other expense, foreign exchange and fair value adjustments	**(1,020)**	—	(1,020)	**(2,391)**	—	(2,391)
Deferred income tax expense (recovery)	**(775)**	(968)	193	**(3,135)**	(1,888)	(1,247)
FFO from discontinued operations	**(306)**	1,971	(2,277)	**(840)**	5,301	(6,141)
FFO	**3,620**	16,879	(13,259)	**22,393**	46,912	(24,519)
Amortization of deferred financing costs	**549**	501	48	**1,836**	2,023	(187)
Accretion costs	**310**	327	(17)	**1,153**	1,288	(135)
Non-cash share-based compensation	**908**	1,028	(120)	**2,640**	3,566	(926)
Principal portion of government capital funding	**995**	1,222	(227)	**4,129**	5,791	(1,662)
Additional maintenance capex	**(4,493)**	(3,427)	(1,066)	**(6,008)**	(5,859)	(149)
AFFO	**1,889**	16,530	(14,641)	**26,143**	53,721	(27,578)
Per Basic Share *($)*						
FFO	**0.04**	0.19	(0.15)	**0.25**	0.52	(0.27)
AFFO	**0.02**	0.18	(0.16)	**0.29**	0.60	(0.31)
Per Diluted Share *($)*						
FFO	**0.04**	0.18	(0.14)	**0.25**	0.52	(0.27)
AFFO	**0.02**	0.17	(0.15)	**0.29**	0.58	(0.29)
Dividends						
Declared	**10,275**	10,746	(471)	**42,363**	42,994	(631)
Declared per share *($)*	**0.12**	0.12	—	**0.48**	0.48	—
Weighted Average Number of Shares						
Basic *(thousands)*	**86,678**	90,040		**89,009**	89,990	
Diluted *(thousands)*	**97,604**	100,953		**100,015**	100,903	
Current income tax expense included in FFO	**(975)**	1,930	(2,905)	**5,012**	8,544	(3,532)
FFO effective tax rate	***(36.9)%***	*10.3 %*		***18.3 %***	*15.4 %*	

Reconciliations of AFFO to Net Cash From Operating Activities

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

	Three months ended December 31,			Year ended December 31,		
(thousands of dollars)	**2022**	**2021**	**Change**	**2022**(2)	**2021**	**Change**
Net cash from operating activities	**30,203**	14,147	16,056	**98,714**	59,077	39,637
Add (Deduct):						
Net change in operating assets and liabilities, including interest, and taxes	**(24,690)**	7,301	(31,991)	**(65,379)**	5,632	(71,011)
Other expense	**3,809**	—	3,809	**9,011**	—	9,011
Current income tax on items excluded from AFFO	**(1,020)**	—	(1,020)	**(2,391)**	46	(2,437)
Depreciation for office leases	**(778)**	(668)	(110)	**(2,959)**	(2,741)	(218)
Depreciation for FFEC (maintenance capex)(i)	**(2,137)**	(2,045)	(92)	**(8,974)**	(8,225)	(749)
Additional maintenance capex(i)	**(4,493)**	(3,427)	(1,066)	**(6,008)**	(5,859)	(149)
Principal portion of government capital funding	**995**	1,222	(227)	**4,129**	5,791	(1,662)
AFFO	**1,889**	16,530	(14,641)	**26,143**	53,721	(27,578)
Total maintenance capex(i)	**6,630**	5,472	1,158	**14,982**	14,084	898

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

AFFO 2022 Financial Review

For Q4 2022, AFFO decreased by $14.6 million to $1.9 million ($0.02 per basic share) from $16.5 million ($0.18 per basic share) for Q4 2021, reflecting the decline in Adjusted EBITDA, loss of AFFO from the disposed retirement living segment (down $1.6 million or $0.02 per basic share), higher maintenance capex and decline in the principal portion of government capital funding, partially offset by higher interest income and lower current income taxes. The year-over-year decline in AFFO included the increase in estimated unfunded COVID-19 costs from continuing operations of $13.4 million ($9.8 million net of tax, or $0.11 loss per basic share).

For the year ended December 31, 2022, AFFO declined by $27.6 million to $26.1 million ($0.29 per basic share) from $53.7 million ($0.60 per basic share) for the year ended December 31, 2021, reflecting the decrease in Adjusted EBITDA, loss of AFFO from the disposed retirement living segment (down $6.2 million or $0.07 per basic share), decline in the principal portion of government capital funding, and higher maintenance capex, partially offset by lower net finance costs and current income taxes. The year-over-year decline in AFFO included the impact of CEWS received by the home health care segment in 2021 of $12.8 million net of tax, or $0.14 per basic share, partially offset by a reduction in estimated unfunded COVID-19 costs from continuing operations of $1.6 million ($1.2 million net of tax, or $0.01 per basic share).

Dividends declared as a percentage of AFFO for the year ended December 31, 2022, represented a payout ratio of 162%. In addition to cash on hand of $167.3 million at December 31, 2022, and ongoing cash generated from operations, the Company has available undrawn credit facilities totalling $77.0 million (refer to the discussion under "Liquidity and Capital Resources").

A discussion of the factors impacting net earnings and Adjusted EBITDA can be found under "2022 Fourth Quarter Financial Review", "2022 Financial Review" and "Discontinued Operations".

The current income tax expense included in arriving at AFFO was $5.0 million for the year ended December 31, 2022, and $8.5 million in the prior year, representing an effective tax rate on FFO of 18.3% and 15.4%, respectively. The Company's current income taxes for both periods have been impacted by the effects of COVID-19 and the impact of CEWS received by the home health care segment in 2021. In particular, increased costs as a result of COVID-19 and CEWS received by ParaMed have had an impact on the level of taxable income in our various legal entities and the resulting effective tax rate on the Company's FFO. The determination of FFO includes a deduction for current income tax expense and does not include deferred income tax expense. As a result, the effective tax rates on FFO can be impacted by: adjustments to estimates of annual deferred timing differences, particularly when dealing with cash-based tax items versus accounting accruals; changes in the proportion of earnings between taxable and non-taxable entities; book-to-file adjustments for prior year filings; and the ability to utilize loss carryforwards. For 2023, the Company expects the effective tax rate on FFO will be in the range of 12% to 15%. However, the continuing impact of the COVID-19 pandemic on the Company's operations and financial results may impact the effective tax rate on FFO.

Including the activity of discontinued operations, maintenance capex was $6.6 million for Q4 2022 as compared to $5.5 million for Q4 2021 and to $2.7 million for Q3 2022, representing 2.1%, 1.6% and 1.3% of revenue, respectively. For the year ended December 31, 2022, maintenance capex was $15.0 million as compared to $14.1 million in the prior year, representing 1.2% and 1.1% of revenue, respectively. These costs fluctuate on a quarterly and annual basis with the timing of projects and seasonality. In 2023, the Company expects to spend in the range of $15.0 million to $17.0 million in maintenance capex.

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

	Three months ended December 31,			Year ended December 31,		
(thousands of dollars)	**2022**	**2021**	**Change**	**2022**(2)	**2021**	**Change**
Adjusted EBITDA	**9,160**	24,506	(15,346)	**57,454**	80,539	(23,085)
Add (Deduct):						
Depreciation for FFEC (maintenance capex)	**(2,137)**	(1,756)	(381)	**(8,900)**	(7,044)	(1,856)
Depreciation for office leases	**(778)**	(668)	(110)	**(2,959)**	(2,741)	(218)
Accretion costs	**(310)**	(308)	(2)	**(1,227)**	(1,212)	(15)
Interest expense	**(5,215)**	(5,448)	233	**(20,612)**	(21,429)	817
Interest revenue	**2,341**	477	1,864	**5,018**	1,867	3,151
Discontinued operations, pre-tax	**(416)**	2,006	(2,422)	**(1,369)**	5,476	(6,845)
	2,645	18,809	(16,164)	**27,405**	55,456	(28,051)
Current income tax expense (recovery)	**(975)**	1,930	(2,905)	**5,012**	8,544	(3,532)
FFO	**3,620**	16,879	(13,259)	**22,393**	46,912	(24,519)
Amortization of deferred financing costs	**549**	501	48	**1,836**	2,023	(187)
Accretion costs	**310**	327	(17)	**1,153**	1,288	(135)
Non-cash share-based compensation	**908**	1,028	(120)	**2,640**	3,566	(926)
Principal portion of government capital funding	**995**	1,222	(227)	**4,129**	5,791	(1,662)
Additional maintenance capex	**(4,493)**	(3,427)	(1,066)	**(6,008)**	(5,859)	(149)
AFFO	**1,889**	16,530	(14,641)	**26,143**	53,721	(27,578)

LIQUIDITY AND CAPITAL RESOURCES

Sources and Uses of Cash

The following summarizes the sources and uses of cash between continuing and discontinued operations for three months ended December 31, 2022 and 2021.

	Year ended December 31, 2022			Year ended December 31, 2021		
(thousands of dollars)	**Continuing**	**Discontinued**	**Total**	**Continuing**	**Discontinued**	**Total**
Net cash from (used in) operating activities	**104,079**	**(5,365)**	**98,714**	52,003	7,074	59,077
Net cash (used in) from investing activities	**(96,651)**	**252,295**	**155,644**	(57,616)	(1,770)	(59,386)
Net cash used in financing activities	**(70,063)**	**(121,796)**	**(191,859)**	(65,600)	(9,236)	(74,836)
Foreign exchange gain (loss) on U.S. cash held	**155**	**—**	**155**	(184)	—	(184)
(Decrease) increase in cash and cash equivalents	**(62,480)**	**125,134**	**62,654**	(71,397)	(3,932)	(75,329)

As at December 31, 2022, the Company had cash and cash equivalents on hand of $167.3 million, reflecting an increase in cash of $62.7 million from the beginning of the year. Cash flow from operating activities of the continuing operations was $104.1 million for the year ended December 31, 2022, and was in excess of dividends paid of $42.6 million for the same period.

Net cash from operating activities was a source of cash of $98.7 million for the year ended December 31, 2022, up $39.6 million from $59.1 million in the prior year, reflecting favourable changes in operating assets and liabilities and cash income taxes between periods. Net income taxes received of $10.0 million in 2022 included receipt of a prior year tax recoverable related to the former U.S. operations, compared to taxes paid of $22.8 million in 2021 resulting from CEWS recognized in 2020 and timing of related payments. Fluctuations in operating assets and liabilities between periods are primarily attributable to the volatility and timing of cash receipts related to flow-through funding and COVID-19, and the timing of payroll cycles.

Net cash from investing activities was a source of cash of $155.6 million for the year ended December 31, 2022 as compared to a use of cash of $59.4 million in the prior year. The 2022 activity included proceeds from the sale of the retirement living segment, including assumed debt, net of taxes paid, of $245.6 million, net proceeds from the sale of the Saskatchewan LTC Homes of $7.5 million, and the collection of other assets of $4.1 million, partially offset by purchases of property, equipment and other intangible assets of $101.6 million. The 2021 activity included purchases of property, equipment and other intangible assets of $65.2 million, partially offset by the collection of other assets of $5.8 million.

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

	Year ended December 31, 2022			Year ended December 31, 2021		
(thousands of dollars)	**Continuing**	**Discontinued**	**Total**	**Continuing**	**Discontinued**	**Total**
Growth capex	**95,566**	**—**	**95,566**	55,153	286	55,439
Maintenance capex	**14,164**	**818**	**14,982**	12,567	1,517	14,084
	109,730	**818**	**110,548**	67,720	1,803	69,523

Management monitors and prioritizes the capital expenditure requirements of its properties throughout the year, taking into account the urgency and necessity of the expenditure. Growth capex in 2023 will be focused primarily on the LTC projects under construction, redevelopment activities and investments in technology as part of our ongoing strategy of transitioning our key IT platforms to the cloud to support our growth initiatives (refer to "Other Contractual Obligations and Contingencies – Commitments"). The level of our growth capex would be impacted by the timing of regulatory approvals and further announcements in respect of our LTC redevelopment projects and the closing of the Axium Transaction (refer to "Enhancements to the Government of Ontario Capital Funding Program Announced in Q4 2022; Focused on Advancing New Projects to Commence Construction in 2023" and "Advancing Regulatory Approvals and Integration Planning for Strategic Transactions With Revera and Axium to Expand Long-term Care" under the heading "Significant Developments").

Net cash used in financing activities was a use of cash of $191.9 million for the year ended December 31, 2022, an increase of $117.0 million from $74.8 million in the prior year. The 2022 activity included debt repayments of $150.6 million, including $2.6 million related to the Saskatchewan LTC Homes and $119.0 million related to the retirement communities, cash dividends paid of $42.6 million and financing costs, partially offset by $36.4 million in draws on LTC construction financings ($31.0 million) and term loans ($5.4 million). The 2021 activity included debt repayments of $32.3 million, cash dividends paid of $43.0 million and financing costs, partially offset by draws on LTC construction financings of $2.3 million.

Discontinued operations reflect the operations of the retirement living segment and the Saskatchewan LTC Homes. Further details are provided under "Discontinued Operations" and in *Note 18* of the audited consolidated financial statements.

Capital Structure

SHAREHOLDERS' EQUITY

Total shareholders' equity as at December 31, 2022, was $100.7 million as compared to $101.9 million at December 31, 2021, reflecting the contributions from net earnings and comprehensive income, offset by dividends declared of $42.4 million and the purchase of Common Shares through the NCIB at a cost of $35.0 million.

As at December 31, 2022, the Company had 84,728,744 Common Shares issued and outstanding (carrying value – $475.4 million), as compared to 89,562,499 Common Shares (carrying value – $500.9 million) as at December 31, 2021, reflecting 5,011,180 Common Shares purchased and cancelled through the NCIB, partially offset by 177,425 Common Shares issued under the Company's equity-based compensation plan.

Share Information *(thousands)*	**March 1, 2023**	**December 31, 2022**	**December 31, 2021**
Common Shares (TSX symbol: EXE)(i)	**84,728.7**	**84,728.7**	89,562.5

(i) Closing market value per TSX on March 1, 2023, was $6.46.

As at March 2, 2023, the Company had an aggregate of 4,063,313 Common Shares reserved and available for issuance pursuant to the Company's long-term incentive plan, of which there were in aggregate 1,973,257 performance share units and deferred share units outstanding as at December 31, 2022 (refer to *Note 11* of the audited consolidated financial statements).

As at March 2, 2023, the Company had $126.5 million in aggregate principal amount of convertible subordinate debentures outstanding that mature in April 2025 (the "2025 Debentures"), which in the aggregate are convertible into 10,326,531 Common Shares.

Dividends

The Company declared cash dividends of $0.48 per share in the year ended December 31, 2022, consistent with that declared in 2021, representing $42.4 million and $43.0 million in each period, respectively.

Normal Course Issuer Bid

In June 2022, the Company received approval from the TSX to make a NCIB to purchase for cancellation up to 7,829,630 Common Shares, representing 10% of its public float, through the facilities of the TSX and/or through alternative Canadian trading systems, in accordance with TSX rules. The NCIB commenced on June 30, 2022, and provides the Company with flexibility to purchase Common Shares for cancellation until June 29, 2023, or on such earlier date as the NCIB is complete. The actual number of Common Shares purchased under the NCIB and the timing of any such purchases will be at the

Company's discretion. Subject to the TSX's block purchase exception, daily purchases will be limited to 53,068 Common Shares. The Company has entered into an automatic purchase plan with its designated broker in connection with its NCIB to facilitate the purchase of Common Shares during times when the Company would ordinarily not be active in the market. As at March 2, 2023, the Company had purchased for cancellation 5,011,180 Common Shares at a cost of $35.0 million, representing a weighted average price per share of $6.99, all of which had been acquired as at December 31, 2022 (refer to "Significant Developments – Normal Course Issuer Bid".

Long-term Debt

Long-term debt totalled $384.0 million as at December 31, 2022, as compared to $536.9 million as at December 31, 2021, representing a decrease of $152.9 million, reflecting the repayment and transfer of debt of $117.6 million and $53.5 million, respectively, in connection with the Retirement Living Sale, and regular debt repayments of $30.4 million, partially offset by $36.4 million in draws on construction loans ($31.0 million) and term loans ($5.4 million), new lease liabilities and changes in accretion and deferred financing costs. The current portion of long-term debt as at December 31, 2022, was $19.2 million. The Company is subject to debt service coverage covenants on certain of its loans and was in compliance with all of these covenants as at December 31, 2022. Details of the components, maturities dates, terms and conditions of long-term debt are provided in *Note 9* of the audited consolidated financial statements.

LTC CONSTRUCTION FINANCING

As at December 31, 2022, $33.3 million was drawn on the Company's LTC redevelopment construction facilities, aggregating $156.6 million in connection with the Sudbury, Kingston and Stittsville LTC projects. Secured in 2021, these financings include $54.7 million for Sudbury, $41.1 million for Kingston and $60.7 million for Stittsville, and mature on the earlier of 42 months from closing or the date of refinancing following completion of construction or lease up of the applicable project. Interest rates are prime plus 1.25% or CDOR plus 2.75% with standby fees of 0.55%. The facilities also provide for an aggregate $6.0 million in letter of credit facilities. Interest is capitalized during construction and is payable following completion of construction until maturity.

NON-CMHC MORTGAGES AND LOANS

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

CREDIT FACILITIES

The Company has two demand credit facilities totalling $112.3 million, one of which is secured by 13 Class C LTC homes in Ontario and the other is secured by the assets of the home health care business. Neither of these facilities has financial covenants but do contain normal and customary terms. As at December 31, 2022, $30.5 million of the facilities secure the Company's defined benefit pension plan obligations and $4.8 million was used in connection with obligations relating to LTC homes, leaving $77.0 million available.

LONG-TERM DEBT KEY METRICS

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, 2022.

(millions of dollars unless otherwise noted)	**2023**	**2024**	**2025**	**2026**	**2027**	**After 2027**	**Total**	**Fair Value**
Convertible Debentures (at face value)								
Fixed rate	—	—	126.5	—	—	—	**126.5**	119.5
Average interest rate	— %	— %	5.00 %	— %	— %	— %	**5.00 %**	
Long-term Debt								
Fixed rate (including fixed through swap)	7.6	7.3	23.9	6.8	31.1	69.9	**146.7**	137.8
Average interest rate	4.29 %	4.35 %	4.63 %	4.81 %	4.71 %	5.21 %	**4.90 %**	
Variable rate	0.9	34.2	19.3	—	—	—	**54.4**	53.4
Average interest rate	7.28 %	7.28 %	6.31 %	— %	— %	— %	**6.93 %**	
Lease Liabilities								
Fixed rate	12.1	12.6	12.8	12.6	6.5	6.9	**63.5**	72.2
Average interest rate	6.79 %	6.79 %	6.79 %	6.70 %	5.75 %	5.07 %	**6.48 %**	

Management has limited the amount of debt that may be subject to changes in interest rates, with $21.1 million of mortgage debt and $33.3 million of construction loans in connection with the LTC projects at variable rates. The Company's term loan aggregating $29.5 million as at December 31, 2022, has effectively been converted to fixed-rate financings with interest rate swaps over the full term. As at December 31, 2022, the interest rate swaps were valued as an asset of $0.2 million.

The following summarizes key metrics of consolidated long-term debt as at December 31, 2022, and December 31, 2021.

(thousands of dollars unless otherwise noted)	**December 31, 2022**	December 31, 2021[3]
Weighted average interest rate of long-term debt outstanding	**5.5 %**	4.3 %
Weighted average term to maturity of long-term debt outstanding	**5.8 yrs**	5.9 yrs
Trailing twelve months consolidated interest coverage ratio[1]	**2.6 X**	3.5 X
Debt to Gross Book Value (GBV)		
Total assets (carrying value)	**781,579**	900,323
Accumulated depreciation on property and equipment	**287,890**	293,572
Accumulated amortization on other intangible assets	**41,053**	37,677
Deduct assets held for sale	**—**	(7,262)
GBV[i]	**1,110,522**	1,224,310
Debt[ii]	**391,157**	550,212
Debt to GBV[i]	**35.2 %**	44.9 %

(i) GBV excludes assets held for sale.

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

Future Liquidity and Capital Resources

The Company's consolidated cash and cash equivalents on hand was $167.3 million as at December 31, 2022, as compared with $104.6 million as at December 31, 2021, representing an increase of $62.7 million. In addition, the Company has access to a further $77.0 million in undrawn demand credit facilities. Cash and cash equivalents exclude restricted cash of $2.7 million.

The Company had a working capital deficiency (current liabilities less current assets) of $16.9 million as at December 31, 2022, including the current portion of long-term debt of $19.2 million.

The Company has construction facilities in connection with three LTC projects in the aggregate of $156.6 million, of which $33.3 million was drawn as at December 31, 2022. For more information refer to the discussion under "Liquidity and Capital Resources – Long-term Debt – LTC Construction Financing".

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

OTHER CONTRACTUAL OBLIGATIONS AND CONTINGENCIES

Commitments

As at December 31, 2022, the Company has outstanding commitments of $55.9 million in connection with construction contracts for three LTC redevelopment projects, of which $51.6 million is estimated to be payable in 2023 and the balance in 2024, based on the anticipated construction schedules. The Company also has outstanding commitments of $24.8 million in connection with various IT service and license agreements to support the transition of key IT platforms to cloud-based solutions in support of the Company's growth initiatives (refer to *Note 20* of the audited consolidated financial statements).

Revera and Axium Transactions

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

Defined Benefit Pension Plan Obligations

The Company has benefit arrangements for certain of its executives, which include a registered defined benefit pension plan, as well as supplementary plans that provide pension benefits in excess of statutory limits and post-retirement health and dental benefits. These plans have been closed to new entrants for several years. The accrued benefit liability on the statement of financial position as at December 31, 2022, was $26.1 million (2021 – $33.8 million). The registered defined benefit plan was in an actuarial deficit of $1.4 million, with plan assets of $4.2 million and accrued benefit obligations of $5.6 million as at December 31, 2022 (2021 – an actuarial deficit of $2.2 million with plan assets of $4.6 million and accrued benefit obligations of $6.8 million). The accrued benefit obligations of the supplementary plans were $26.7 million as at December 31, 2022 (2021 – $33.0 million). The benefit obligations under the supplementary plans are secured by a $30.5 million letter of credit as at December 31, 2022 (2021 – $33.7 million) and plan assets of $2.0 million (2021 – $1.4 million). The 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 are funded from cash from operations and are expected to be in the range of $1.9 million to $2.2 million over the next five years. 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. Further details are provided in *Note 21* of the audited consolidated financial statements.

Legal Proceedings and Regulatory Actions

In the ordinary course of business, the Company is involved in and potentially subject to legal proceedings brought against it from time to time in connection with its operations. The COVID-19 pandemic has increased the risk that litigation or other legal proceedings, regardless of merit, will be commenced against the Company.

In April 2021, the Company was served with a statement of claim filed in the Court of Queen's Bench for Saskatchewan alleging negligence, breach of fiduciary duty, breach of contract and breach of the required standard of care by the Company and certain unnamed defendants in respect of all residents of Company LTC homes and retirement communities located in Saskatchewan as well as their family members. The claim seeks an order certifying the action as a class action and unspecified damages.

In January 2022, the case management judge overseeing the Company's COVID-related class action granted a plaintiff's motion to, among other things, consolidate all four active class actions against the Company into one action pursuant to the *Class Proceedings Act* (Ontario). The consolidated claim is in respect of all Ontario LTC homes owned, operated, licensed and/or managed by the Company and its affiliates and names as defendants the Company, certain of its affiliates and the owners of any such managed LTC homes and alleges negligence, gross negligence, breach of fiduciary duty, breach of contract, unjust enrichment, wrongful death in respect of all persons who contracted COVID-19 at the residence or subsequently contracted COVID-19 from such persons and breach of section 7 of the *Canadian Charter of Rights and Freedoms*. The consolidated claim seeks damages in the aggregate of $110 million. The plaintiffs served the consolidated claim in June 2022 and the Company delivered its statement of defence in July 2022.

The Company intends to vigorously defend itself against these claims and these claims are subject to insurance coverage maintained by the Company. However, given the status of the proceedings, the Company is unable to assess their potential outcome and they could have a materially adverse impact on the Company's business, results of operations and financial condition (see "Risks and Uncertainties").

In December 2020, the Government of Ontario passed Bill 218, *Supporting Ontario's Recovery Act* (Ontario), which provides targeted liability protection against COVID-19 exposure-related claims against any individual, corporation, or other entity that made a "good faith" or "honest" effort to act in accordance with public health guidance and laws relating to COVID-19 and did not otherwise act with "gross negligence". The protection under Bill 218 is retroactive to March 17, 2020, when Ontario first implemented emergency measures as part of its response to the COVID-19 pandemic. Similar legislation has been passed in other provincial jurisdictions, including Saskatchewan.

In October 2021, the Supreme Court of Canada dismissed an application for leave to appeal by the Attorney General of Ontario which sought to challenge the decision issued by the previous presiding court that ruled in favour of certain unions in respect of a legal challenge to a 2016 Pay Equity Tribunal decision. The unions argued that new pay equity adjustments were required in order to maintain pay equity with municipal LTC homes where PSWs and other direct care workers in other industries are included in determining pay equity. The matter has now been referred back to the Pay Equity Tribunal to settle the matter between the participating LTC homes, unions and the Government and establish a framework for pay equity suitable for the sector. The Company, along with other participants in the long-term care sector, including the Government of Ontario, are working to resolve the matter. Given the uncertainty of the matter and the various stakeholders involved, and as a result the wide range of possible settlement outcomes and related funding changes the Company is unable to determine a reliable estimate of the potential outcome and it could have a materially adverse impact on the Company's business, results of operations and financial condition.

DISCONTINUED OPERATIONS

The following describes those operations affecting the results for discontinued operations for the periods ended December 31, 2022 and 2021. Further details are provided in *Note 18* of the audited consolidated financial statements.

Retirement Living Sale

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

On May 16, 2022, the Company completed the Retirement Living Sale for an aggregate purchase price of $307.5 million, and recorded a gain on sale of $67.9 million net of taxes, other adjustments and transaction costs, through discontinued operations (refer to "Significant Developments – Completed Sale of Retirement Living Portfolio").

Saskatchewan LTC Home Sale

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

On October 9, 2022, the SHA and the Company completed the transition of the operations and delivery of long-term care services to the SHA, including the sale of the property, plant and equipment, certain other assets and the assumption of certain liabilities by the SHA, for an aggregate purchase price of $13.1 million and recorded a gain on sale of $6.3 million net of taxes, other adjustments and transaction costs, through discontinued operations (refer to "Significant Developments – Completed Transition and Sale of Saskatchewan LTC Homes").

Former U.S. Segment

Discontinued operations for the year ended December 31, 2021, include income of $3.6 million related to the release of indemnification provisions in connection with obligations retained by the Company following the sale of its former U.S. operations in 2015, and subsequent wind-up of its wholly owned Bermuda-based captive insurance company in 2020.

Earnings (Loss) from Discontinued Operations

The following tables provide the results of discontinued operations and a calculation of AFFO for the periods ended December 31, 2022 and 2021, respectively. The year-over-year comparisons for both periods reflect the decline in contribution to NOI and earnings from operating activities due to the sale of the retirement living segment in May 2022 and the Saskatchewan LTC Homes in October 2022, and the release in 2021 of indemnification provisions in connection with the Company's former U.S. operations.

DISCONTINUED OPERATIONS								**Three months ended December 31,**
			2022				**2021**	
(thousands of dollars unless otherwise noted)	**Retirement Living**	**SK LTC Homes**	**Total**	**Retirement Living**	**SK LTC Homes**	**U.S. Sale**	**Total**	**Total Change**
Revenue	—	**1,134**	**1,134**	13,210	14,075	—	27,285	(26,151)
Operating expense	—	**1,550**	**1,550**	9,982	13,539	—	23,521	(21,971)
Net operating (loss) income	—	**(416)**	**(416)**	3,228	536	—	3,764	(4,180)
RECONCILIATION TO AFFO								
Earnings (loss) from operating activities of discontinued operations	—	**(306)**	**(306)**	415	246	—	661	(967)
Add (Deduct):								
Depreciation and amortization	—	—	—	1,696	174	—	1,870	(1,870)
Depreciation for FFEC (maintenance capex)	—	—	—	(228)	(61)	—	(289)	289
Foreign exchange and fair value adjustments	—	—	—	(472)	—	—	(472)	472
Deferred income tax expense (recovery)	—	—	—	112	89	—	201	(201)
FFO from discontinued operations	—	**(306)**	**(306)**	1,523	448	—	1,971	(2,277)
Amortization of deferred financing costs	—	—	—	166	3	—	169	(169)
Accretion costs	—	—	—	19	—	—	19	(19)
Additional maintenance capex	—	—	—	(120)	5	—	(115)	115
AFFO from discontinued operations	—	**(306)**	**(306)**	1,588	456	—	2,044	(2,350)
AFFO per basic share *($)*	—	—	—	0.02	0.01	—	0.02	(0.02)
Total maintenance capex	—	—	—	348	56	—	404	(404)

DISCONTINUED OPERATIONS								Year ended December 31,
		2022				2021		
(thousands of dollars unless otherwise noted)	Retirement Living	SK LTC Homes	Total	Retirement Living	SK LTC Homes	U.S. Sale	Total	Total Change
Revenue	**18,937**	**40,925**	**59,862**	49,771	56,649	—	106,420	(46,558)
Operating expense	**15,058**	**44,041**	**59,099**	36,395	57,414	—	93,809	(34,710)
Net operating income (loss)	**3,879**	**(3,116)**	**763**	13,376	(765)	—	12,611	(11,848)
RECONCILIATION TO AFFO								
Earnings (loss) from operating activities of discontinued operations	**2,118**	**(2,290)**	**(172)**	1,508	(1,150)	3,642	4,000	(4,172)
Add (Deduct):								
Depreciation and amortization	**565**	**—**	**565**	7,046	691	—	7,737	(7,172)
Depreciation for FFEC (maintenance capex)	**(74)**	**—**	**(74)**	(921)	(260)	—	(1,181)	1,107
Other expense, net of current tax	**—**	**—**	**—**	—	—	(3,642)	(3,642)	3,642
Foreign exchange and fair value adjustments	**(1,627)**	**—**	**(1,627)**	(1,567)	—	—	(1,567)	(60)
Deferred income tax expense (recovery)	**468**	**—**	**468**	369	(415)	—	(46)	514
FFO from discontinued operations	**1,450**	**(2,290)**	**(840)**	6,435	(1,134)	—	5,301	(6,141)
Amortization of deferred financing costs	**263**	**—**	**263**	697	3	—	700	(437)
Accretion costs	**(74)**	**—**	**(74)**	76	—	—	76	(150)
Additional maintenance capex	**(727)**	**(17)**	**(744)**	(69)	(267)	—	(336)	(408)
AFFO from discontinued operations	**912**	**(2,307)**	**(1,395)**	7,139	(1,398)	—	5,741	(7,136)
AFFO per basic share *($)*	**0.01**	**(0.03)**	**(0.02)**	0.08	(0.02)	—	0.06	(0.08)
Total maintenance capex	**801**	**17**	**818**	990	527	—	1,517	(699)

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, 2022, and under the headings "New Accounting Policies Adopted" and "Future Changes in Accounting Policies" that follow 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 CASH-GENERATING UNITS ("CGUs") 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 50% of the Company's total assets as at December 31, 2022, and goodwill and other intangibles represent approximately 12%. 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 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 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.

During 2022, the Company performed an impairment assessment of its operations and recognized a pre-tax impairment charge of property and equipment of $4.9 million in respect of certain of the Company's LTC homes in Manitoba and Alberta.

During 2021, the Company performed an impairment assessment of its operations and recognized a pre-tax impairment charge of property and equipment of $9.1 million in respect of certain of the Company's LTC homes in Manitoba and Alberta and a pre-tax impairment charge of goodwill in the amount of $5.8 million, in respect of certain of the Company's LTC homes in Manitoba.

For additional details on impairment refer to *Note 15* of the audited consolidated financial statements for the year ended December 31, 2022.

New Accounting Policies Adopted

The Company did not adopt any new significant accounting policies during the year ended December 31, 2022.

Future Changes in Accounting Policies

The following accounting standards, amendments and interpretations will take effect for the Company after December 31, 2022, the nature and effect of which are provided in *Note 3* of the audited consolidated financial statements, and described below:

CLASSIFICATION OF LIABILITIES AS CURRENT OR NON-CURRENT

Beginning no later than January 1, 2024, the Company will adopt IAS amendments to IAS 1 *Presentation of Financial Statements*, which clarified the criteria of classification of liabilities as current or non-current. Management is assessing whether the adoption of this amendment is expected to have a material impact on the consolidated financial statements. The International Accounting Standards Board has tentatively deferred the adoption date to no earlier than January 1, 2024.

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, 2022, 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, 2022.

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, 2022.

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.

NON-GAAP MEASURES

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

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

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

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

“**NOI margin**” is defined as NOI as a percentage of revenue.

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

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

“**Adjusted EBITDA Margin**” is defined as Adjusted EBITDA as a percentage of revenue.

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

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

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

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

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

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

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

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

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

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

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

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

RISKS AND UNCERTAINTIES

There are certain risks inherent in an investment in securities and activities of the Company, including the ones described below. The Company is exposed to a number of risks and uncertainties in the normal course of business that have the potential to affect operating performance. The Company has operating and risk management strategies and insurance programs to help minimize these operating risks and uncertainties, in addition to entity level controls and governance procedures, including a corporate code of business conduct, whistleblower policies and procedures, and detailed policies and procedures regarding the delegation of authority within the Company.

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 availability and ability of the Company to attract and retain qualified personnel; the ability of the Company to retain or 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, employee costs and pay equity; 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) 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 disease outbreaks (including COVID-19), 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, particularly in respect of Extendicare Assist clients where the Company has limited direct operational control and where onsite staff are not Extendicare employees.

Risks Related to a Pandemic, Epidemic or Outbreak of a Contagious Illness, such as COVID-19

The occurrence of a pandemic, epidemic, or other outbreak of an infectious illness or other public health crisis in areas in which we operate could have a material adverse effect on the business, results of operations and financial condition of the Company. Federal, provincial or local health agencies may, or we may choose to, ban or limit admissions to LTC homes and retirement communities and/or suspend or limit the home health care services we provide as a precautionary measure in a crisis to avoid the spread of a contagious illness or other public health crisis, resulting in reduced occupancy and service volumes, on both a short and longer term basis. Even in the absence of any such ban, limit or suspension, our clients may postpone or refuse services or delay residency in an attempt to avoid possible exposure. Also, enhanced procedures, protocols and care put in place to assist in reducing the likelihood of exposure or address actual illness in LTC homes and retirement communities or in respect of home health care clients (for example, enhanced screening and protective equipment) has resulted in, and may continue to result in, increased costs. In addition, a pandemic, epidemic or other outbreak might adversely impact our operations by causing staffing and supply shortages. Although continued or enhanced government funding or assistance may mitigate some of these impacts, there is no certainty the extent to which that will be the case or that any such funding or assistance will remain in place. In addition, outbreaks cause our facilities and our management to spend considerable time planning for and addressing such events, which diverts their attention from other business concerns. Also, to the extent a pandemic, epidemic or other outbreak results in adverse outcomes for the Company's residents, clients or employees, the likelihood of claims being brought against the Company in respect of such adverse outcomes as well as adverse regulatory changes being instituted increases, and the ability and cost of insuring against such claims may become more challenging (see "Other Contractual Obligations and Contingencies – Legal Proceedings and Regulatory Actions"). Further, such outbreaks may impact the overall economy so that credit markets are adversely affected, which may make it more difficult for the Company to access the credit markets or, if able to do so, at a higher cost or less advantageous terms, potentially impacting, among other things, re-financings and our development plans and timelines.

The COVID-19 pandemic has resulted in a number of the foregoing events to transpire (see "Other Contractual Obligation and Contingencies – Legal Proceedings and Regulatory Actions" and "Significant Developments – COVID-19 Related Expenses and Funding" for further details), and while we believe that the financial impacts of COVID-19 that the Company has experienced have to a substantial degree been mitigated as the impacts of the pandemic have eased (including as a result of high vaccination rates amongst our residents, staff and visitors as well as enhanced government funding), there can be no assurance that they will continue to be mitigated and that COVID-19 or any other pandemic, epidemic or outbreak will not have a material adverse effect on the business, results of operations and financial condition of the Company.

Risks Related to Inflationary Pressures and Supply Chain Interruptions

Labour and supply expenses make up a substantial portion of our cost of services. Those expenses can be subject to increases in periods of rising inflation and when labour shortages occur in the marketplace. Although historically we have generally been able to implement cost control measures and proactive human resource and procurement practices and/or obtain increases in government funding sufficient to substantially offset increases in these expenses, there can be no assurance that we will be able to anticipate fully or otherwise respond to any inflationary pressures or receive such increased funding, which may have a material adverse effect on the business, results of operations and financial condition of the Company. Similarly, such inflationary pressures, as well as strengthening economic conditions and competition for materials and services, may result in significant increases in redevelopment costs such that, in the absence of increased funding, redevelopment projects may no longer be economically viable or, if viable, provide a return on investment lower than initially anticipated.

The Company relies on certain key suppliers to provide it with certain medical and personal protective equipment and other supplies. A shortage of such equipment, due to pandemic-related or other supply chain disruptions, could have a material adverse impact on the Company's business, especially if it is unable to find reasonable alternatives or secure such equipment at reasonable prices. The Company's ability to secure sufficient equipment is affected by many factors beyond its control. A shortage or disruption in equipment and parts that are critical to the Company's operations could have a material adverse effect on the business, results of operations and financial condition of the Company.

Risks Related to Growth, Acquisitions and Redevelopment

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, management and consulting services 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 44% of the Company's owned LTC beds are in older Ontario homes that are subject to redevelopment requirements. 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. Long-term care 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 until the homes are redeveloped to the government's new design standards whereafter 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, the government's current targets for upgrades by 2028, 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 been awarded 4,248 new or replacement beds across 20 redevelopment projects, which would replace all of its 3,285 existing Class C beds, of which three projects are currently under construction under the government's development program for new and replacement beds (see "Significant Developments – Enhancements to the Government of Ontario Capital Funding Program Announced in Q4 2022; Focused on Advancing New Projects to Commence Construction in 2023"). 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 a material 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 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 ability to obtain regulatory approvals for acquisitions in a timely manner and on terms acceptable to the Company, 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, such as in respect of construction, as well as the general investment risks inherent in any real estate investment and development, 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 a material adverse effect on the business, results of operations and financial condition of the Company.

Furthermore, agreements to acquire, sell and develop properties entered into with third parties may be subject to unknown, unexpected or undisclosed liabilities which could have a material adverse effect on the business, results of operations and financial condition of the Company. Representations and warranties given by such third parties to the Company may not adequately protect against these liabilities and any recourse against third parties may be limited by the financial capacity of such third parties.

As previously disclosed, the Company has entered into definitive agreements in respect of several acquisition and disposition opportunities, the impact of which on the business, results of operations and financial condition of the Company cannot be ascertained at this time. These acquisition and disposition activities include the Company entering into joint venture arrangements in respect of the ownership and operation of certain LTC homes, three of which are currently wholly owned and under development by the Company and the remaining 24 of which are owned and operated by third parties. These joint venture arrangements have the benefit of sharing the risks associated with the development, ownership and management of such homes including those risks described herein. The Company may, however, be exposed to adverse developments, including a possible change in control, in the business and affairs of its joint venture partners which could have a significant impact on the Company's interests in its joint ventures and could affect the value of the joint ventures. In addition, there are risks which arise from the joint venture arrangements themselves, including: the risk that the other joint venturer may exercise buy-sell, put or other sale or purchase rights which could obligate the Company to sell its interest or buy the other joint venturer's interest at a price which may not be favourable to the Company or at a time which may not be advantageous to the Company, which may have a material adverse effect on the business, results of operations and financial condition of the Company.

The success of the Company's ability to grow its management and consulting services, group purchasing and home health care businesses 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 Oversight, 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 a material 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 a material adverse effect on the business, results of operations and financial condition of the Company.

Risks Related to Government Oversight, 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. 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 85% in 2022, excluding estimated costs related to COVID-19 and CEWS), 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, including as a result of the COVID-19 pandemic, nor can it predict the impact, if any, such changes, the passing by the Government of Ontario of the *Fixing Long-Term Care Act, 2021* or the issuance by the HSO of national long-term care standards (see "Significant Developments – Regulatory Developments"), 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. 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. Also refer to the discussion regarding license expiry under "– Risks Related to Growth, Acquisitions and Redevelopment". To a lesser degree, retirement communities are also subject to government regulation and oversight, licensure requirements and the potential for regulatory change.

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.

In addition, reconciliations of funding versus actual expenses are performed annually, based on previous calendar years. From time to time, the reconciliations will result in current year adjustments made in respect of prior years. These "prior period adjustments" can have either a favourable or unfavourable impact on NOI generally related to differences identified in the reconciliation attributable to occupancy days, regulatory accountabilities, allocations between funding envelopes, where applicable, special circumstances and differences between projected and actual property tax.

With respect to home health care services, approximately 99% 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 a material adverse effect on the business, results of operations and financial condition of the Company.

The majority of ParaMed's volumes are generated in Ontario and Alberta, representing 93% and 4%, respectively, based on volumes delivered in 2022. In Alberta, government contracts have specified termination dates and or/renewal periods, following which they are put out to tender. Since 2012, ParaMed's government-funded business in Ontario has been obtained through evergreen contracts. A service provider's ability to retain its existing business is evaluated based on, among other things, an established set of quality indicators. Under this regime, all of ParaMed's government contracts in Ontario have remained in effect. On April 1, 2021, Home and Community Care Support Services ("HCCSS") assumed the home health care contracts, including those in respect of ParaMed, from the Local Health Integration Networks ("LHINs") without change, but is in the planning stages of determining a restructuring of the home health care contracts to reflect the dissolution of the LHINs. Although the ultimate treatment of these contracts is not yet known, ParaMed may be adversely impacted by such HCCSS restructuring. While any change in home care contracting and associated government operating models would represent a significant change, the underlying market demand and government guiding principles, such as continuity of care between patients and caregivers, 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.

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 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 85% of the Company's operating costs represented by labour costs, excluding estimated costs related to COVID-19 and CEWS. 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 has historically been afflicted with shortages of qualified personnel, such as nurses, certified nurse's assistants, nurse's aides, therapists and PSWs, particularly in non-urban settings, which have been amplified throughout the COVID-19 pandemic. 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. Furthermore, this ongoing shortage of qualified personnel has necessitated that the Company use staffing agencies to meet its staffing needs, which, in turn, has increased the Company's operating costs. 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

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

LABOUR RELATIONS

Approximately 74% of the Company's employees 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 LTC 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 in respect of senior care and as a result of the COVID-19 pandemic. There can be no assurance that the Company will not continue to face risks of this nature (see "Other Contractual Obligations and Contingencies – Legal Proceedings and Regulatory Actions").

The Company maintains business and property insurance policies in amounts and with such coverage and deductibles as it deems appropriate, based on the nature and risks of the business, historical experience, industry standards and availability of insurance. 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, including as a result of the COVID-19 pandemic. Furthermore, there are certain types of risks, generally of a catastrophic nature, such as war, non-certified acts of terrorism, environmental contamination, and more recently infectious diseases, such as COVID-19, 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.

Risks Related to Privacy of Client Information, Cyber Security and Information Technology

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 a material adverse impact on the Company's reputation and results of operations. To counter internet-based and internal security threats, the Company invests in cyber defence technologies to identify risks to its network, software and hardware systems. The Company 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 countermeasures 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.

Furthermore, the Company is reliant on information technology systems in the operation of its business and any prolonged disruption to the availability of such systems or difficulties in integrating systems following changes, upgrades or other enhancements may have a material adverse effect on the business, results of operations and financial condition of the Company. The Company's operations also depend on the timely maintenance, upgrade and replacement of systems and software, as well as pre-emptive expenses to mitigate the risk of failures. Any of these and other events could result in information technology system failures and/or increase in capital expenditure. The failure of such systems could, depending on the nature of any such failure, adversely impact the Company's reputation and may have a material adverse impact 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, including in respect of CEWS, 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, including mortgages, convertible debentures, credit facilities and lease liabilities, 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 Company has two demand credit facilities totalling $112.3 million, one of which is secured by 13 Class C LTC homes in Ontario ($47.3 million) and the other is secured by the assets of the home health care business ($65.0 million), of which $77.0 million was available and unutilized as at December 31, 2022. Neither of these facilities has financial covenants but do 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 the Company's subsidiaries making certain payments, investments, loans and guarantees. A demand for repayment of amounts drawn on the lines 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 was 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, 2022. 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 and it is unable to amend the covenants, obtain waivers or refinance its debt 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.

INTEREST RATES

The Company has limited the amount of debt that may be subject to changes in interest rates, with $21.1 million of mortgage debt and $33.3 million of construction loans at variable rates as at December 31, 2022. 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 other variable-rate mortgages and term loan aggregating $29.5 million as at December 31, 2022, 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.

Increases in interest rates and principal repayments required under the Company's mortgages and credit facilities, on renewal or otherwise, could result in significant changes in the amount required to be applied to debt service and, as a result it could have a material adverse effect on the business, results of operations and financial condition of the Company.

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.

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, excluding those to which it provides contract services. LTC homes are limited in terms of alternative uses; therefore, their values are directly driven by the cash flow from operations. 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 sufficient 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 focusing principally in LTC homes, the Company is exposed to adverse effects on that segment 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. 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, Acquisitions and Redevelopment". 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 $12.3 million undiscounted, or $10.5 million discounted, as at December 31, 2022, refer to *Note 8* 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 Climate Change

As the owner of real property, the Company is exposed to climate change risk from natural disasters and severe weather, such as floods, ice storms, windstorms, earthquakes, wildfires or other severe weather that may result in damage or loss to its properties, as well as to those LTC homes and retirement communities to whom it provides contract services. These adverse weather and natural events could cause substantial damage, resulting in increased costs and/or revenue losses. There can be no assurance that damages or losses caused by these adverse weather and natural events will not exceed the Company's insurance coverage. Climate change may also have indirect effects on our business by increasing the cost of, or making unavailable, certain insurance coverage.

Over time, climate change may also affect the Company's operational expenses, including utilities and preventative maintenance expenses, as temperatures fluctuate. In addition, changes in federal, provincial or local legislation and regulation on climate change could result in increased capital expenditures to improve the energy efficiency of our existing properties and could also require the Company to spend more on its new development properties without a corresponding increase in funding or revenue.

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 holders of Common Shares ("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 or other investments in its business, including development and acquisition activities. The timing and amount of capital expenditures and other investments 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 or other investments.

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 its subsidiary, Extendicare (Canada) Inc. ("ECI"), and the direct and indirect interests it has in its subsidiaries (including ECI and ParaMed), 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 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 COMPANY'S SECURITIES

The perceived creditworthiness of the Company may affect the market price or value and the liquidity of the Common Shares and 2025 Debentures.

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, subject to certain conditions being met in respect of redemptions prior to April 30, 2023, 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.

Endnotes

(1) This is a non-GAAP financial measure. Refer to the discussion under "Non-GAAP Measures".

(2) Certain prior period figures in Q1 2022 and Q2 2022 have been re-presented to conform with the Q3 2022 presentation in connection with the classification of strategic transformation costs as "other expense". Refer to the discussion under *Note 15* of the audited consolidated financial statements.

(3) The 2021 and 2020 comparative figures have been re-presented to reflect discontinued operations. Refer to the discussion under "Discontinued Operations".

CONSOLIDATED FINANCIAL STATEMENTS AND NOTES

Year ended December 31, 2022

Extendicare Inc.
Dated: March 2, 2023

Extendicare Inc.
Consolidated Financial Statements

Years ended December 31, 2022 and 2021

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

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 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

March 2, 2023

KPMG LLP
100 New Park Place, Suite 1400
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Tel 905-265 5900
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Independent Auditors' Report

To the Shareholders of Extendicare Inc.

Opinion

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

- the consolidated statements of financial position as at December 31, 2022 and December 31, 2021
- the consolidated statements of earnings for the years then ended
- the consolidated statements of comprehensive income for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2022 and December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with IFRS Standards as issued by the International Accounting Standards Board (IFRS Standards)

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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2022. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matter described below to be the key audit matter to be communicated in our auditors' report.

Evaluation of the impairment assessment of long-term care homes non-financial assets

Description of the matter

We draw attention to Notes 2(c), 3(d), 3(h), 5, and 15 to the financial statements. Property and equipment is a significant portion of the non-financial assets, being $388,719 thousand, and is primarily comprised of long-term care homes, each property being a cash-generating unit ("CGU"). The Entity recognizes impairment losses in net earnings if the carrying amount of an asset or its related CGU 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.

Significant assumptions in determining the recoverable amount of CGUs include:

- the estimated market capitalization or discount rate
- estimated normalized net operating income ("NOI") after adjusting for management fees, or normalized cash flows and capital maintenance.

During the year, the Entity recorded a pre-tax impairment charge of $4,942 thousand, in respect of certain of its long-term care homes.

Why the matter is a key audit matter

We identified the evaluation of impairment assessment of long-term care homes non-financial assets as a key audit matter. This matter represented an area of significant risk of material misstatement given the magnitude of long-term care homes non-financial assets and the high degree of estimation uncertainty in determining the recoverable amount of long-term care homes non-financial assets. In addition, significant auditor judgement and specialized skills and knowledge were required in evaluating the results of our audit procedures due to the sensitivity of the Entity's determination of recoverable amount to minor changes to significant assumptions.

How the matter was addressed in the audit

The following are the primary procedures we performed to address this key audit matter:

For a selection of CGUs, we evaluated the appropriateness of the normalized NOI assumptions by comparing respective assumptions used in the determination of the recoverable amount of the CGUs to actual historical NOI of such CGUs. We took into account changes in conditions and events affecting the CGU to assess the adjustments or lack of adjustments made in arriving at the normalized NOI for such CGUs.

For a selection of CGUs, we involved valuations professionals with specialized skills and knowledge, who assisted in evaluating the appropriateness of the capitalization or discount rate assumptions by comparing the capitalization or discount rate against published reports of real estate industry commentators for long-term care homes and recent comparable market transactions of non-financial assets with comparable attributes.

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, or otherwise 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 the 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 communicate the matter 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 these 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.
- 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.
- 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, actions taken to eliminate threats or safeguards applied.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditors' report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

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

W. G. Andrew Smith

Vaughan, Canada

March 2, 2023

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

(in thousands of Canadian dollars)	***notes***	**2022**	**2021**
Assets			
Current assets			
Cash and cash equivalents		**167,281**	104,627
Restricted cash		**2,701**	3,027
Accounts receivable	*4*	**61,166**	69,435
Income taxes recoverable		**2,908**	14,101
Other assets	*7*	**23,982**	26,468
Assets held for sale	*18*	**—**	7,262
Total current assets		**258,038**	224,920
Non-current assets			
Property and equipment	*5*	**388,719**	535,600
Goodwill and other intangible assets	*6*	**97,064**	92,484
Other assets	*7*	**30,468**	32,892
Deferred tax assets	*19*	**7,290**	14,427
Total non-current assets		**523,541**	675,403
Total assets		**781,579**	900,323
Liabilities and Equity			
Current liabilities			
Accounts payable and accrued liabilities		**250,140**	192,994
Income taxes payable		**5,606**	1,566
Long-term debt	*9*	**19,239**	73,577
Liabilities directly associated with assets held for sale	*18*	**—**	13,775
Total current liabilities		**274,985**	281,912
Non-current liabilities			
Long-term debt	*9*	**364,735**	463,274
Provisions	*8*	**10,512**	11,312
Other long-term liabilities	*10*	**23,757**	33,106
Deferred tax liabilities	*19*	**6,889**	8,796
Total non-current liabilities		**405,893**	516,488
Total liabilities		**680,878**	798,400
Share capital	*12*	**475,415**	500,877
Equity portion of convertible debentures	*9*	**7,085**	7,085
Contributed surplus	*11*	**10,619**	8,182
Accumulated deficit		**(384,620)**	(402,453)
Accumulated other comprehensive loss		**(7,798)**	(11,768)
Shareholders' equity		**100,701**	101,923
Total liabilities and equity		**781,579**	900,323

See accompanying notes to consolidated financial statements.
Commitments and contingencies (Note 20).

Alan D. Torrie
Chairman

Michael Guerriere
President and Chief Executive Officer

Extendicare Inc.
Consolidated Statements of Earnings
Years ended December 31

(in thousands of Canadian dollars except for per share amounts)	***notes***	**2022**	**2021**(i)
CONTINUING OPERATIONS			
Revenue	***13***	**1,221,577**	1,166,987
Operating expenses		**1,113,048**	1,034,017
Administrative costs		**51,075**	52,431
Total expenses	***14***	**1,164,123**	1,086,448
Earnings before depreciation, amortization, and other expense		**57,454**	80,539
Depreciation and amortization		**31,559**	30,831
Other expense	***15***	**13,953**	14,969
Earnings before net finance costs and income taxes		**11,942**	34,739
Net finance costs	***16***	**16,438**	20,754
(Loss) earnings before income taxes		**(4,496)**	13,985
Income Tax (Recovery) Expense			
Current	***19***	**3,150**	8,369
Deferred	***19***	**(3,135)**	(1,888)
Total income tax expense		**15**	6,481
(Loss) earnings from continuing operations		**(4,511)**	7,504
DISCONTINUED OPERATIONS			
Earnings from discontinued operations, net of income taxes	***18***	**74,065**	4,000
Net earnings		**69,554**	11,504
Basic Earnings per Share			
(Loss) earnings from continuing operations	***17***	**$(0.05)**	$0.08
Net earnings	***17***	**$0.78**	$0.13
Diluted Earnings per Share			
(Loss) earnings from continuing operations	***17***	**$(0.05)**	$0.08
Net earnings	***17***	**$0.76**	$0.13

(i) *Comparative figures have been re-presented to reflect discontinued operations (Note 18).*

See accompanying notes to consolidated financial statements.

Extendicare Inc.
Consolidated Statements of Comprehensive Income
Years ended December 31

(in thousands of Canadian dollars)	***notes***	**2022**	**2021**
Net earnings		**69,554**	11,504
Other Comprehensive Income, Net of Taxes			
Items that will not be reclassified to profit or loss:			
Defined benefit plan actuarial gains	***21***	**5,403**	2,019
Tax expense on defined benefit plan actuarial gains	***19***	**(1,433)**	(538)
Defined benefit plan actuarial gains, net of taxes		**3,970**	1,481
Items that are or may be reclassified subsequently to profit or loss:			
Net change in foreign currency translation adjustment		**—**	178
Other comprehensive income, net of taxes		**3,970**	1,659
Total comprehensive income		**73,524**	13,163

See accompanying notes to consolidated financial statements.

Extendicare Inc.
Consolidated Statements of Changes in Equity
Years ended December 31

(in thousands of Canadian dollars, except for number of shares)	***notes***	***Number of Shares***	**Share Capital**	**Equity Portion of Convertible Debentures**	**Contributed Surplus**	**Accumulated Deficit**	**Accumulated Other Comprehensive Loss**	**Shareholders' Equity**
Balance at January 1, 2021		*89,539,085*	500,577	7,085	4,916	(370,963)	(13,427)	128,188
Share-based compensation	*11*	*23,414*	300	—	3,266	—	—	3,566
Net earnings		—	—	—	—	11,504	—	11,504
Dividends declared	*12*	—	—	—	—	(42,994)	—	(42,994)
Other comprehensive income		—	—	—	—	—	1,659	1,659
Balance at December 31, 2021		*89,562,499*	500,877	7,085	8,182	(402,453)	(11,768)	101,923

(in thousands of Canadian dollars, except for number of shares)	***notes***	***Number of Shares***	**Share Capital**	**Equity Portion of Convertible Debentures**	**Contributed Surplus**	**Accumulated Deficit**	**Accumulated Other Comprehensive Loss**	**Shareholders' Equity**
Balance at January 1, 2022		***89,562,499***	**500,877**	**7,085**	**8,182**	**(402,453)**	**(11,768)**	**101,923**
Purchase of shares for cancellation	***12***	***(5,011,180)***	**(28,076)**	**—**	**—**	**(6,947)**	**—**	**(35,023)**
Share-based compensation	***11***	***177,425***	**2,614**	**—**	**2,437**	**(2,411)**	**—**	**2,640**
Net earnings		**—**	**—**	**—**	**—**	**69,554**	**—**	**69,554**
Dividends declared	***12***	**—**	**—**	**—**	**—**	**(42,363)**	**—**	**(42,363)**
Other comprehensive income		**—**	**—**	**—**	**—**	**—**	**3,970**	**3,970**
Balance at December 31, 2022		***84,728,744***	**475,415**	**7,085**	**10,619**	**(384,620)**	**(7,798)**	**100,701**

See accompanying notes to consolidated financial statements.

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

(in thousands of Canadian dollars)	***notes***	**2022**	**2021**[i]
Operating Activities			
Net earnings		**69,554**	11,504
Adjustments for:			
Share-based compensation		**2,640**	3,566
Depreciation and amortization	***5, 6***	**32,124**	38,568
Net finance costs	***9, 16, 18***	**16,869**	25,142
Current taxes	***18, 19***	**2,621**	8,544
Deferred taxes	***18, 19***	**(2,667)**	(1,934)
Defined benefit plan expenses	***21***	**914**	854
Defined benefit plan contributions	***21***	**(3,184)**	(2,958)
Gain on sale of retirement living segment, net of tax	***18***	**(67,920)**	—
Gain on sale of SK LTC homes, net of tax	***18***	**(6,317)**	—
Other expense	***15***	**4,942**	11,281
		49,576	94,567
Net change in operating assets and liabilities			
Accounts receivable		**4,042**	(13,765)
Other assets		**1,400**	11,954
Accounts payable and accrued liabilities		**48,619**	11,099
		103,637	103,855
Interest paid, net		**(14,946)**	(21,950)
Income taxes received (paid), net		**10,023**	(22,828)
Net cash from operating activities		**98,714**	59,077
Investing Activities			
Purchase of property, equipment and other intangible assets	***5, 6***	**(101,629)**	(65,176)
Change in other assets	***7***	**4,129**	5,790
Proceeds from sale of retirement living segment, net of taxes paid	***18***	**245,631**	—
Proceeds from sale of SK LTC homes, net of taxes paid	***18***	**7,513**	—
Net cash from (used in) investing activities		**155,644**	(59,386)
Financing Activities			
Issuance of long-term debt	***9***	**36,393**	2,337
Repayment of long-term debt	***9, 18***	**(150,622)**	(32,319)
Change in restricted cash		**326**	(518)
Purchase of securities for cancellation	***12***	**(35,023)**	—
Dividends paid	***12***	**(42,551)**	(42,994)
Financing costs		**(382)**	(1,342)
Net cash used in financing activities		**(191,859)**	(74,836)
Increase (decrease) in cash and cash equivalents		**62,499**	(75,145)
Cash and cash equivalents at beginning of year		**104,627**	179,956
Foreign exchange gain/(loss) on cash held in foreign currency		**155**	(184)
Cash and cash equivalents at end of year		**167,281**	104,627

[i] *Comparative figures have been re-presented to conform with current year presentation.*

See accompanying notes to consolidated financial statements.

1. GENERAL INFORMATION AND NATURE OF THE BUSINESS

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

In 2022, the Company completed the sale of its retirement living operations and long-term care homes in Saskatchewan (*Note 18*). The Company also announced transactions with Revera and Axium and incurred costs related to these transactions (*Notes 15 and 20*).

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 March 2, 2023.

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 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.

Since the onset of the COVID-19 global pandemic, the provincial governments in the provinces that the Company operates have announced a number of programs and financial assistance to address the increased costs and other challenges of managing through the pandemic. As at December 31, 2022, the COVID-19 pandemic continues to impact the Company's operations, financial results and condition, including impacts to the Company's historical and future results and requires estimates of both the costs incurred to address COVID-19 and the recognition of revenue related to the various government financial programs established to address the pandemic.

A more subjective estimate is the determination of the recoverable amount of cash-generating units ("CGUs") subject to an impairment test, which are further impacted by the uncertainty of COVID-19 as it continues to impact the estimates used to determine the recoverable amounts for long-lived assets and goodwill.

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.

a) Basis of Consolidation

The consolidated financial statements include the accounts of Extendicare and its wholly owned subsidiaries. All material intercompany transactions and balances have been eliminated. The financial statements of Extendicare'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

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 Cash Equivalents

Cash and cash equivalents 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 loss.

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, primarily related to long-term care ("LTC") homes, 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 LTC homes 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.

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
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 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.

Government grants are recognized only when there is reasonable assurance that the Company will comply with the conditions attached to the grants and they will be received. Government grants are recognized in net earnings as a deduction from the related expense, systematically over the periods in which the grants are intended to compensate.

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. Lease payments for assets that are exempt through the short-term or low-value exemptions and variable payments not based on an index or rate are recognized in operating expenses or administrative costs on the most systematic basis.

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.

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. Cost includes expenditures that are directly attributable to the acquisition or development of the asset, as well as the preparation of the asset to be capable of operating in the manner intended by management. 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.

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

Customer relationships	15 years
Non-compete agreements	Term of the agreement
Computer software licences	5 to 7 years
Internal development costs for software	Useful life of software

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 net 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 as a CGU.

The determination of recoverable amount 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. The significant assumptions used in the determination of the recoverable amount of the home health care segment CGU including the related goodwill include the normalized earnings before interest, depreciation and amortization and earnings multiple. The significant assumptions used in the determination of the recoverable amount for a LTC home CGU include normalized net operating income, after adjusting for management fee or normalized cash flows and capital maintenance, estimated market capitalization or discount rate.

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.

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 statements 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 other comprehensive income ("OCI") during the period in which they are incurred.

DEFINED CONTRIBUTION PLANS

The Company has corporate specific and multi-employer defined benefit pension plans. Multi-employer defined benefit pension plans are accounted for as defined contribution plans as the liability per employer is not available. 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 judgmental nature of these items, future settlements may differ from amounts recognized. Provisions comprise estimated decommissioning provisions.

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 provisions 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.

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.

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 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 long-term care residents, home health care services and managed services.

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 cognitive needs. Revenue from the 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.

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 of all ages 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 are 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.

MANAGED 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, Finance Income, and Deferred Financing Costs

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 dollar-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.

Deferred financing costs are deducted against long-term debt and are amortized using the effective interest rate method over the term of the debt.

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.

q) Assets and Liabilities Held for Sale and Discontinued Operations

Non-current assets and liabilities or disposal groups comprising assets and liabilities are classified as held for sale if their carrying value will be recovered principally through a sale rather than through continuing use. The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset or disposal group and the sale is expected to be completed within one year from the date of the classification.

Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell ("FVLCS"). If the FVLCS is lower than the carrying amount, an impairment loss is recognized in the statements of earnings. Non-current assets are not depreciated or amortized once classified as held for sale. Assets and liabilities classified as held for sale are presented separately as current items in the Company's consolidated statements of financial position.

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 part of a single co-ordinated plan to dispose. Classification as a discontinued operation occurs upon the earlier of disposal or when 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.

r) Segmented Reporting

The Company operates solely within Canada, hence, no geographical segment disclosures are presented. Segmented information is presented in respect of business segments, based on management’s internal reporting structure.

s) New Accounting Policy Adopted

The Company did not adopt any new significant accounting policies during the year ended December 31, 2022.

t) Future Changes in Accounting Policies

CLASSIFICATION OF LIABILITIES AS CURRENT OR NON-CURRENT

Beginning no later than January 1, 2024, the Company will adopt IAS amendments to IAS 1 *Presentation of Financial Statements*, which clarified the criteria of classification of liabilities as current or non-current. Management is assessing whether the adoption of this amendment is expected to have a material impact on the consolidated financial statements. The International Accounting Standards Board has tentatively deferred the adoption date to no earlier than January 1, 2024.

4. ACCOUNTS RECEIVABLE

	2022	**2021**
Trade receivables	**61,908**	68,708
Other receivables	**1,353**	2,556
Accounts receivable	**63,261**	71,264
Less: trade receivable allowance	**(2,095)**	(1,829)
Accounts receivable, net of allowance	**61,166**	69,435

5. PROPERTY AND EQUIPMENT

	Land & Land Improve-ments	Buildings & Leasehold Improvements	Right-of-use Assets	Furniture & Equipment	Construction in Progress ("CIP")	Projects in Progress ("PIP")	Total
Cost or Deemed Cost[i]							
January 1, 2021	61,844	540,382	99,963	69,198	20,542	3,922	795,851
Additions	331	6,022	3,111	6,313	31,338	10,554	57,669
Write-off of fully depreciated assets	—	(520)	(589)	(4,312)	—	—	(5,421)
Write-offs	—	(793)	(280)	(251)	—	—	(1,324)
Transfer to in use	64	3,160	—	697	—	(3,921)	—
Reclassification to assets held for sale (*Note 18*)	(896)	(14,101)	—	(2,544)	—	(62)	(17,603)
December 31, 2021	61,343	534,150	102,205	69,101	51,880	10,493	829,172
January 1, 2022	**61,343**	**534,150**	**102,205**	**69,101**	**51,880**	**10,493**	**829,172**
Additions	**362**	**6,124**	**5,476**	**7,738**	**71,318**	**13,360**	**104,378**
Write-off of fully depreciated assets	**(2)**	**(1,565)**	**(1,669)**	**(2,021)**	**—**	**—**	**(5,257)**
Transfer to in use	**94**	**11,569**	**—**	**1,107**	**—**	**(12,770)**	**—**
Disposal of retirement living operations (*Note 18*)	**(24,609)**	**(215,010)**	**(20)**	**(9,512)**	**(2,533)**	**—**	**(251,684)**
December 31, 2022	**37,188**	**335,268**	**105,992**	**66,413**	**120,665**	**11,083**	**676,609**

	Land & Land Improve-ments	Buildings & Leasehold Improvements	Right-of-use Assets	Furniture & Equipment	CIP	PIP	Total
Accumulated Depreciation and Impairment Losses[i]							
January 1, 2021	5,576	191,242	41,994	31,135	—	—	269,947
Depreciation	687	21,435	2,743	7,469	—	—	32,334
Write-off of fully depreciated assets	—	(520)	(589)	(4,312)	—	—	(5,421)
Write-offs	—	(469)	(89)	(214)	—	—	(772)
Impairment (*Note 15*)	—	9,144	—	—	—	—	9,144
Reclassification to assets held for sale (*Note 18*)	(295)	(9,811)	—	(1,554)	—	—	(11,660)
December 31, 2021	5,968	211,021	44,059	32,524	—	—	293,572
January 1, 2022	**5,968**	**211,021**	**44,059**	**32,524**	**—**	**—**	**293,572**
Depreciation	**537**	**14,330**	**5,832**	**7,046**	**—**	**—**	**27,745**
Write-off of fully depreciated assets	**(2)**	**(1,565)**	**(1,669)**	**(2,021)**	**—**	**—**	**(5,257)**
Impairment (*Note 15*)	**133**	**4,505**	**—**	**304**	**—**	**—**	**4,942**
Disposal of retirement living operations (*Note 18*)	**(555)**	**(29,381)**	**(4)**	**(3,172)**	**—**	**—**	**(33,112)**
December 31, 2022	**6,081**	**198,910**	**48,218**	**34,681**	**—**	**—**	**287,890**
Carrying Amounts							
December 31, 2021	55,375	323,129	58,146	36,577	51,880	10,493	535,600
December 31, 2022	**31,107**	**136,358**	**57,774**	**31,732**	**120,665**	**11,083**	**388,719**

[i] *Comparative figures have been re-presented to conform with current year presentation.*

The Company capitalized $1.5 million of borrowing costs related to development projects under construction for the year ended December 31, 2022 (December 31, 2021 – $0.3 million).

6. GOODWILL AND OTHER INTANGIBLE ASSETS

	Goodwill	Other Intangible Assets	Total
Cost or Deemed Cost			
January 1, 2021	51,675	66,948	118,623
Additions	—	16,365	16,365
Write-off of fully amortized assets	—	(4,827)	(4,827)
December 31, 2021	51,675	78,486	130,161
January 1, 2022	**51,675**	**78,486**	**130,161**
Additions	**—**	**10,951**	**10,951**
Disposal of retirement living operations (*Note 18*)	**—**	**(2,928)**	**(2,928)**
Write-off of fully amortized assets	**—**	**(67)**	**(67)**
December 31, 2022	**51,675**	**86,442**	**138,117**

	Goodwill	Other Intangible Assets	Total
Accumulated Amortization			
January 1, 2021	—	30,445	30,445
Amortization	—	6,234	6,234
Write-off of fully amortized assets	—	(4,827)	(4,827)
Impairment (*Note 15*)	5,825	—	5,825
December 31, 2021	5,825	31,852	37,677
January 1, 2022	**5,825**	**31,852**	**37,677**
Amortization	**—**	**4,379**	**4,379**
Disposal of retirement living operations (*Note 18*)	**—**	**(936)**	**(936)**
Write-off of fully amortized assets	**—**	**(67)**	**(67)**
December 31, 2022	**5,825**	**35,228**	**41,053**
Carrying Amounts			
December 31, 2021	45,850	46,634	92,484
December 31, 2022	**45,850**	**51,214**	**97,064**

7. OTHER ASSETS

	2022	2021
Construction funding subsidy receivable	**32,142**	36,271
Supply inventory	**8,260**	11,127
Prepayments and other	**14,048**	11,962
Total other assets	**54,450**	59,360
Less: current portion	**(23,982)**	(26,468)
Other assets, non-current portion	**30,468**	32,892

Construction Funding Subsidy Receivable

Construction funding subsidy receivable represents discounted amounts receivable due from the Government of Ontario with respect to construction funding subsidies for long-term care homes. As at December 31, 2022, the current portion of construction funding subsidy receivable was $2.5 million (December 31, 2021 – $4.1 million). These subsidies represent funding for a portion of long-term care home construction costs over a 20-year to 25-year period. The weighted average remaining term of this funding is 15 years.

Supply Inventory

Supply inventory is primarily comprised of personal protective equipment and other related supplies.

Interest Rate Swaps

Prepayments and other includes a swap contract relating to a loan with a notional amount of $29.5 million, to lock in a rate of 5.40% for the full term of the loan, maturing in April 2027 (December 31, 2021 – includes swap contracts relating to multiple mortgages and loans with a notional value of $85.2 million, to lock in rates between 3.11% and 5.04% for the full term of the loans being three to ten years).

All interest rate swap contracts are measured at FVTPL, and hedge accounting has not been applied. Changes in fair value are recorded in the consolidated statements of earnings.

As at December 31, 2022, the interest rate swap was classified as an asset of $0.2 million (December 31, 2021 – liability of $0.7 million).

8. PROVISIONS

	Decommissioning Provisions	Indemnification Provisions	Total
January 1, 2021	9,717	5,217	14,934
Provisions recorded (released)	1,413	(3,688)	(2,275)
Provisions used	(13)	(1,510)	(1,523)
Accretion	195	—	195
Effect of movements in exchange rates	—	(19)	(19)
December 31, 2021	11,312	—	11,312
January 1, 2022	**11,312**	**—**	**11,312**
Provisions used	**(53)**	**—**	**(53)**
Reclassification to liabilities directly associated with assets held for sale (*Note 18*)	**(888)**	**—**	**(888)**
Accretion	**141**	**—**	**141**
December 31, 2022	**10,512**	**—**	**10,512**

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 $12.3 million (December 31, 2021 – $12.2 million) was discounted using a rate of 3.37% (December 31, 2021 – 1.32%) over an average estimated time to settle of 5 years.

9. LONG-TERM DEBT

	Interest Rate	Year of Maturity	2022	2021
Convertible unsecured subordinated debentures	5.00 %	2025	**123,719**	122,644
CMHC mortgages, fixed rate	2.65% - 7.70%	2024 - 2037	**43,498**	125,014
CMHC mortgages, variable rate	Variable	2025	**21,121**	22,017
Non-CMHC mortgages and loans	3.49% - 5.64%	2025 - 2038	**103,248**	161,793
Construction facilities and loans	Variable	2024	**33,288**	45,450
Lease liabilities[(i)]	3.53% - 7.19%	2023 - 2029	**63,502**	69,438
Total debt			**388,376**	546,356
Deferred financing costs			**(4,402)**	(9,505)
Total debt, net of deferred financing costs			**383,974**	536,851
Less: current portion			**(19,239)**	(73,577)
Long-term debt, net of deferred financing costs			**364,735**	463,274

[(i)] *'Year of Maturity' excludes options to extend the lease term at the end of the non-cancellable lease term.*

Principal Repayments

	Convertible Debentures	Mortgages and Loans Regular	Mortgages and Loans Maturity	Construction Facilities	Lease Liabilities	Total
2023	—	8,543	—	—	15,737	24,280
2024	—	8,278	—	33,288	15,428	56,994
2025	126,500	7,276	35,921	—	14,870	184,567
2026	—	6,831	—	—	13,832	20,663
2027	—	5,115	25,954	—	6,979	38,048
Thereafter	—	62,076	7,873	—	8,080	78,029
Total debt principal and lease liability repayments	126,500	98,119	69,748	33,288	74,926	402,581
Unamortized accretion of 2025 convertible debentures	(2,781)	—	—	—	—	(2,781)
Interest on lease liabilities	—	—	—	—	(11,424)	(11,424)
Principal and lease liabilities, after accretion and interest	123,719	98,119	69,748	33,288	63,502	388,376

Long-term Debt Continuity

	2022	2021
As at January 1	**536,851**	564,597
Issuance of long-term debt	**36,393**	2,337
New lease liabilities	**5,476**	3,111
Accretion and other	**1,001**	1,093
Repayments[(i)]	**(136,687)**	(21,814)
Payment of lease liabilities	**(11,304)**	(10,505)
Increase in deferred financing costs	**(382)**	(1,342)
Amortization of deferred financing costs and other[(i)]	**6,077**	2,023
Reclassification to liabilities directly associated with assets held for sale *(Note 18)*	**—**	(2,649)
Assumed debt related to the Retirement Living Sale *(Note 18)*	**(53,451)**	—
As at December 31	**383,974**	536,851

[(i)] *Includes amounts related to the Retirement Living Sale (Note 18).*

Convertible Unsecured Subordinated Debentures

In April 2018, the Company issued $126.5 million aggregate principal amount of 5.00% convertible unsecured subordinated debentures due April 30, 2025 (the "2025 Debentures"), with a conversion price of $12.25 per Common Share. The initial offering for $110.0 million of the 2025 Debentures closed on April 17, 2018, and the exercise of the over-allotment option for $16.5 million debentures closed on April 25, 2018. The debt and equity components of the 2025 Debentures were bifurcated as the financial instrument is considered a compound instrument with $119.2 million classified as a liability and the residual $7.3 million classified as equity attributable to the conversion option. The liability portion of the 2025 Debentures is recorded at amortized cost. The fees and transaction costs allocated to the debt component are amortized over the term of the 2025 Debentures using the effective interest rate method and are recognized as part of net finance costs.

Interest on the 2025 Debentures is payable semi-annually in April and October. On or after May 1, 2021 but prior to April 30, 2023, these debentures may be redeemed by the Company in whole at any time or in part from time to time, at a price equal to the principal amount thereof plus accrued and unpaid interest, on a notice of not more than 60 days and not less than 30 days prior, provided that the volume-weighted average trading price of the Common Shares on the TSX for the 20 consecutive trading days ending on the fifth trading day immediately preceding the date on which notice of redemption is given is not less than 125% of the conversion price. On and after May 1, 2023, these debentures may be redeemed by the Company in whole at any time or in part from time to time, at a price equal to the principal amount thereof plus accrued and unpaid interest, on a notice of not more than 60 days and not less than 30 days prior.

Upon the occurrence of a change of control, whereby more than 66.67% of the Common Shares are acquired by any person, or group of persons acting jointly, each holder of the 2025 Debentures may require the Company to purchase their debentures at 101% of the principal plus accrued and unpaid interest. If 90% or more of the debenture holders do so, the Company has the right, but not the obligation, to redeem all the remaining outstanding 2025 Debentures.

CMHC Mortgages

The Company has various mortgages insured through the Canada Mortgage and Housing Corporation ("CMHC") program. The fixed rate CMHC mortgages are secured by several Canadian financial institutions at rates ranging from 2.65% to 7.70% with maturity dates through to 2037. The Company has one variable rate CMHC mortgage secured by a Canadian financial institution at a variable rate based on the lender's cost of funds plus 225 bps.

Non-CMHC Mortgages and Loans

In May 2022, the Company amended an existing loan agreement to increase the principal amount by $5.4 million and extended the term. The amended loan matures in April 2027 and the Company entered into an interest rate swap contract to lock in the interest rate at a fixed rate of 5.40% per annum. Fair value adjustments related to an interest rate swap contract on a mortgage were a gain of $0.3 million for the year ended December 31, 2022 (December 31, 2021 – gain of $0.3 million), recorded in net finance costs.

The Company has a number of conventional mortgages and loans on certain long-term care homes, at rates ranging from 3.49% to 5.64%.

Construction Facilities

	2022	2021
Construction facilities	**156,573**	156,573
Amount drawn down, end of year	**(33,288)**	(2,337)
Construction facilities available	**123,285**	154,236

In 2021, the Company secured construction facilities in connection with three LTC redevelopment projects. Each facility matures on the earlier of 42 months from closing or the date that they are refinanced following completion or lease-up. Interest rates are prime plus 1.25% or CDOR plus 2.75% with standby fees of 0.55%. The facilities also provide for an additional $6.0 million in letter of credit facilities of which none was utilized. Interest is capitalized during construction and is payable following completion of construction until maturity.

Lease Liabilities

Lease liabilities include leases on long-term care homes and head and district offices. The Company operates nine Ontario long-term care homes, which were built between 2001 and 2003, under 25-year lease arrangements. The liabilities associated with the head and district office leases contain remaining initial non-cancellable lease terms of up to 7 years. Some leases provide the Company with options to extend at the end of the term.

During the year ended December 31, 2022, the Company has recognized new and renewed district office lease liabilities of $5.5 million (December 31, 2021 – $3.1 million).

Credit Facilities

The Company has two demand credit facilities totalling $112.3 million. One is secured by 13 Class C long-term care homes in Ontario and the other is secured by the assets of the home health care business. Neither of these facilities has financial covenants but do contain normal and customary terms. As at December 31, 2022, $30.5 million of the facilities secure the Company's defined benefit pension plan obligations (December 31, 2021 – $33.7 million), $4.8 million was used in connection with obligations relating to long-term care homes (December 31, 2021 – $5.8 million), leaving $77.0 million unutilized (December 31, 2021 – $72.8 million).

Interest Rates

The weighted average interest rate of all long-term debt as at December 31, 2022, was approximately 5.5% (December 31, 2021 – 4.3%).

Financial Covenants

The Company is subject to debt service coverage covenants on certain of its loans. The Company was in compliance with all of these covenants as at December 31, 2022.

10. OTHER LONG-TERM LIABILITIES

	2022	2021
Accrued pension and benefits obligation *(Note 21)*	**23,757**	31,419
Interest rate swaps	**—**	736
Other	**—**	951
Other long-term liabilities	**23,757**	33,106

11. SHARE-BASED COMPENSATION

Equity-settled Long-term Incentive Plan

The Company's 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 DSUs for non-employee directors and PSUs for employees.

DSUs and PSUs granted under the LTIP do not carry any voting rights. DSUs vest immediately upon grant and PSUs vest with a term of not less than 24 months and not more than 36 months from the date of grant. The Company settled PSUs as follows:

	PSUs	
(number of units)	**2022**	**2021**
Settled in Common Shares issued from treasury	**177,425**	23,414
Settled in cash	**350,198**	17,478
PSUs settled during the year	**527,623**	40,892

The Company's DSUs and PSUs were an expense of $5.1 million for the year ended December 31, 2022 (December 31, 2021 – $3.7 million), recorded in administrative costs.

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

	2022	**2021**
Contributed surplus – DSUs	**4,994**	3,323
Contributed surplus – PSUs	**5,625**	4,859
Total	**10,619**	8,182

As at December 31, 2022, an aggregate of 4,063,313 (December 31, 2021 – 4,240,738) Common Shares were reserved and available for issuance pursuant to the LTIP.

DSU and PSU activity is as follows:

	DSUs		PSUs	
(number of units)	**2022**	**2021**	**2022**	**2021**
Units outstanding, beginning of year	**507,811**	381,731	**1,176,273**	695,087
Granted	**125,018**	98,204	**582,875**	471,712
Reinvested dividend equivalents	**37,842**	27,876	**92,478**	63,983
Forfeited	**—**	—	**(21,417)**	(13,617)
Settled	**—**	—	**(527,623)**	(40,892)
Units outstanding, end of year	**670,671**	507,811	**1,302,586**	1,176,273
Weighted average fair value of units granted during the year at grant date	**$6.92**	$7.72	**$8.07**	$7.36

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

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

		2022		**2021**
Grant date	**September 6, 2022**	**March 11, 2022**	March 9, 2021	May 25, 2021
Vesting date	**March 11, 2025**	**March 11, 2025**	March 9, 2024	March 9, 2024
PSUs granted	**49,375**	**533,500**	448,582	23,130
Fair value of AFFO component	**$3.60**	**$3.87**	$3.44	$4.03
Fair value of TSR component	**$4.06**	**$4.24**	$3.85	$4.61
Grant date fair value	**$7.66**	**$8.11**	$7.29	$8.64
Expected volatility of the Company's Common Shares	**23.72 %**	**31.52 %**	32.50 %	33.43 %
Expected volatility of the Index	**16.29 %**	**22.00 %**	21.60 %	22.49 %
Risk-free rate	**3.56 %**	**1.67 %**	0.46 %	0.41 %
Dividend yield	**nil**	**nil**	nil	nil

12. SHARE CAPITAL

Common Shares

Each Common Share is transferable, represents an equal and undivided beneficial interest in the assets of the Company and entitles the holder to one vote at all meetings of shareholders of the Company. Shareholders are entitled to receive dividends from the Company when declared by the Board. During the year ended December 31, 2022 and 2021, the Company declared cash dividends of $0.48 per share.

Normal Course Issuer Bid ("NCIB")

In June 2022, the Company received approval from the TSX to make a NCIB to purchase for cancellation up to 7,829,630 Common Shares, representing 10% of its public float, through the facilities of the TSX and/or through alternative Canadian trading systems, in accordance with TSX rules. The NCIB commenced on June 30, 2022, and provides the Company with flexibility to purchase Common Shares for cancellation until June 29, 2023, or on such earlier date as the NCIB is complete. The actual number of Common Shares purchased under the NCIB and the timing of any such purchases will be at the Company's discretion. Subject to the TSX's block purchase exception, daily purchases will be limited to 53,068 Common Shares. During the year ended December 31, 2022, the Company acquired for cancellation 5,011,180 Common Shares at an average price of $6.99 per share, for a total cost of $35.0 million.

13. REVENUE

	2022	**2021**[(i)]
Long-term care	**767,095**	728,655
Home health care	**421,647**	410,559
Managed services	**32,835**	27,773
Total revenue from continuing operations	**1,221,577**	1,166,987

[(i)] *Comparative figures have been re-presented to reflect discontinued operations (Note 18).*

Funding for the Company's LTC homes and home health care services is regulated by provincial authorities. Revenue from provincial programs represented approximately 77% of the Company's long-term care revenue (December 31, 2021 – 75%), and approximately 99% of the home health care revenue for 2022 (December 31, 2021 – 99%).

14. EXPENSES BY NATURE

	2022	2021[i]
Employee wages and benefits	**972,059**	909,271
Government grants	**—**	(17,362)
Food, drugs, supplies and other variable costs	**72,834**	80,277
Property based and leases	**56,835**	50,401
Other	**62,395**	63,861
Total operating expenses and administrative costs from continuing operations	**1,164,123**	1,086,448

[i] *Comparative figures have been re-presented to reflect discontinued operations (Note 18).*

Government Grants

On April 11, 2020, the Government of Canada enacted the Canada Emergency Wage Subsidy ("CEWS") program, which was designed to help Canadian employers that have experienced revenue declines as a result of COVID-19. The Company's home health care subsidiary, ParaMed Inc., applied for and received CEWS during the year ended December 31, 2021 which were recorded on a net basis as a reduction to operating expenses of the home health care segment. The Company has not applied for further CEWS during the year ended December 31, 2022.

15. OTHER EXPENSE

	2022	2021
Impairment *(Notes 5, 6)*	**4,942**	14,969
Strategic transformation costs	**9,011**	—
Total other expense from continuing operations	**13,953**	14,969

Impairment

GOODWILL AND INDEFINITE LIFE INTANGIBLES

The Company completed its annual impairment assessment of the carrying value of the goodwill and indefinite life intangible assets. There was no impairment of goodwill during the year ended December 31, 2022. During the year ended December 31, 2021, the Company recorded an after-tax impairment charge related to a $5.8 million write down of the carrying value of the goodwill associated with certain of its Manitoba long-term care homes.

PROPERTY AND EQUIPMENT

During the year ended December 31, 2022, the Company recorded a pre-tax impairment charge of $4.9 million ($3.7 million after tax), in respect of certain of its long-term care homes in Manitoba and Alberta due primarily to the cumulative impact of lower funding increases from both provincial health authorities and inflationary pressures on operating costs. During the year ended December 31, 2021, the Company recorded a pre-tax impairment charge of $9.1 million ($6.7 million after tax), in respect of certain of its long-term care homes in Manitoba and Alberta.

The Company completes the assessment of the impairment amount as follows:

Each LTC home is a CGU and is assessed 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 using an estimated market capitalization rate of 9.0%, derived from a combination of third-party information and industry trends.

In the case of one Alberta LTC home, this was assessed by comparing the recoverable amount determined using the discounted cash flow method, to its carrying value. The discounted cash flow method takes into account operating cash flows and capital maintenance using an estimated discount rate of 14.9%, derived from third-party information.

Strategic Transformation Costs

During the year ended December 31, 2022, the Company incurred costs related to the strategic transformation of the Company related to the announced transactions with Revera and Axium in respect of the ownership, operation and redevelopment of long-term care homes, pending receipt of regulatory approvals from the Ontario Ministry of Long-Term Care ("MLTC"), Manitoba Health and Winnipeg Regional Health Authority (*Note 20*). Costs incurred include transaction, legal, regulatory, IT integration and management transition costs of $9.0 million (December 31, 2021 – $nil).

16. NET FINANCE COSTS

	2022	2021[i]
Interest expense	**20,612**	21,429
Interest revenue	**(5,018)**	(1,867)
Accretion	**1,227**	1,212
Foreign exchange	**(71)**	251
Fair value adjustments	**(312)**	(271)
Net finance costs from continuing operations	**16,438**	20,754

[i] *Comparative figures have been re-presented to reflect discontinued operations (Note 18).*

17. EARNINGS PER SHARE

Basic earnings per share 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 earnings per share is calculated by adjusting the net earnings and the weighted average number of shares outstanding for the effects of all dilutive instruments.

The Company's potentially dilutive instruments include the convertible debentures and equity-settled compensation arrangements. The number of shares included with respect to the PSUs is computed using the treasury stock method. The calculation of diluted earnings per share does not assume conversion, exercise, or other issue of potential ordinary shares that would have an antidilutive effect on earnings per share.

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

	2022	2021[i]
Numerator for Basic and Diluted Earnings per Share		
(Loss) earnings from continuing operations		
Net earnings for basic earnings per share	**69,554**	11,504
Less: earnings from discontinued operations, net of tax	**(74,065)**	(4,000)
(Loss) earnings from continuing operations for basic earnings per share	**(4,511)**	7,504
Add: after-tax interest on convertible debt	**6,286**	6,225
Earnings from continuing operations for diluted earnings per share	**1,775**	13,729
Net earnings		
Net earnings for basic earnings per share	**69,554**	11,504
Add: after-tax interest on convertible debt	**6,286**	6,225
Net earnings for diluted earnings per share	**75,840**	17,729
Denominator for Basic and Diluted Earnings per Share		
Actual weighted average number of shares	**88,439,654**	89,557,720
Actual weighted average number of DSUs	**569,138**	432,083
Weighted average number of shares for basic earnings per share	**89,008,792**	89,989,803
Shares issued if all convertible debt was converted	**10,326,531**	10,326,531
PSUs	**680,042**	586,901
Total for diluted earnings per share	**100,015,365**	100,903,235
Basic Earnings per Share (*in dollars*)		
(Loss) earnings from continuing operations	**$(0.05)**	$0.08
Earnings from discontinued operations	**$0.83**	$0.04
Net earnings	**$0.78**	$0.13
Diluted Earnings per Share (*in dollars*)		
(Loss) earnings from continuing operations	**$(0.05)**	$0.08
Earnings from discontinued operations	**$0.74**	$0.04
Net earnings	**$0.76**	$0.13

[i] *Comparative figures have been re-presented to reflect discontinued operations (Note 18).*

18. DISCONTINUED OPERATIONS

Retirement Living Sale

On May 16, 2022, the Company completed the sale of its retirement living operations to Sienna-Sabra LP ("Sienna") for an aggregate purchase price of $307.1 million, net of an initial working capital adjustment of $0.4 million comprised of cash proceeds of $253.6 million and assumption of mortgages by Sienna of $53.5 million on certain retirement communities. Cash proceeds were used to repay all remaining outstanding indebtedness related to the retirement living operations of $117.9 million, inclusive of debt settlement fees. The net proceeds realized on the transaction, net of debt repayments, taxes, certain closing adjustments and transactions costs, is approximately $128.0 million.

The Company recorded a gain on sale of $78.8 million, or $67.9 million after current and deferred taxes and closing costs, which is presented in earnings from discontinued operations.

The net assets of the discontinued operation which were transferred to Sienna at May 16, 2022, are as follows:

	May 16, 2022
Property and equipment and intangible assets	**221,197**
Other assets, net	**97**
Long-term debt	**(53,451)**
Net book value of total net assets	**167,843**

Saskatchewan ("SK") LTC Homes

On October 9, 2022 the Company completed the transition of the operations and delivery of long-term care services to the Saskatchewan Health Authority ("SHA"), including the sale of the property and equipment, certain assets and liabilities by the SHA, for an aggregate purchase price of $13.1 million, net of an initial working capital adjustment of $2.9 million totalling cash proceeds of $10.2 million. The net proceeds realized on the transaction, net of taxes and certain closing adjustments and transactions costs, is approximately $7.5 million, subject to customary post-closing working capital adjustments.

The Company recorded a gain on sale of $7.2 million, or $6.3 million after current and deferred taxes and closing costs, which is presented in earnings from discontinued operations.

The net assets of the discontinued operation which were transferred to the SHA at October 9, 2022, are as follows:

	October 9, 2022
Receivables and other current assets	**984**
Property and equipment	**5,233**
Accounts payable and accrued liabilities	**(3,722)**
Net book value of total net assets	**2,495**

Financial information of the discontinued operations for the periods are set out below:

For the year ended December 31, 2022	Retirement Living	SK LTC Homes	U.S. Sale Transaction[i]	Total
Earnings from Discontinued Operations				
Revenue	**18,937**	**40,925**	**—**	**59,862**
Operating expenses	**15,058**	**44,041**	**—**	**59,099**
Earnings (loss) before depreciation, amortization, net finance costs, and income taxes	**3,879**	**(3,116)**	**—**	**763**
Depreciation and amortization	**565**	**—**	**—**	**565**
Net finance costs	**431**	**—**	**—**	**431**
Earnings (loss) before income taxes	**2,883**	**(3,116)**	**—**	**(233)**
Current	**297**	**(826)**	**—**	**(529)**
Deferred	**468**	**—**	**—**	**468**
Income tax expense (recovery)	**765**	**(826)**	**—**	**(61)**
Earnings (loss) from operating activities	**2,118**	**(2,290)**	**—**	**(172)**
Gain on sale of discontinued operations before income tax	**78,779**	**7,159**	**—**	**85,938**
Current tax related to gain on sale	**3,842**	**1,400**	**—**	**5,242**
Deferred tax related to gain on sale	**7,017**	**(558)**	**—**	**6,459**
Income tax on gain on sale of discontinued operations	**10,859**	**842**	**—**	**11,701**
Earnings from discontinued operations	**70,038**	**4,027**	**—**	**74,065**

For the year ended December 31, 2021	Retirement Living	SK LTC Homes	U.S. Sale Transaction[i]	Total
Earnings from Discontinued Operations				
Revenue	49,771	56,649	—	106,420
Operating expenses	36,395	57,414	—	93,809
Earnings (loss) before depreciation, amortization, other income, net finance costs, and income taxes	13,376	(765)	—	12,611
Depreciation and amortization	7,046	691	—	7,737
Other income	—	—	(3,688)	(3,688)
Net finance costs	4,278	109	—	4,387
Earnings (loss) before income taxes	2,052	(1,565)	3,688	4,175
Current	175	—	46	221
Deferred	369	(415)	—	(46)
Income tax expense (recovery)	544	(415)	46	175
Earnings (loss) from discontinued operations	1,508	(1,150)	3,642	4,000

[i] *Discontinued operations for the year ended December 31, 2021, include income of $3.6 million related to the release of indemnification provisions in connection with obligations retained by the Company following the sale of its former U.S. operations in 2015, and subsequent wind-up of its wholly owned Bermuda-based captive insurance company in 2020.*

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

For the year ended December 31, 2022	Retirement Living	SK LTC Homes	Total
Cash Flows from Discontinued Operations			
Net cash from (used in) operating activities	**829**	**(6,194)**	**(5,365)**
Net cash from investing activities	**244,789**	**7,506**	**252,295**
Net cash used in financing activities	**(119,165)**	**(2,631)**	**(121,796)**
Effect on cash flows	**126,453**	**(1,319)**	**125,134**

For the year ended December 31, 2021	Retirement Living	SK LTC Homes	Total
Cash Flows from Discontinued Operations			
Net cash from (used in) operating activities	7,597	(523)	7,074
Net cash used in investing activities	(1,134)	(636)	(1,770)
Net cash used in financing activities	(7,189)	(2,047)	(9,236)
Effect on cash flows	(726)	(3,206)	(3,932)

19. INCOME TAXES

Effective Tax Rate

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

	2022	2021[(i)]
(Loss) earnings from continuing operations before income taxes	**(4,496)**	13,985
Tax rate	**26.5 %**	26.5 %
Income taxes (recovery) at statutory rates of 26.5%	**(1,191)**	3,706
Income tax effect relating to the following items:		
Non-deductible items	**1,387**	2,796
Non-taxable (loss) income	**(119)**	9
Other items	**(62)**	(30)
Income tax expense from continuing operations	**15**	**6,481**

[(i)] *Comparative figures have been re-presented to reflect discontinued operations (Note 18).*

Summary of Operating and Capital Loss Carryforwards

The Company and its Canadian corporate subsidiaries have $3.2 million net operating loss carryforwards available as at December 31, 2022 (December 31, 2021 – $24.6 million), which expire in the years 2036 through 2040. These carryforwards are recognized in deferred tax assets, and capital loss carryforwards of $71.6 million (December 31, 2021 – $80.0 million) which have not been tax benefited, are available indefinitely to apply against future capital gains.

Net deferred tax assets decreased in 2022 to $0.4 million from a net deferred tax asset position of $5.6 million at December 31, 2021.

Recognized Deferred Tax Assets and Liabilities

Net deferred tax assets comprise the following:

			2022			2021
	Assets	**Liabilities**	**Net**	**Assets**	**Liabilities**	**Net**
Property and equipment, goodwill and other intangible assets	**7,616**	**29,214**	**21,598**	7,117	28,044	20,927
Provisions	**3,040**	**—**	**(3,040)**	2,881	—	(2,881)
Accrued pension and benefits obligation	**6,911**	**—**	**(6,911)**	8,945	—	(8,945)
Operating loss carryforwards	**851**	**—**	**(851)**	6,548	—	(6,548)
Other	**12,219**	**1,022**	**(11,197)**	9,544	1,360	(8,184)
Set-off of tax	**(23,347)**	**(23,347)**	**—**	(20,608)	(20,608)	—
Deferred tax (assets)/liabilities, net	**7,290**	**6,889**	**(401)**	14,427	8,796	(5,631)

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, 2022	**Recognized in Net Earnings**	**Recognized in Other Comprehensive Income**	**Recognized in Discontinued Operations**	**Other**	**Balance December 31, 2022**
Property and equipment, goodwill and other intangible assets	**20,927**	**(6,256)**	**—**	**6,927**	**—**	**21,598**
Provisions	**(2,881)**	**(159)**	**—**	**—**	**—**	**(3,040)**
Accrued pension and benefits obligation	**(8,945)**	**601**	**1,433**	**—**	**—**	**(6,911)**
Operating loss carryforwards	**(6,548)**	**5,697**	**—**	**—**	**—**	**(851)**
Other	**(8,184)**	**(3,018)**	**—**	**—**	**5**	**(11,197)**
Deferred tax (assets)/ liabilities, net	**(5,631)**	**(3,135)**	**1,433**	**6,927**	**5**	**(401)**

	Balance January 1, 2021	**Recognized in Net Earnings**	**Recognized in Other Comprehensive Income**	**Recognized in Discontinued Operations**	**Other**	**Balance December 31, 2021**
Property and equipment, goodwill and other intangible assets [(i)]	21,929	(956)	—	(46)	—	20,927
Provisions	(3,026)	145	—	—	—	(2,881)
Accrued pension and benefits obligation	(10,039)	556	538	—	—	(8,945)
Operating loss carryforwards	(6,946)	398	—	—	—	(6,548)
Other	(6,163)	(2,031)	—	—	10	(8,184)
Deferred tax (assets)/ liabilities, net	(4,245)	(1,888)	538	(46)	10	(5,631)

[(i)] *Comparative figures have been re-presented to reflect discontinued operations (Note 18).*

20. COMMITMENTS AND CONTINGENCIES

Commitments

As at December 31, 2022, the Company has outstanding commitments in connection with construction contracts for its LTC redevelopment projects currently under construction. The Company also has outstanding commitments in connection with various IT service and license agreements to support the transition of key IT platforms to cloud-based solutions in support of the Company's growth initiatives. The expected payments towards those obligations are due as follows:

	Construction Commitments	Technology Commitments	Total
2023	51,570	12,718	64,288
2024	4,368	10,513	14,881
2025 and thereafter	—	1,584	1,584
	55,938	24,815	80,753

Revera and Axium Transactions

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

REVERA TRANSACTIONS

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

On closing of the Revera Acquisition, the Company will enter into management contracts with Revera to manage all of Revera's other LTC homes, which comprise 31 Class C homes located in Ontario and one personal care home located in Manitoba, and will offer employment to Revera's head office LTC personnel. In addition, the Company will enter into development arrangement agreements with Revera in respect of the potential redevelopment of the Revera managed Class C homes in Ontario into new homes (collectively with the Revera Acquisition, the "Revera Transactions").

Pursuant to the development arrangement agreements, Revera will grant the Company (either alone or with Axium) a right to participate in any redevelopment of Revera's 31 Class C homes in Ontario should Revera determine to pursue redevelopment of any of those homes into new LTC homes. If the Company determines, in its discretion, to participate in any such redevelopment project, Revera will act as development and construction manager and will be paid customary development and construction management fees.

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

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

AXIUM TRANSACTION

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

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

Pursuant to the Axium MDA and a limited partnership agreement between affiliates and/or subsidiaries of Extendicare and Axium, the parties entered into a purchase and sale agreement whereby the limited partnership has agreed to purchase three Class C home redevelopment projects from the Company comprising an aggregate of 704 funded LTC beds currently under construction in Sudbury, Kingston and Stittsville, Ontario.

The Axium Transaction is subject to customary closing conditions, including receipt of regulatory approvals from the MLTC, and is not conditional on financing or due diligence. All required regulatory submissions have been filed.

Legal Proceedings and Regulatory Actions

In the ordinary course of business, the Company is involved in and potentially subject to legal proceedings brought against it from time to time in connection with its operations. The COVID-19 pandemic has increased the risk that litigation or other legal proceedings, regardless of merit, will be commenced against the Company.

In April 2021, the Company was served with a statement of claim filed in the Court of Queen's Bench for Saskatchewan alleging negligence, breach of fiduciary duty, breach of contract and breach of the required standard of care by the Company and certain unnamed defendants in respect of all residents of Company LTC homes and retirement communities located in Saskatchewan as well as their family members. The claim seeks an order certifying the action as a class action and unspecified damages.

In January 2022, the case management judge overseeing the Company's COVID-related class action granted a plaintiff's motion to, among other things, consolidate all four active class actions against the Company into one action pursuant to the *Class Proceedings Act* (Ontario). The consolidated claim is in respect of all Ontario LTC homes owned, operated, licensed and/or managed by the Company and its affiliates and names as defendants the Company, certain of its affiliates and the owners of any such managed LTC homes and alleges negligence, gross negligence, breach of fiduciary duty, breach of contract, unjust enrichment, wrongful death in respect of all persons who contracted COVID-19 at the residence or subsequently contracted COVID-19 from such persons and breach of section 7 of the *Canadian Charter of Rights and Freedoms*. The consolidated claim seeks damages in the aggregate of $110 million. The plaintiffs served the consolidated claim in June 2022 and the Company delivered its statement of defence in July 2022.

The Company intends to vigorously defend itself against these claims and these claims are subject to insurance coverage maintained by the Company. However, given the status of the proceedings, the Company is unable to assess their potential outcome and they could have a materially adverse impact on the Company's business, results of operations and financial condition.

In December 2020, the Government of Ontario passed Bill 218, *Supporting Ontario's Recovery Act* (Ontario), which provides targeted liability protection against COVID-19 exposure-related claims against any individual, corporation, or other entity that made a "good faith" or "honest" effort to act in accordance with public health guidance and laws relating to COVID-19 and did not otherwise act with "gross negligence". The protection under Bill 218 is retroactive to March 17, 2020, when Ontario first implemented emergency measures as part of its response to the COVID-19 pandemic. Similar legislation has been passed in other provincial jurisdictions, including Saskatchewan.

In October 2021, the Supreme Court of Canada dismissed an application for leave to appeal by the Attorney General of Ontario which sought to challenge the decision issued by the previous presiding court that ruled in favour of certain unions in respect of a legal challenge to a 2016 Pay Equity Tribunal decision. The unions argued that new pay equity adjustments were required in order to maintain pay equity with municipal LTC homes where personal support workers and other direct care workers in other industries are included in determining pay equity. The matter has now been referred back to the Pay Equity Tribunal to settle the matter between the participating LTC homes, unions and the Government and establish a framework for pay equity suitable for the sector. The Company, along with other participants in the long-term care sector, including the Government of Ontario, are working to resolve the matter. Given the uncertainty of the matter and the various stakeholders involved, and as a result the wide range of possible settlement outcomes and related funding changes the Company is unable to determine a reliable estimate of the potential outcome. Therefore, the Company did not record a provision with respect to this matter as at December 31, 2022. This matter could have a materially adverse impact on the Company's business, results of operations and financial condition.

21. EMPLOYEE BENEFITS

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

Defined Benefit Plans

The Company has benefit arrangements for certain of its executives, which include a registered defined benefit pension plan, as well as supplementary plans that provide pension benefits in excess of statutory limits and post-retirement health and dental benefits. 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.

	Defined Benefit Plan		Supplementary Defined Benefit Plans		Total	
	2022	**2021**	**2022**	**2021**	**2022**	**2021**
Fair value of plan assets	**4,222**	4,641	**1,998**	1,388	**6,220**	6,029
Present value of obligations	**5,646**	6,800	**26,655**	32,983	**32,301**	39,783
Deficit	**(1,424)**	(2,159)	**(24,657)**	(31,595)	**(26,081)**	(33,754)

DEFINED BENEFIT PLAN

As required by law, the registered defined benefit pension plan is 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, 2021 and completed in early 2022.

SUPPLEMENTARY DEFINED BENEFIT PLANS

The supplementary defined benefit pension plan is funded through a retirement compensation arrangement and secured through a letter of credit that is renewed annually.

The supplementary health and dental benefit plan is unfunded. The Company does not set aside other assets for this plan and the benefit payments are funded from cash generated from operations.

DEFINED BENEFIT OBLIGATIONS

	2022	**2021**
Present Value of Defined Benefit Obligations		
Accrued benefit obligations		
Balance at beginning of year	**39,783**	43,167
Current service cost	**20**	31
Benefits paid	**(2,667)**	(2,704)
Interest costs	**1,064**	946
Actuarial gain	**(5,899)**	(1,657)
Balance at end of year	**32,301**	39,783
Plan assets		
Fair value at beginning of year	**6,029**	5,290
Employer contributions	**705**	722
Actual (loss) return on plan assets	**(496)**	362
Interest income on plan assets	**170**	123
Benefits paid	**(188)**	(468)
Fair value at end of year	**6,220**	6,029
Defined benefit obligations	**26,081**	33,754

The Company's defined benefit obligations are recorded in the consolidated statements of financial position as follows:

	2022	**2021**
Accounts payable and accrued liabilities	**2,324**	2,335
Other long-term liabilities *(Note 10)*	**23,757**	31,419
Defined benefit obligations, end of year	**26,081**	33,754

EFFECT OF CHANGES TO DEFINED BENEFIT OBLIGATIONS

	2022	**2021**
Expenses Recognized in Net Earnings		
Annual benefit plan expenses		
Current service cost	**20**	31
Interest costs	**894**	823
Defined benefit plan expenses included in administrative costs	**914**	854
Actuarial Losses Recognized in Other Comprehensive Income		
Amount in accumulated deficit at January 1	**(11,717)**	(13,198)
Actuarial gain arising from changes in liability experience and assumption changes	**5,899**	1,657
(Loss) return on assets	**(496)**	362
Income tax expense on actuarial gain	**(1,433)**	(538)
Amount in accumulated deficit at December 31	**(7,747)**	(11,717)

PLAN ASSETS

	2022	2021
Equities	**52 %**	47 %
Fixed income securities	**40 %**	36 %
Real estate / commercial mortgage	**8 %**	17 %
	100 %	100 %

ACTUARIAL ASSUMPTIONS

	2022	2021
Discount rate for accrued obligation at end of year	**5.00 %**	2.75 %
Discount rate for plan expenses	**2.75 %**	2.25 %
Rate of compensation increase	**— %**	— %
Income Tax Act limit increase	**3.00 %**	3.00 %
Average remaining service years of active employees	**2**	2
Mortality table	**CPM2014Publ w/ MI-2017**	CPM2014Publ w/ MI-2017

The present value of the pension and benefit 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 and benefit 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 2022 by the amounts shown below.

	Increase (Decrease) in Benefit Obligation	Increase (Decrease) in Net Earnings
Discount rate		
1% increase	(2,248)	89
1% decrease	2,589	(121)
Mortality rate		
10% increase	(724)	37
10% decrease	794	(40)

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 to these various plans in December 31, 2022 were $13.0 million (December 31, 2021 – $12.8 million).

22. 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 its 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:

As at December 31, 2022	Carrying Amount	Contractual Cash Flows	Less than 1 Year	1-2 Years	2-5 Years	More than 5 Years
Convertible unsecured subordinated debentures	**123,719**	**141,256**	6,325	6,325	128,606	—
CMHC mortgages, fixed rate	**43,498**	**57,981**	5,569	4,930	13,651	33,831
CMHC mortgages, variable rate	**21,121**	**22,461**	1,461	1,466	19,534	—
Non-CMHC mortgages and loans	**103,248**	**138,667**	9,216	9,216	64,088	56,147
Construction facilities and loans	**33,288**	**33,288**	—	33,288	—	—
Lease liabilities	**63,502**	**74,926**	15,737	15,428	35,681	8,080
Accounts payable and accrued liabilities	**250,140**	**250,140**	250,140	—	—	—
Income taxes payable	**5,606**	**5,606**	5,606	—	—	—
	644,122	**724,325**	**294,054**	**70,653**	**261,560**	**98,058**

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

In addition to cash generated from its operations and cash on hand as at December 31, 2022, the Company has available undrawn credit facilities totalling $77.0 million (December 31, 2021 – $72.8 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:

	Carrying Amount	
	2022	**2021**
Cash and cash equivalents	**167,281**	104,627
Restricted cash	**2,701**	3,027
Accounts receivable, net of allowance	**61,166**	69,435
Construction funding subsidy receivable	**32,142**	36,271
	263,290	213,360

Cash and Cash Equivalents

Cash and cash equivalents are held with highly-rated financial institutions in Canada.

Restricted Cash

Restricted cash is cash held mainly on account of lender capital reserves with highly-rated financial institutions in Canada, and minimal credit risk.

Accounts Receivable, Net of Allowance

The Company evaluates the adequacy of its provision for expected credit losses on trade and other receivables by conducting a specific account review of amounts in excess of predefined target amounts and aging thresholds, and are considered based upon historical credit loss experiences for each payor type and age of the receivables, adjusted for current and forecasted future economic conditions. 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.

As at December 31, 2022 and 2021, receivables from government agencies represented approximately 86% of the total receivables. 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.

The aging analysis of these trade receivables is as follows:

	2022	2021
Current	**46,078**	54,942
Between 30 and 90 days	**8,476**	8,125
Over 90 days	**7,354**	5,641
Less: provision for receivable impairment	**(2,095)**	(1,829)
	59,813	66,879

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.

Construction Funding Subsidy Receivable

Included in construction funding subsidy receivable were $32.1 million (December 31, 2021 – $36.3 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 7)*. 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 loss as and when payments are made.

	2022		2021	
	US$	**C$**	***US$***	**C$**
Assets				
Current assets	*1,456*	**1,974**	*11,759*	14,861
Liabilities				
Current liabilities	*759*	**1,029**	*820*	1,036
Net asset exposure	*697*	**945**	*10,939*	13,825

INTEREST RATE RISK

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

To mitigate interest rate risk, the Company's debt portfolio includes fixed-rate debt and variable-rate debt with interest rate swaps in place. At December 31, 2022, CMHC variable-rate mortgages of $21.1 million and construction facilities and loans of $33.3 million (December 31, 2021 – $22.0 million and $45.5 million respectively) 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 9*).

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 the Company's fixed-rate debt and therefore, would not impact net earnings.

Below is the interest rate profile of the Company's interest-bearing financial instruments, which reflects the impact of the interest rate swaps:

	2022		2021	
	Percentage of Total Debt	**Carrying Amount**	**Percentage of Total Debt**	**Carrying Amount**
Fixed-rate long-term debt(i)	**86.0 %**	**333,967**	88.4 %	478,889
Variable-rate long-term debt(i)	**14.0 %**	**54,409**	11.6 %	67,467
Total	**100.0 %**	**388,376**	100.0 %	546,356

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

Fair Value Sensitivity Analysis for Variable-rate Instruments

All long-term debt with variable rates are classified as other financial liabilities, which are measured at amortized cost using the effective interest method of amortization; therefore, changes in interest rates would not affect OCI or net earnings with respect to variable-rate debt. 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 $0.4 million and a decrease of 100 basis points in interest rates would have increased net earnings by $0.4 million. This analysis assumes that all other variables, in particular foreign currency rates, remains constant, and excludes variable interest rate debt that is locked in through interest rate swaps.

b) Fair Values of Financial Instruments

As at December 31, 2022	Amortized Cost	Fair Value Through Profit and Loss	Total Carrying Amount	Fair Value	Fair Value Hierarchy
Financial assets					
Cash and cash equivalents	**167,281**	**—**	**167,281**	**167,281**	Level 1
Restricted cash	**2,701**	**—**	**2,701**	**2,701**	Level 1
Accounts receivable	**61,166**	**—**	**61,166**	**61,166**	N/A
Interest rate swaps	**—**	**216**	**216**	**216**	Level 2
Construction funding subsidy receivable(i)	**32,142**	**—**	**32,142**	**30,636**	Level 2
	263,290	**216**	**263,506**	**262,000**	
Financial liabilities					
Accounts payable	**38,584**	**—**	**38,584**	**38,584**	N/A
Long-term debt(i)(ii)	**264,657**	**—**	**264,657**	**263,441**	Level 2
Convertible unsecured subordinated debentures	**123,719**	**—**	**123,719**	**119,543**	Level 1
	426,960	**—**	**426,960**	**421,568**	

(i) *Includes current portion.*
(ii) *Excludes convertible debentures and netting of deferred financing costs.*

As at December 31, 2021	Amortized Cost	Fair Value Through Profit and Loss	Total Carrying Amount	Fair Value	Fair Value Hierarchy
Financial assets					
Cash and cash equivalents	104,627	—	104,627	104,627	Level 1
Restricted cash	3,027	—	3,027	3,027	Level 1
Accounts receivable	69,435	—	69,435	69,435	N/A
Construction funding subsidy receivable(i)	36,271	—	36,271	36,129	Level 2
	213,360	—	213,360	213,218	
Financial liabilities					
Accounts payable	28,956	—	28,956	28,956	N/A
Interest rate swaps	—	736	736	736	Level 2
Long-term debt(i)(ii)	423,712	—	423,712	446,360	Level 2
Convertible unsecured subordinated debentures	122,644	—	122,644	125,804	Level 1
	575,312	736	576,048	601,856	

(i) *Includes current portion.*
(ii) *Excludes convertible debentures and netting of deferred financing costs.*

BASIS FOR DETERMINING FAIR VALUES

The following summarizes the significant methods and assumptions used in estimating the fair values of financial instruments reflected in the previous table.

Fair values for investments designated as FVTPL are based on quoted market prices. Accounts receivable are recorded at amortized cost. The carrying values of accounts receivable approximate fair values due to their short-term maturities, with the exception of the amounts receivable due from the Government of Ontario, which are valued at discounted future cash flows using current applicable rates for similar instruments of comparable maturity and credit quality (*Note 7*). 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.

23. 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 continuously monitors the level, nature and maturity dates of debt and level of leverage and interest coverage ratios to ensure 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 cash equivalents, and share capital.

	2022	**2021**
Current portion of long-term debt[(i)]	**19,239**	73,577
Long-term debt[(i)]	**364,735**	463,274
Total debt	**383,974**	536,851
Less: cash and cash equivalents	**(167,281)**	(104,627)
Net debt	**216,693**	432,224
Share capital	**475,415**	500,877
Total capital structure	**692,108**	933,101

[(i)] *Net of deferred financing costs.*

24. RELATED PARTY TRANSACTIONS

Compensation of Key Management Personnel

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

	2022	**2021**
Salaries and short-term benefits	**3,480**	3,938
Share-based compensation	**2,778**	2,561
Total compensation	**6,258**	6,499

25. SIGNIFICANT SUBSIDIARIES

The following is a list of the significant subsidiaries as at December 31, 2022, all of which are 100% directly or indirectly owned by the Company.

	Jurisdiction of Incorporation
Extendicare (Canada) Inc.	Canada
ParaMed Inc.	Canada

26. SEGMENTED INFORMATION

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

The long-term care segment represents the 53 long-term care homes that the Company owns and operates in Canada. Through the Company’s wholly owned subsidiary ParaMed, ParaMed’s home health care operations provide complex nursing care, occupational, physical and speech therapy, and assistance with daily activities to accommodate those living at home.

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

The Company’s Saskatchewan LTC Homes were transitioned to SHA, and the Company’s retirement living segment was sold; the two are treated as discontinued operations and are therefore, excluded from continuing operations (*Note 18*).

	2022				
	Long-term Care	**Home Health Care**	**Managed Services**	**Corporate**	**Total**
CONTINUING OPERATIONS					
Revenue	**767,095**	**421,647**	**32,835**	**—**	**1,221,577**
Operating expenses	**698,548**	**399,152**	**15,348**	**—**	**1,113,048**
Net operating income	**68,547**	**22,495**	**17,487**	**—**	**108,529**
Administrative costs				**51,075**	**51,075**
Earnings before depreciation, amortization, and other expense					**57,454**
Depreciation and amortization				**31,559**	**31,559**
Other expense				**13,953**	**13,953**
Earnings before net finance costs and income taxes					**11,942**
Net finance costs				**16,438**	**16,438**
Loss before income taxes					**(4,496)**
Income Tax Expense (Recovery)					
Current				**3,150**	**3,150**
Deferred				**(3,135)**	**(3,135)**
Total income tax expense				**15**	**15**
Loss from continuing operations					**(4,511)**
DISCONTINUED OPERATIONS					
Earnings from discontinued operations, net of income taxes					**74,065**
Net earnings					**69,554**

	2021[i]				
	Long-term Care	**Home Health Care**	**Managed Services**	**Corporate**	**Total**
CONTINUING OPERATIONS					
Revenue	728,655	410,559	27,773	—	1,166,987
Operating expenses	661,368	361,002	11,647	—	1,034,017
Net operating income	67,287	49,557	16,126	—	132,970
Administrative costs				52,431	52,431
Earnings before depreciation, amortization, and other expense					80,539
Depreciation and amortization				30,831	30,831
Other expense				14,969	14,969
Earnings before net finance costs and income taxes					34,739
Net finance costs				20,754	20,754
Earnings before income taxes					13,985
Income Tax Expense (Recovery)					
Current				8,369	8,369
Deferred				(1,888)	(1,888)
Total income tax expense				6,481	6,481
Earnings from continuing operations					7,504
DISCONTINUED OPERATIONS					
Earnings from discontinued operations, net of income taxes					4,000
Net earnings					11,504

[i] *Comparative figures have been re-presented to reflect discontinued operations (Note 18).*

Stock Exchange Listing

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

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Published Information

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

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