



**INTERIM CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS AND NOTES**

**Q3 2019**

Extendicare Inc.  
Dated: November 7, 2019

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

<i>(in thousands of Canadian dollars)</i>	<i>notes</i>	September 30, 2019	December 31, 2018
<b>Assets</b>			
Current assets			
Cash and short-term investments		96,798	65,893
Restricted cash		2,591	2,290
Accounts receivable		43,542	50,570
Income taxes recoverable		13,685	17,316
Other assets	5	21,603	21,465
<b>Total current assets</b>		<b>178,219</b>	<b>157,534</b>
Non-current assets			
Property and equipment	3, 4	530,328	514,849
Goodwill and other intangible assets		90,576	95,200
Other assets	5	87,162	118,996
Deferred tax assets		13,909	9,745
<b>Total non-current assets</b>		<b>721,975</b>	<b>738,790</b>
<b>Total assets</b>		<b>900,194</b>	<b>896,324</b>
<b>Liabilities and Equity</b>			
Current liabilities			
Accounts payable and accrued liabilities		135,568	133,654
Income taxes payable		778	1,073
Long-term debt	3, 7	95,060	74,626
Provisions	6	10,077	17,621
<b>Total current liabilities</b>		<b>241,483</b>	<b>226,974</b>
Non-current liabilities			
Long-term debt	3, 7	463,865	454,344
Provisions	6	29,688	42,595
Other long-term liabilities	8	37,938	35,077
Deferred tax liabilities		12,833	11,343
<b>Total non-current liabilities</b>		<b>544,324</b>	<b>543,359</b>
<b>Total liabilities</b>		<b>785,807</b>	<b>770,333</b>
Share capital	10	496,689	492,064
Equity portion of convertible debentures		7,085	7,085
Contributed surplus		3,299	2,706
Accumulated deficit		(381,576)	(368,147)
Accumulated other comprehensive loss		(11,110)	(7,717)
<b>Shareholders' equity</b>		<b>114,387</b>	<b>125,991</b>
<b>Total liabilities and equity</b>		<b>900,194</b>	<b>896,324</b>

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

*Commitments and contingencies (note 16).*

*Subsequent event (note 7).*

**Extendicare Inc.**  
**Interim Condensed Consolidated Statements of Earnings**  
(unaudited)

<i>(in thousands of Canadian dollars except for per share amounts)</i>	<i>notes</i>	Three months ended September 30,		Nine months ended September 30,	
		2019	2018	2019	2018
<b>CONTINUING OPERATIONS</b>					
<b>Revenue</b>	<i>18</i>	<b>282,733</b>	280,302	<b>841,055</b>	831,214
Operating expenses		<b>247,866</b>	244,810	<b>740,482</b>	730,093
Administrative costs	<i>3</i>	<b>11,279</b>	11,099	<b>32,460</b>	29,421
<b>Total expenses</b>	<i>11</i>	<b>259,145</b>	255,909	<b>772,942</b>	759,514
<b>Earnings before depreciation, amortization, and other expense</b>		<b>23,588</b>	24,393	<b>68,113</b>	71,700
Depreciation and amortization	<i>3</i>	<b>9,861</b>	9,014	<b>28,993</b>	25,086
Other expense	<i>12</i>	–	–	<b>2,404</b>	3,553
<b>Earnings before net finance costs and income taxes</b>		<b>13,727</b>	15,379	<b>36,716</b>	43,061
Interest expense	<i>3</i>	<b>7,198</b>	6,729	<b>21,110</b>	20,899
Interest revenue		<b>(919)</b>	(902)	<b>(2,684)</b>	(2,835)
Accretion		<b>386</b>	739	<b>1,450</b>	2,243
Foreign exchange and fair value adjustments	<i>13</i>	<b>(426)</b>	(1,322)	<b>(518)</b>	(1,892)
Net finance costs		<b>6,239</b>	5,244	<b>19,358</b>	18,415
<b>Earnings before income taxes</b>		<b>7,488</b>	10,135	<b>17,358</b>	24,646
<b>Income tax expense (recovery)</b>					
Current		<b>2,666</b>	2,659	<b>7,219</b>	6,128
Deferred		<b>(425)</b>	(122)	<b>(2,019)</b>	1,379
Total income tax expense		<b>2,241</b>	2,537	<b>5,200</b>	7,507
<b>Earnings from continuing operations</b>		<b>5,247</b>	7,598	<b>12,158</b>	17,139
<b>DISCONTINUED OPERATIONS</b>					
Earnings from discontinued operations, net of income taxes	<i>15</i>	<b>2,012</b>	975	<b>6,384</b>	8,092
<b>Net earnings</b>		<b>7,259</b>	8,573	<b>18,542</b>	25,231
<b>Basic and Diluted Earnings per Share</b>					
Earnings from continuing operations	<i>14</i>	<b>0.06</b>	0.08	<b>0.14</b>	0.19
Net earnings	<i>14</i>	<b>0.08</b>	0.10	<b>0.21</b>	0.29

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

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

<i>(in thousands of Canadian dollars)</i>	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
<b>Net earnings</b>	<b>7,259</b>	8,573	<b>18,542</b>	25,231
<b>Other comprehensive income (loss), net of income taxes</b>				
Items that will not be reclassified to profit or loss:				
Defined benefit plan actuarial gains (losses)	<b>(215)</b>	1,641	<b>(2,740)</b>	793
Tax recovery (expense) on defined benefit plan actuarial losses	<b>57</b>	(434)	<b>726</b>	(210)
Defined benefit plan actuarial gains (losses), net of taxes	<b>(158)</b>	1,207	<b>(2,014)</b>	583
Items that are or may be reclassified subsequently to profit or loss:				
Net change in foreign currency translation adjustment	<b>243</b>	(569)	<b>(1,379)</b>	700
Other comprehensive income (loss), net of tax	<b>85</b>	638	<b>(3,393)</b>	1,283
<b>Total comprehensive income</b>	<b>7,344</b>	9,211	<b>15,149</b>	26,514

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

# Extencicare Inc.

## Interim Condensed Consolidated Statements of Changes in Equity

(unaudited)

<i>(in thousands of Canadian dollars)</i>	<i>notes</i>	<i>Number of Shares</i>	<i>Share capital</i>	<i>Equity portion of convertible debentures</i>	<i>Contributed surplus</i>	<i>Accumulated deficit</i>	<i>Accumulated other comprehensive income (loss)</i>	<i>Shareholders' equity</i>
<b>Balance at January 1, 2019</b>		<b>88,489,984</b>	<b>492,064</b>	<b>7,085</b>	<b>2,706</b>	<b>(368,147)</b>	<b>(7,717)</b>	<b>125,991</b>
<b>DRIP</b>		<b>526,266</b>	<b>3,996</b>	–	–	–	–	<b>3,996</b>
<b>Share-based compensation</b>	<i>9</i>	<b>49,062</b>	<b>629</b>	–	<b>593</b>	–	–	<b>1,222</b>
<b>Net earnings</b>		–	–	–	–	<b>18,542</b>	–	<b>18,542</b>
<b>Dividends declared</b>		–	–	–	–	<b>(31,971)</b>	–	<b>(31,971)</b>
<b>Other comprehensive loss</b>		–	–	–	–	–	<b>(3,393)</b>	<b>(3,393)</b>
<b>Balance at September 30, 2019</b>		<b>89,065,312</b>	<b>496,689</b>	<b>7,085</b>	<b>3,299</b>	<b>(381,576)</b>	<b>(11,110)</b>	<b>114,387</b>

<i>(in thousands of Canadian dollars)</i>	<i>notes</i>	<i>Number of Shares</i>	<i>Share capital</i>	<i>Equity portion of convertible debentures</i>	<i>Contributed surplus</i>	<i>Accumulated deficit</i>	<i>Accumulated other comprehensive income (loss)</i>	<i>Shareholders' equity</i>
Balance at January 1, 2018, previously reported		88,523,290	490,881	5,573	2,437	(365,084)	(4,851)	128,956
Adoption of new standard <sup>(1)</sup>		–	–	–	–	4,334	(4,334)	–
Balance at January 1, 2018		88,523,290	490,881	5,573	2,437	(360,750)	(9,185)	128,956
DRIP		476,701	3,737	–	–	–	–	3,737
Purchase of shares for cancellation	<i>10</i>	(703,585)	(3,903)	–	–	(2,357)	–	(6,260)
Share-based compensation	<i>9</i>	19,918	158	–	55	–	–	213
Redemption of convertible debentures		–	–	(5,573)	–	5,573	–	–
Issuance of convertible debentures		–	–	7,085	–	–	–	7,085
Net earnings		–	–	–	–	25,231	–	25,231
Dividends declared		–	–	–	–	(31,740)	–	(31,740)
Other comprehensive income		–	–	–	–	–	1,283	1,283
<b>Balance at September 30, 2018</b>		<b>88,316,324</b>	<b>490,873</b>	<b>7,085</b>	<b>2,492</b>	<b>(364,043)</b>	<b>(7,902)</b>	<b>128,505</b>

See accompanying notes to unaudited interim condensed consolidated financial statements.

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

# Extendicare Inc.

## Interim Condensed Consolidated Statements of Cash Flows

(unaudited)

<i>(in thousands of Canadian dollars)</i>	<i>notes</i>	Three months ended September 30,		Nine months ended September 30,	
		2019	2018	2019	2018
<b>Operating Activities</b>					
Net earnings		7,259	8,573	18,542	25,231
Adjustments for:					
Depreciation and amortization	3	9,861	9,014	28,993	25,086
Share-based compensation	9	698	(814)	1,222	216
Deferred taxes		(425)	(122)	(1,997)	1,106
Current taxes		2,666	2,659	7,197	6,401
Net finance costs	3	6,665	6,566	19,876	20,307
Other income		(2,012)	(975)	(3,980)	(4,539)
Foreign exchange and fair value adjustments		(426)	(1,322)	(518)	(1,892)
		<b>24,286</b>	23,579	<b>69,335</b>	71,916
Net change in operating assets and liabilities					
Accounts receivable		4,936	(3,225)	7,036	(3,955)
Other assets		(450)	(893)	78	(593)
Accounts payable and accrued liabilities		3,355	2,688	(3,010)	7,151
		<b>32,127</b>	22,149	<b>73,439</b>	74,519
Payments for self-insured liabilities		(193)	(4,284)	(12,517)	(10,239)
Interest paid		(5,924)	(5,051)	(19,191)	(19,532)
Interest received		907	982	2,675	2,854
Income taxes refund (paid)		1,445	68	(4,212)	(9,318)
<b>Net cash from operating activities</b>	3	<b>28,362</b>	13,864	<b>40,194</b>	38,284
<b>Investing Activities</b>					
Purchase of property, equipment and other intangible assets		(8,066)	(12,588)	(23,492)	(35,329)
Acquisitions		–	–	–	(33,767)
Decrease in investments held for self-insured liabilities		304	4,464	26,514	9,161
Decrease in other assets		1,371	1,299	4,115	3,751
<b>Net cash from (used in) investing activities</b>		<b>(6,391)</b>	(6,825)	<b>7,137</b>	(56,184)
<b>Financing Activities</b>					
Issuance of long-term debt		5,970	18,355	33,749	148,988
Repayment of long-term debt	3	(6,300)	(14,157)	(20,340)	(153,212)
Decrease (increase) in restricted cash		(16)	403	(301)	142
Purchase of securities for cancellation		–	–	–	(6,258)
Dividends paid		(9,294)	(9,302)	(27,950)	(28,011)
Financing costs		(32)	(126)	(1,023)	(5,840)
Other		–	471	–	471
<b>Net cash used in financing activities</b>		<b>(9,672)</b>	(4,356)	<b>(15,865)</b>	(43,720)
Increase (decrease) in cash and short-term investments		12,299	2,683	31,466	(61,620)
Cash and short-term investments at beginning of period		84,406	64,822	65,893	128,156
Foreign exchange gain (loss) on cash held in foreign currency		93	(95)	(561)	874
<b>Cash and short-term investments at end of period</b>		<b>96,798</b>	67,410	<b>96,798</b>	67,410

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

# Notes to Unaudited Interim Condensed Consolidated Financial Statements

THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018

*(Amounts in thousands of Canadian dollars, unless otherwise noted)*

1	<b>General Information and Nature of the Business</b> .....	7
2	<b>Basis of Preparation</b> .....	7
3	<b>New Accounting Policies Adopted</b> .....	8
4	<b>Property and Equipment</b> .....	9
5	<b>Other Assets</b> .....	9
6	<b>Provisions</b> .....	10
7	<b>Long-term Debt</b> .....	11
8	<b>Other Long-term Liabilities</b> .....	12
9	<b>Share-based Compensation</b> .....	12
10	<b>Share Capital</b> .....	13
11	<b>Expenses by Nature</b> .....	14
12	<b>Other Expense</b> .....	14
13	<b>Foreign Exchange and Fair Value Adjustments</b> .....	14
14	<b>Earnings per Share</b> .....	14
15	<b>Discontinued Operations</b> .....	15
16	<b>Commitments and Contingencies</b> .....	15
17	<b>Management of Risks and Financial Instruments</b> .....	16
18	<b>Segmented Information</b> .....	19

## 1. GENERAL INFORMATION AND NATURE OF THE BUSINESS

The common shares (the “Common Shares”) of Extencicare Inc. (“Extencicare” or the “Company”) are listed on the Toronto Stock Exchange (TSX) under the symbol “EXE”. Extencicare and its predecessors have been operating since 1968, providing care and services to seniors throughout Canada. Following the sale of its U.S. business in 2015, the Company has repositioned itself as a leading provider of care and services across Canada, committed to delivering quality care throughout the health continuum to meet the needs of a growing seniors population.

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

## 2. BASIS OF PREPARATION

### a) Statement of Compliance

The interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standards (IAS) 34 “Interim Financial Reporting”, as issued by the International Accounting Standards Board (IASB), and were approved by the board of directors of Extencicare Inc. (the “Board”) on November 7, 2019.

The interim condensed consolidated financial statements do not include all of the information required for full annual financial statements, and should be read in conjunction with Extencicare Inc.’s 2018 annual consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS). These interim condensed consolidated financial statements follow the same accounting policies and methods of application as the consolidated financial statements as at and for the year ended December 31, 2018, except for those identified in *note 3*. Certain comparative information has been reclassified to conform to the current year presentation.

### b) Basis of Measurement

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

### c) Use of Estimates and Judgement

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

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

The more subjective of such estimates are:

- determination of the lease term for leases that include renewal options and the appropriate discount rate used to recognize lease liability (*note 3*);
- valuation of indemnification provisions (*note 6*);
- valuation of self-insured liabilities (*note 6*);
- valuation of equity portion of convertible debentures;
- valuation of financial assets and liabilities (*note 17(b)*);
- valuation of share-based compensation (*note 9*);
- determination of the recoverable amount of cash generating units (CGUs) subject to an impairment test; and
- accounting for tax uncertainties and the tax rates used for valuation of deferred taxes.



In addition, the assessment of contingencies (*note 16*) is subject to judgement. The recorded amounts for such items are based on management's best available information and are subject to assumptions and judgement, which may change as time progresses; accordingly, actual results could differ from estimates.

### 3. NEW ACCOUNTING POLICIES ADOPTED

#### Leases

Effective January 1, 2019, the Company adopted IFRS 16 "Leases", which supersedes IAS 17 "Leases" and related interpretations. This new standard requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value, using a single accounting model, thereby eliminating the distinction between operating and finance leases. The nature and timing of the related expense has changed as IFRS 16 replaces the straight-line lease costs with a depreciation charge for right-of-use assets and interest expense on lease liabilities.

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

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

#### TRANSITION

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

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

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

#### IMPACTS ON FINANCIAL STATEMENTS

##### *i. Impacts on transition*

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

##### *ii. Impacts for the period*

The Company recognized \$0.6 million of depreciation expense and \$0.2 million of interest expense for the three months ended September 30, 2019, and \$2.0 million and \$0.3 million, respectively, for the nine months ended September 30, 2019, related to the leases impacted by the adoption of IFRS 16.

#### Income Taxes

On June 7, 2017, the IASB issued IFRIC Interpretation 23 "Uncertainty over Income Tax Treatments". The interpretation provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. Effective January 1, 2019, the Company adopted the IFRIC Interpretation 23, with no material impact on the interim condensed consolidated financial statements.

#### 4. PROPERTY AND EQUIPMENT

	September 30, 2019	December 31, 2018
Land and land improvements	60,901	58,280
Buildings	635,067	587,161
Furniture and equipment	64,169	63,047
Leasehold improvements	1,226	1,927
Construction in progress	13,879	30,851
	775,242	741,266
less: accumulated depreciation	(244,914)	(226,417)
	<b>530,328</b>	<b>514,849</b>

The right-of-use assets included in buildings were \$97.4 million (December 31, 2018 – \$81.0 million) with accumulated depreciation of \$36.0 million (December 31, 2018 – \$32.2 million).

During the second quarter of 2019, the Company renewed the lease for its corporate office for 10 years with renewal options. As a result, the Company recognized \$10.3 million of right-of-use asset and lease liability, in accordance with IFRS 16.

For the nine months ended September 30, 2019, the Company capitalized \$0.7 million of borrowing costs related to development projects under construction at an average capitalization rate of 4.5% (2018 – \$0.9 million at 4.8%).

#### 5. OTHER ASSETS

	September 30, 2019	December 31, 2018
Investments held for self-insured liabilities	41,942	67,938
Amounts receivable and other assets	65,762	69,967
Interest rate swaps	1,061	2,556
	108,765	140,461
less: current portion	(21,603)	(21,465)
	<b>87,162</b>	<b>118,996</b>

##### Investments Held for Self-insured Liabilities

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

Extendicare holds U.S. dollar-denominated investments within the Captive for settlements of the self-insured liabilities that are subject to insurance regulatory requirements (*note 6*).

As at September 30, 2019, the investment portfolio comprises cash of \$7.2 million (December 31, 2018 – \$5.8 million), money market funds of \$34.8 million (December 31, 2018 – \$53.8 million), and no investment-grade corporate securities (December 31, 2018 – \$8.3 million). Certain of these investments in the amount of \$12.4 million (December 31, 2018 – \$35.1 million), have been pledged as collateral for letters of credit issued by the banker of the Captive in favour of ceding companies. As at September 30, 2019, all investments were carried at fair value, with changes in fair value reflected in earnings (*note 13*).

##### Amounts Receivable and Other Assets

Amounts receivable and other assets include discounted amounts receivable due from the government of Ontario with respect to construction funding subsidies for long-term care centres, totalling \$49.2 million (December 31, 2018 – \$53.3 million) of which \$5.7 million (December 31, 2018 – \$5.5 million) is current. These subsidies represent funding for a portion of long-term care centre construction costs over a 20-year or 25-year period. The weighted average remaining term of this funding is 14 years.

Also included in amounts receivable and other assets is a \$1.4 million receivable as at September 30, 2019 (December 31, 2018 – \$2.0 million), resulting from the U.S. Sale Transaction, as well as prepaid expenses and deposits.

### Interest Rate Swaps

The interest rate swaps include swap contracts relating to mortgages, with notional amount totalling \$82.8 million, to lock in the rates between 3.11% and 5.04% for the full term of the loans being five to ten years (*note 7*).

All interest rate swap contracts are measured at fair value through profit or loss, and hedge accounting has not been applied. Changes in fair value are recorded in the statements of earnings (*note 13*). As at September 30, 2019, the interest rate swaps were valued at a nominal net asset, including a liability of \$1.0 million (*notes 7 and 8*) (December 31, 2018 – net asset of \$2.0 million, including a liability of \$0.5 million).

## 6. PROVISIONS

	September 30, 2019	December 31, 2018
Accrual for self-insured liabilities	17,789	37,138
Indemnification provisions	12,498	13,713
Decommissioning provisions	9,478	9,365
Total provisions	39,765	60,216
Less: current portion	(10,077)	(17,621)
	<b>29,688</b>	<b>42,595</b>

### Accrual for Self-Insured Liabilities

The obligation to settle U.S. self-insured general and professional liability claims relating to the period prior to the closing of the U.S. Sale Transaction, including claims incurred but yet to be reported, remains with Extencicare, which it intends to fund through the Captive. Consequently, the balance of the accrual for self-insured liabilities and the related investments held for self-insured liabilities (*note 5*) remain on the consolidated statement of financial position. However, any expense incurred or release of reserves for U.S. self-insured liabilities are presented as discontinued operations; while the Captive's costs to administer and manage the settlement of the remaining claims are reported as continuing operations within the U.S. segment.

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

As at September 30, 2019, the accrual for self-insured general and professional liabilities was \$17.8 million (US\$13.4 million) compared to \$37.1 million (US\$27.2 million) as at December 31, 2018. The decline represented mainly claim payments and the release of reserves (*note 15*).

### Indemnification Provisions

As a result of the U.S. Sale Transaction, the Company agreed to indemnify certain obligations of the U.S. operations related to tax, a corporate integrity agreement (the "CIA"), and other items. Any revisions to these estimates are reflected as part of other expense in discontinued operations (*note 15*). As at September 30, 2019, the remaining provisions totalled \$12.5 million (US\$9.4 million) (2018 – \$13.7 million or US\$10.1 million). Actual results can differ materially from the estimates made due to a number of factors including the assumptions used by management and other market forces.

### Decommissioning Provisions

The decommissioning provisions relate to possible asbestos remediation of Extencicare's pre-1980 constructed centres. An estimated undiscounted cash flow amount of approximately \$11.0 million was discounted using a rate of 1.98% over an estimated time to settle of 6 years. This represents management's best estimate and actual amounts may differ.

## 7. LONG-TERM DEBT

	Interest Rate	Year of Maturity	September 30, 2019	December 31, 2018
Convertible unsecured subordinated debentures	5.0%	2025	120,445	119,775
CMHC mortgages	2.81% - 7.7%	2020 - 2037	122,285	114,083
Non-CMHC mortgages	3.11% - 5.637%	2020 - 2038	165,683	169,670
Construction loans	variable	on demand	70,633	52,866
Lease obligations	2.28% - 7.19%	2019 - 2034	88,115	80,992
			<b>567,161</b>	537,386
Deferred financing costs			<b>(8,236)</b>	(8,416)
Total debt, net of deferred financing costs			<b>558,925</b>	528,970
Less: current portion			<b>(95,060)</b>	(74,626)
Long-term debt, net of deferred financing costs			<b>463,865</b>	454,344

A summary of significant changes in long-term debt since December 31, 2018, is provided below.

### CMHC Mortgages

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

### Construction Loans

Construction financings totalling \$87.6 million for four retirement development projects in Simcoe, Bolton, Uxbridge, and Barrie are available and provide for additional letter of credit facilities of \$0.5 million, \$0.8 million, \$0.8 million, and \$1.0 million respectively, at rates ranging from 2.25% to 2.5% if utilized. Loan payments are interest-only based on a variable rate of 30-day banker's acceptance (BA) plus 2.25% to 2.5%, with no standby fee.

The construction loans are repayable on demand and, in any event, are to be fully repaid: by the earlier of achieving stabilized occupancy as defined by the agreements and specified dates of late 2019 for Simcoe, and between late 2019 and 2021 for Bolton and Uxbridge; and by the earlier of September 2023 and three months following stabilized occupancy as defined by the agreement for Barrie. Subsequent to September 30, 2019, the Company secured a CMHC-insured mortgage of \$9.3 million, inclusive of fees, on the Cedar Crossing Retirement Community in Simcoe, Ontario, that matures in September 2029, with a fixed rate of 2.49% per annum.

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

As at September 30, 2019, an aggregate of \$70.6 million was drawn on the construction loans, leaving \$17.0 million available; in addition, letters of credit totalling \$1.2 million were issued under credit facilities, leaving \$1.8 million available.

### Lease Obligations

Lease obligations outstanding as at September 30, 2019 include leases on long-term care centres, customized cloud-based software, and the liability related to office leases (*note 3*). The Company operates nine Ontario long-term care centres, which were built between 2001 and 2003, under 25-year lease arrangements. The software balance will be amortized over the contract term of five years. The liability associated with the office lease obligations will be amortized over the remaining lease terms ranging up to fifteen years.

### Credit Facilities

The Company has two demand credit facilities totalling \$112.3 million, secured by either 13 Class C long-term care centres in Ontario or the assets of the home health care business. Neither of these facilities has financial covenants, but do contain normal and customary terms. As at September 30, 2019, \$38.1 million of the facilities secure the Company's defined benefit pension plan obligations, \$5.5 million was issued in connection with obligations relating to centres that were recently acquired or are under development, leaving \$68.7 million undrawn.

## Deferred Financing Costs

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

Below is a summary of the deferred financing costs:

	September 30, 2019	December 31, 2018
Convertible unsecured subordinated debentures	4,195	4,774
CMHC mortgages	2,641	2,031
Non-CMHC mortgages	1,218	1,405
Lease obligations	182	206
Total deferred financing costs	8,236	8,416
Less: current portion	(1,490)	(1,404)
	<b>6,746</b>	<b>7,012</b>

## Interest Rates

The weighted average interest rate of all long-term debt as at September 30, 2019, was approximately 4.8% (December 31, 2018 – 4.9%). As at September 30, 2019, 87.6% of the long-term debt, including interest rate swaps, was at fixed rates (December 31, 2018 – 90.2%).

## 8. OTHER LONG-TERM LIABILITIES

	September 30, 2019	December 31, 2018
Accrued pension plan obligation	35,416	33,486
Interest rate swaps ( <i>notes 5 and 7</i> )	1,025	523
Other	1,497	1,068
	<b>37,938</b>	<b>35,077</b>

## 9. SHARE-BASED COMPENSATION

The Company's share-based compensation, which includes deferred share units (DSUs) and performance share units (PSUs), and prior to 2019, share appreciation rights (SARs) was an expense of \$0.8 million for the three months ended September 30, 2019 (2018 – recovery of \$0.8 million), and \$1.3 million for the nine months ended September 30, 2019 (2018 – nil).

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

	September 30, 2019	December 31, 2018
Contributed surplus – DSUs	2,429	1,914
Contributed surplus – PSUs	870	792
	<b>3,299</b>	<b>2,706</b>

## Equity-settled Long-term Incentive Plan

The Company's long-term incentive plan (the "LTIP") provides for a share-based component of executive and director compensation designed to encourage a greater alignment of the interests of the Company's executives and directors with its shareholders, in the form of PSUs for employees and DSUs for non-employee directors.

PSUs and DSUs granted under the LTIP do not carry any voting rights. DSUs vest immediately upon grant and PSUs vest three years from the date of grant. During the nine months ended September 30, 2019, the Company settled PSUs totalling 61,285, of which 12,223 were settled in cash to cover withholding taxes payable and 49,062 were settled with Common Shares issued from treasury.

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

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

	Deferred Share Units		Performance Share Units	
	Nine months ended	Twelve months ended	Nine months ended	Twelve months ended
	September 30, 2019	December 31, 2018	September 30, 2019	December 31, 2018
Units outstanding, beginning of period	239,725	134,369	188,909	342,944
Granted	62,657	109,744	292,581	192,116
Reinvested dividend equivalents	11,276	10,498	12,470	26,007
Forfeited	–	–	(36,398)	(367,126)
Settled	–	(14,886)	(61,285)	(5,032)
Units outstanding, end of period	313,658	239,725	396,277	188,909
Weighted average fair value of units granted during the period at grant date	\$8.21	\$7.36	\$9.62	\$9.33

The DSUs were 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.

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

	Nine months ended September 30, 2019	Twelve months ended December 31, 2018
Grant date	May 31, 2019	March 15, 2018
Vesting date	May 31, 2022	March 15, 2021
PSUs granted	292,581	192,116
Fair value of AFFO component	\$4.04	\$4.36
Fair value of TSR component	5.58	4.97
Grant date fair value	\$9.62	\$9.33
Expected volatility of Extencicare's Common Shares	20.49%	23.66%
Expected volatility of the Index	9.42%	12.20%
Risk-free rate	1.40%	1.84%
Dividend yield	nil	nil

## 10. SHARE CAPITAL

### Dividend Reinvestment Plan

The Company has a Dividend Reinvestment Plan (DRIP) pursuant to which shareholders who are Canadian residents may elect to reinvest their cash distributions in additional Common Shares. During the nine months ended September 30, 2019, the Company issued 526,266 Common Shares at a value of \$4.0 million in connection with the DRIP (2018 – 476,701 Common Shares at a value of \$3.7 million).

### Normal Course Issuer Bid

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

During the nine months ended September 30, 2019, the Company did not purchase any Common Shares under the Bid. During the nine months ended September 30, 2018, under the normal course issuer bid that commenced on January 15, 2018 and ended on January 14, 2019, the Company acquired and cancelled 703,585 Common Shares at an average price of \$8.89 per share, for a total cost of \$6.3 million.

## 11. EXPENSES BY NATURE

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2019	2018	2019	2018
Employee wages and benefits	219,696	216,846	654,639	645,528
Food, drugs, supplies and other variable costs	13,529	13,072	39,159	37,530
Property based and other	25,164	24,268	76,383	71,438
Lease costs (note 3)	756	1,723	2,761	5,018
<b>Total operating expenses and administrative costs</b>	<b>259,145</b>	<b>255,909</b>	<b>772,942</b>	<b>759,514</b>

## 12. OTHER EXPENSE

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2019	2018	2019	2018
Other costs	–	–	975	–
Termination of B.C. market home health care contracts	–	–	1,429	–
Loss on early redemption of convertible debt	–	–	–	2,511
Acquisition costs	–	–	–	1,042
	–	–	2,404	3,553

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

On March 13, 2019, the Company received notice from Fraser Health and Vancouver Coastal Health, both regional health authorities in British Columbia (the “Health Authorities”), that the Health Authorities will be bringing their home support services in-house, and as a result will not be renewing contracts with private sector home support agencies, including ParaMed Inc. (ParaMed), the Company’s home health care operations. Consequently, ParaMed’s contracts with the B.C. Health Authorities will expire in March 2020. The Company recognized a \$1.4 million provision in the first quarter of 2019 for costs to be incurred in connection with the contract expiration.

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

In April 2018, the Company acquired the Lynde Creek Retirement Community, and incurred transaction costs of \$1.0 million, most of which was incurred during the 2018 second quarter.

## 13. FOREIGN EXCHANGE AND FAIR VALUE ADJUSTMENTS

Foreign exchange and fair value adjustments was a net gain of \$0.4 million for the three months ended September 30, 2019 (2018 – gain of \$1.3 million), and was a gain of \$0.5 million for the nine months ended September 30, 2019 (2018 – gain of \$1.9 million). These include: (1) foreign exchange gains or losses related to balances in connection with the U.S. Sale Transaction that are denominated in U.S. dollars; (2) fair value adjustments to interest rate swap contracts that lock in the interest rates for certain mortgages (notes 5 and 8); and (3) fair value adjustments on investments held for self-insured liabilities (note 5).

## 14. EARNINGS PER SHARE

Basic earnings per share (EPS) is calculated by dividing the net earnings for the period by the weighted average number of shares outstanding during the period, including vested DSUs awarded that have not settled. Diluted EPS is calculated by adjusting the net earnings and the weighted average number of shares outstanding for the effects of all dilutive instruments.

The Company's potentially dilutive instruments include the convertible debentures and equity-settled compensation arrangements. The number of shares included with respect to the PSUs is computed using the treasury stock method. The convertible debentures and equity-settled compensation arrangements would be antidilutive and as such, these are not included in the calculation of diluted EPS.

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

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2019	2018	2019	2018
<b>Numerator for Basic and Diluted Earnings per Share</b>				
<i>Earnings from continuing operations</i>				
Net earnings for basic earnings per share	7,259	8,573	18,542	25,231
Less: earnings from discontinued operations, net of tax	(2,012)	(975)	(6,384)	(8,092)
Earnings from continuing operations for basic earnings per share	5,247	7,598	12,158	17,139
Add: after-tax interest on convertible debt	1,531	1,442	4,582	5,162
Earnings from continuing operations for diluted earnings per share	6,778	9,040	16,740	22,301
<i>Net earnings</i>				
Net earnings for basic earnings per share	7,259	8,573	18,542	25,231
Add: after-tax interest on convertible debt	1,531	1,442	4,582	5,162
Net earnings for diluted earnings per share	8,790	10,015	23,124	30,393
<b>Denominator for Basic and Diluted Earnings per Share</b>				
Actual weighted average number of shares	88,961,447	88,234,606	88,773,616	88,176,375
Vested equity-settled compensation	291,163	177,663	266,876	156,658
Weighted average number of shares for basic earnings per share	89,252,610	88,412,269	89,040,492	88,333,033
Shares issued if all convertible debt was converted	10,326,531	10,326,531	10,326,531	10,326,531
Equity-settled compensation	34,872	49,412	45,188	49,412
Total for diluted earnings per share	99,614,013	98,788,212	99,412,211	98,708,976
<b>Basic and Diluted Earnings per Share (in dollars)</b>				
Earnings from continuing operations	0.06	0.08	0.14	0.19
Earnings from discontinued operations	0.02	0.02	0.07	0.10
Net earnings	0.08	0.10	0.21	0.29

## 15. DISCONTINUED OPERATIONS

Earnings from discontinued operations included the release of a portion of the accrual for self-insured liabilities of \$2.0 million (US\$1.5 million) for the three months ended September 30, 2019 (2018 – nil), and \$6.7 million (US\$5.0 million) for the nine months ended September 30, 2019 (2018 – \$5.8 million (US\$4.5 million)). The balance of the earnings related to the impact of discount rate adjustments on the Captive's reserves.

## 16. COMMITMENTS AND CONTINGENCIES

### Property and Equipment Commitments

The Company has outstanding commitments of \$2.2 million at September 30, 2019, in connection with private-pay retirement communities under development in Ontario, which will be substantially financed with a combination of construction financing and cash on hand. These are expected to be incurred by the end of 2019.

### Legal Proceedings and Regulatory Actions

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



As previously disclosed, in April 2018, the Company was served with a statement of claim alleging negligence by the Company in the operation of its long-term care centres and its provision of care to residents and seeking \$150.0 million in damages. The claim sought an order certifying the claim as a class action pursuant to the *Class Proceedings Act* (Ontario). By order of the Ontario Superior Court of Justice, a request from the plaintiff for discontinuance of the class proceeding was approved on October 25, 2018. Following the discontinuance, the plaintiff who commenced the class proceeding still has the option to pursue a claim on her own behalf while others may also do so separately on their own behalf. In July 2019, certain individual plaintiffs served the Company with statements of claim alleging negligence by the Company in the operation of certain of its long-term care centres and its provision of care to certain residents. The Company intends to defend itself against any and all such individual claims and does not believe the outcome on any or all such claims would have a material adverse impact on its business, results of operations or financial condition and in any event believes that any potential liability would be resolved within the limits of its insurance coverage.

On September 19, 2018, the Company was served with a statement of claim that seeks an order certifying the claim as a class action pursuant to the *Class Proceedings Act* (Ontario). The claim alleges that the Company failed to properly apply certain required medical equipment sterilization protocols at one or more of its home health care clinics and seeks \$20.0 million in damages. The Company does not believe that the lawsuit or the damages sought have merit. The Company intends to vigorously defend itself against the claim and does not believe the outcome will have a material adverse impact on its business, results of operations or financial condition and in any event believes that any potential liability would be resolved within the limits of its insurance coverage.

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

## **17. MANAGEMENT OF RISKS AND FINANCIAL INSTRUMENTS**

### **(a) Management of Risks**

#### **LIQUIDITY RISK**

Liquidity risk is the risk that the Company will encounter difficulty in meeting its contractual obligations. We manage our liquidity risk through the use of budgets and forecasts. Cash requirements are monitored regularly based on actual financial results and actual cash flows to ensure that there are sufficient resources to meet operational requirements. In addition, since there is a risk that current borrowings and long-term debt may not be refinanced or may not be refinanced on as favourable terms or with interest rates as favourable as those of the existing debt, we attempt to appropriately structure the timing of contractual long-term debt renewal obligations and exposures. In April 2018, the Company successfully refinanced the 2019 Debentures by issuing a new series of 2025 debentures.

In addition to cash generated from its operations and cash on hand, the Company has available undrawn credit facilities totalling \$68.7 million (*note 7*).

#### **CURRENCY RISK**

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Cross-border transactions are subject to exchange rate fluctuations that may result in realized gains or losses as and when payments are made.

As a result of the U.S. Sale Transaction, our exposure to foreign currency risk has been significantly reduced. The following table outlines the net asset exposure to both the U.S. continuing operations and other items retained from the U.S. Sale Transaction as at September 30, 2019.

	<b>September 30, 2019</b>	
	<i>US\$</i>	<i>C\$</i>
Assets		
Current assets	18,052	23,903
Investments held for self-insured liabilities	31,675	41,942
Liabilities		
Current liabilities	4,834	6,401
Indemnification provisions	9,437	12,498
Non-current liabilities	9,787	12,960
Net asset exposure	25,669	33,986

### INTEREST RATE RISK

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

To mitigate interest rate risk, the Company's long-term care debt portfolio includes fixed-rate debt and variable-rate debt with interest rate swaps in place. At September 30, 2019, construction loans of \$70.6 million are variable-rate debt, which do not have interest rate swaps in place. The Company's credit facility, and future borrowings, may be at variable rates which would expose the Company to the risk of interest rate volatility (*note 7*).

Although the majority of the Company's long-term debt is effectively at fixed rates, there can be no assurance that as debt matures, renewal rates will not significantly impact future income and cash flow. The Company does not account for any fixed-rate liabilities at FVTPL; consequently, changes in interest rates have no impact on our fixed-rate debt and therefore, would not impact net earnings.

Below is the interest rate profile of our interest-bearing financial instruments, which reflects the impact of the interest rate swaps (*notes 5, 8 and 13*):

	<b>Carrying Amount</b>	
	<b>September 30, 2019</b>	<b>December 31, 2018</b>
Fixed-rate instruments:		
Long-term debt <sup>(1)</sup>	496,528	484,520
<b>Total liability in fixed-rate instruments</b>	<b>496,528</b>	<b>484,520</b>
Variable-rate instruments:		
Long-term debt <sup>(1)</sup>	70,633	52,866
	<b>70,633</b>	<b>52,866</b>

<sup>(1)</sup> Includes current portion and excludes netting of deferred financing costs.

### Fair Value Sensitivity Analysis for Variable-rate Instruments

All long-term debt with variable rates are classified as other financial liabilities, which are measured at amortized cost using the effective interest method of amortization; therefore, changes in interest rates would not affect OCI or net earnings with respect to variable-rate debt. As at September 30, 2019, long-term debt with variable rates represented 12.4% of total debt. The value of the interest rate swaps is subject to fluctuations in interest rates, changes in fair value of these swaps are recognized in net earnings (*notes 5, 8 and 13*).

### 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**

	Amortized Cost	Fair Value through Profit and Loss	Total Carrying Amount	Fair Value	Fair Value Hierarchy
<b>As at September 30, 2019</b>					
Financial assets:					
Cash and short-term investments	96,798	–	96,798	96,813	Level 2
Restricted cash	2,591	–	2,591	2,591	
Invested assets <sup>(1)</sup>	354	–	354	354	
Accounts receivable	43,542	–	43,542	43,542	
Interest rate swaps	–	1,061	1,061	1,061	Level 2
Amounts receivable and other assets <sup>(2)(3)</sup>	49,226	–	49,226	53,701	Level 2
Investments held for self-insured liabilities	7,159	34,783	41,942	41,942	Level 1
	<b>199,670</b>	<b>35,844</b>	<b>235,514</b>	<b>240,004</b>	
Financial liabilities:					
Accounts payable	4,272	–	4,272	4,272	
Interest rate swaps	–	1,025	1,025	1,025	
Long-term debt excluding convertible debentures <sup>(3)(4)</sup>	446,716	–	446,716	463,827	Level 2
Convertible debentures	120,445	–	120,445	130,295	Level 1
	<b>571,433</b>	<b>1,025</b>	<b>572,458</b>	<b>599,419</b>	
<b>As at December 31, 2018</b>					
Financial assets:					
Cash and short-term investments	65,893	–	65,893	65,907	Level 2
Restricted cash	2,290	–	2,290	2,290	
Invested assets <sup>(1)</sup>	442	–	442	442	
Accounts receivable	50,570	–	50,570	50,570	
Interest rate swaps	–	2,556	2,556	2,556	Level 2
Amounts receivable and other assets <sup>(2)(3)</sup>	53,341	–	53,341	55,142	Level 2
Investments held for self-insured liabilities	5,834	62,104	67,938	67,938	Level 1
	<b>178,370</b>	<b>64,660</b>	<b>243,030</b>	<b>244,845</b>	
Financial liabilities:					
Accounts payable	6,239	–	6,239	6,239	
Interest rate swaps	–	523	523	523	
Long-term debt excluding convertible debentures <sup>(3)(4)</sup>	417,611	–	417,611	443,277	Level 2
Convertible debentures	119,775	–	119,775	125,551	Level 1
	<b>543,625</b>	<b>523</b>	<b>544,148</b>	<b>575,590</b>	

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

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

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

<sup>(4)</sup> Excludes netting of deferred financing costs.

**BASIS FOR DETERMINING FAIR VALUES**

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

Fair values for investments designated as FVTPL are based on quoted market prices. Accounts receivable are recorded at amortized cost. The carrying values of accounts receivable approximate fair values due to their short-term maturities, with the exception of the amounts receivable due from the government of Ontario, which are valued at discounted future cash flows using current applicable rates for similar instruments of comparable maturity and credit quality (*note 5*). The fair values of convertible debentures are based on the closing price of the publicly traded convertible debentures on each reporting date, and the fair values of mortgages and other debt are estimated based on discounted future cash flows using discount rates that reflect current market conditions for instruments with similar terms and risks.

**FAIR VALUE HIERARCHY**

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

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

**18. SEGMENTED INFORMATION**

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

The long-term care segment represents the 58 long-term care centres that the Company owns and operates in Canada. The retirement living segment includes seven acquired retirement communities, and three communities that were constructed. The retirement communities provide accommodation and services to private-pay residents at rates set by Extencicare based on the services provided and market conditions. Through our wholly owned subsidiary ParaMed, ParaMed’s home health care operations provide complex nursing care, occupational, physical and speech therapy, and assistance with daily activities to accommodate those living at home.

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

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

	<b>Three months ended September 30, 2019</b>							
<i>(in thousands of Canadian dollars)</i>	Long-term Care	Retirement Living	Home Health Care	Other Canadian Operations	Corporate Canada	Total Canada	Total U.S.	Total
<b>CONTINUING OPERATIONS</b>								
Revenue	160,972	10,406	105,414	5,941	–	282,733	–	282,733
Operating expenses	140,351	7,463	97,313	2,739	–	247,866	–	247,866
Net operating income	20,621	2,943	8,101	3,202	–	34,867	–	34,867
Administrative costs					11,021	11,021	258	11,279
Earnings (loss) before depreciation, amortization, and other expense						23,846	(258)	23,588
Depreciation and amortization					9,861	9,861	–	9,861
Earnings (loss) before net finance costs and income taxes						13,985	(258)	13,727
Net interest costs					6,576	6,576	89	6,665
Foreign exchange and fair value adjustments					(185)	(185)	(241)	(426)
Net finance costs (income)					6,391	6,391	(152)	6,239
Earnings (loss) before income taxes						7,594	(106)	7,488
Income tax expense (recovery)								
Current					2,666	2,666	–	2,666
Deferred					(425)	(425)	–	(425)
Total income tax expense					2,241	2,241	–	2,241
Earnings (loss) from continuing operations						5,353	(106)	5,247
<b>DISCONTINUED OPERATIONS</b>								
Earnings from discontinued operations, net of income taxes					–	–	2,012	2,012
Net earnings						5,353	1,906	7,259

Three months ended September 30, 2018

<i>(in thousands of Canadian dollars)</i>	Long-term Care	Retirement Living	Home Health Care	Other Canadian Operations	Corporate Canada	Total Canada	Total U.S.	Total
<b>CONTINUING OPERATIONS</b>								
Revenue	159,239	9,160	106,015	5,831	19	280,264	38	280,302
Operating expenses	139,080	6,434	97,135	2,161	–	244,810	–	244,810
Net operating income	20,159	2,726	8,880	3,670	19	35,454	38	35,492
Administrative costs					10,818	10,818	281	11,099
<b>Earnings (loss) before depreciation, amortization, and other expense</b>						24,636	(243)	24,393
Depreciation and amortization					9,014	9,014	–	9,014
<b>Earnings (loss) before net finance costs and income taxes</b>						15,622	(243)	15,379
Net interest costs					6,082	6,082	484	6,566
Foreign exchange and fair value adjustments					(494)	(494)	(828)	(1,322)
Net finance costs (income)					5,588	5,588	(344)	5,244
<b>Earnings before income taxes</b>						10,034	101	10,135
<b>Income tax expense (recovery)</b>								
Current					2,659	2,659	–	2,659
Deferred					(122)	(122)	–	(122)
Total income tax expense					2,537	2,537	–	2,537
<b>Earnings from continuing operations</b>						7,497	101	7,598
<b>DISCONTINUED OPERATIONS</b>								
Earnings from discontinued operations, net of income taxes					–	–	975	975
<b>Net earnings</b>						7,497	1,076	8,573

Nine months ended September 30, 2019

<i>(in thousands of Canadian dollars)</i>	Long-term Care	Retirement Living	Home Health Care	Other Canadian Operations	Corporate Canada	Total Canada	Total U.S.	Total
<b>CONTINUING OPERATIONS</b>								
Revenue	477,129	29,920	316,296	17,710	–	841,055	–	841,055
Operating expenses	420,240	21,481	290,868	7,893	–	740,482	–	740,482
Net operating income	56,889	8,439	25,428	9,817	–	100,573	–	100,573
Administrative costs					31,801	31,801	659	32,460
<b>Earnings (loss) before depreciation, amortization, and other expense</b>						68,772	(659)	68,113
Depreciation and amortization					28,993	28,993	–	28,993
Other expense					2,404	2,404	–	2,404
<b>Earnings (loss) before net finance costs and income taxes</b>						37,375	(659)	36,716
Net interest costs					19,318	19,318	558	19,876
Foreign exchange and fair value adjustments					2,525	2,525	(3,043)	(518)
Net finance costs (income)					21,843	21,843	(2,485)	19,358
<b>Earnings before income taxes</b>						15,532	1,826	17,358
<b>Income tax expense (recovery)</b>								
Current					7,219	7,219	–	7,219
Deferred					(2,019)	(2,019)	–	(2,019)
Total income tax expense					5,200	5,200	–	5,200
<b>Earnings from continuing operations</b>						10,332	1,826	12,158
<b>DISCONTINUED OPERATIONS</b>								
Earnings from discontinued operations, net of income taxes					–	–	6,384	6,384
<b>Net earnings</b>						10,332	8,210	18,542

Nine months ended September 30, 2018

<i>(in thousands of Canadian dollars)</i>	Long-term Care	Retirement Living	Home Health Care	Other Canadian Operations	Corporate Canada	Total Canada	Total U.S.	Total
<b>CONTINUING OPERATIONS</b>								
Revenue	467,877	24,373	322,331	16,483	22	831,086	128	831,214
Operating expenses	413,640	17,669	292,257	6,527	–	730,093	–	730,093
<b>Net operating income</b>	54,237	6,704	30,074	9,956	22	100,993	128	101,121
Administrative costs					28,584	28,584	837	29,421
<b>Earnings (loss) before depreciation, amortization, and other expense</b>						72,409	(709)	71,700
Depreciation and amortization					25,086	25,086	–	25,086
Other expense					3,553	3,553	–	3,553
<b>Earnings (loss) before net finance costs and income taxes</b>						43,770	(709)	43,061
Net interest costs					19,015	19,015	1,292	20,307
Foreign exchange and fair value adjustments					(1,438)	(1,438)	(454)	(1,892)
Net finance costs					17,577	17,577	838	18,415
<b>Earnings (loss) before income taxes</b>						26,193	(1,547)	24,646
<b>Income tax expense</b>								
Current					6,128	6,128	–	6,128
Deferred					1,379	1,379	–	1,379
Total income tax expense					7,507	7,507	–	7,507
<b>Earnings (loss) from continuing</b>						18,686	(1,547)	17,139
<b>DISCONTINUED OPERATIONS</b>								
Earnings from discontinued operations, net of income taxes					–	–	8,092	8,092
<b>Net earnings</b>						18,686	6,545	25,231