

**EXTENDICARE**<sup>®</sup>

... helping people live better

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

Q1 2022

**Extendicare Inc.**

**Dated: May 12, 2022**

# Management's Discussion and Analysis

Three months ended March 31, 2022

Dated: May 12, 2022

TABLE OF CONTENTS			
Basis of Presentation .....	1	2022 First Quarter Financial Review .....	16
Additional Information .....	2	Adjusted Funds from Operations .....	19
Forward-looking Statements .....	2	Liquidity and Capital Resources .....	21
Significant Developments .....	3	Other Contractual Obligations and Contingencies .....	24
Business Overview .....	9	Discontinued Operations .....	25
Key Performance Indicators .....	11	Accounting Policies and Estimates .....	28
Select Quarterly Financial Information .....	14	Non-GAAP Measures .....	29
Statement of Earnings .....	16	Risks and Uncertainties .....	30

## 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 700, Markham, Ontario, Canada, L3R 9W2.

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 owns and operates retirement communities in secondary markets under the Esprit Lifestyle Communities brand, 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 February 2022, the Company entered into a definitive 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, for an aggregate purchase price of \$307.5 million (the "Retirement Living Sale"). 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 14* of the unaudited interim condensed consolidated financial statements). The Retirement Living Sale is anticipated to close on or about May 16, 2022 (refer to discussion under "Significant Developments – Sale of Retirement Living Portfolio").

In October 2021, the Company announced it is in the process of transitioning the delivery of long-term care services operated at the Company's five LTC homes in Saskatchewan (the "Saskatchewan LTC Homes") to the Saskatchewan Health Authority ("SHA"). The timing of the transfer of the operations, and potentially the related assets, is anticipated to be completed in 2022 (the "Saskatchewan LTC Home Transition"). 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 Transition" and *Note 14* of the unaudited interim condensed 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 three months ended March 31, 2022. This MD&A should be read in conjunction with the Company's unaudited interim condensed consolidated financial statements for the three months ended March 31, 2022, and the notes thereto, together with the annual MD&A and the audited consolidated financial statements for the year ended December 31, 2021, and the notes thereto, prepared in accordance with International Financial Reporting Standards ("IFRS"). The accompanying unaudited interim condensed consolidated financial statements

for the three months ended March 31, 2022, have been prepared in accordance with the International Accounting Standard (IAS) 34 “Interim Financial Reporting”, as issued by the International Accounting Standards Board (IASB).

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](http://www.extendicare.com). All currencies are in Canadian dollars unless otherwise indicated.

This MD&A is dated as of May 12, 2022, 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](http://www.sedar.com) under the Company’s issuer profile and on the Company’s website at [www.extendicare.com](http://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 the Retirement Living Sale; statements relating to the Saskatchewan LTC Home Transition; 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, the impact of COVID-19 on the Company’s operating costs, staffing, procurement, occupancy levels and volumes in its home health care business, the impact on the capital and credit markets and the Company’s ability to access the credit markets as a result of COVID-19, increased litigation and regulatory exposure and the outcome of any litigation and regulatory proceedings. Forward-looking statements can often be identified by the expressions “anticipate”, “believe”, “estimate”, “expect”, “intend”, “objective”, “plan”, “project”, “will” or other similar expressions or the negative thereof. These forward-looking statements reflect the Company’s current expectations regarding future results, performance or achievements and are based upon information currently available to the Company and on assumptions that the Company believes are reasonable. 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, 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; and those other risks, uncertainties and other factors identified in the Company's other public filings with the Canadian securities regulators available on SEDAR's website at [www.sedar.com](http://www.sedar.com) under the Company's issuer profile.

In particular, risks and uncertainties related to the effects of COVID-19 on Extendicare include: the length, spread and severity of the pandemic; the nature and extent of the measures taken by all levels of governments and public health officials, both short and long term, in response to COVID-19; domestic and global credit and capital markets; the Company's ability to access capital on favourable terms or at all due to the potential for reduced revenue and increased operating expenses as a result of COVID-19; the availability of insurance on favourable terms; litigation and/or regulatory proceedings against or involving the Company, regardless of merit; the health and safety of the Company's employees and its residents and clients; and domestic and global supply chains, particularly in respect of personal protective equipment ("PPE"). Given the evolving circumstances surrounding COVID-19, it is difficult to predict how significant the adverse impact will be on the global and domestic economy and the business operations and financial position of Extendicare.

The preceding list of material factors or assumptions is not exhaustive. 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**

### **COVID-19 Omicron Variant Continues to Drive Increased COVID Cases; Prevention Measures Remain Critical Focus**

The highly transmissible Omicron variant began to emerge in December and has since driven a significant increase in the rate of COVID-19 infections throughout Q1 2022. Vaccinations and boosters have successfully helped mitigate incidences of serious illness and hospitalization among our residents and have generally led to milder symptoms in caregivers and those we employ. Despite these milder symptoms, we experienced a high level of staff absences during Q1 2022, creating staffing challenges and increased labour costs. We continue to remain vigilant and focus on our key prevention and control measures to minimize the spread of the virus, understanding that Omicron can still pose a serious risk to the most vulnerable members of our community, particularly among LTC residents.

The rapid spread of new infections and outbreaks has had a significant impact on our LTC homes and retirement communities throughout Q1, with the number positive cases among our residents and staff peaking in late January 2022 with more than 45 of our homes experiencing outbreaks during this wave of the pandemic. As of May 11, 2022, 27 of our 69 LTC homes and retirement communities are experiencing or recovering from outbreaks.

While we continue to evolve our response to incorporate the latest public health guidance, vaccinations remain a top priority, along with the use of testing, active screening and use of appropriate PPE as the situation warrants. Emergency measures enacted by Canada's federal and provincial governments to combat COVID-19 continue to support our collective response, as does the ongoing funding assistance received through various provincial governments.

## **STEADY PROGRESS ON VACCINATION RATES AMONG RESIDENTS AND STAFF**

Vaccines have proven to be the most effective measure to prevent serious illness and hospitalization from COVID-19. As of May 11, 2022, approximately 90% of our LTC and retirement residents have received three doses of vaccine and more than 54% have received a fourth dose.

In October 2021, we implemented a mandatory vaccination policy within our LTC homes and retirement communities that required all of our LTC and retirement staff (including all new hires) to demonstrate they are vaccinated or they were placed on an unpaid leave of absence. This policy has been an important measure towards enhancing the safety of our residents, staff and caregivers, and was implemented with minimal disruption to our LTC and retirement living operations.

Effective March 14, 2022, we extended our mandatory vaccination policy to our home health care team requiring staff to have two doses of vaccine and are encouraging staff to receive a third dose.

## **OMICRON SIGNIFICANTLY IMPACTS STAFFING LEVELS, AND HOME HEALTH CARE VOLUMES**

The higher rate of infection driven by the highly transmissible Omicron variant has had a significant impact on our staffing levels across our operating segments since mid-December 2021. At the peak of the fifth wave, the number of staff off sick or isolating due to exposure to the virus was more than twice what was experienced in earlier waves of the pandemic. Since the emergence of Omicron in December 2021, COVID-19 has impacted more than 2,700 staff in our LTC homes and retirement communities and more than 2,100 staff in our home health care operations. This level of staff disruption continues to create challenges in our operations and puts pressure on staffing levels, including added costs for our LTC homes and retirement communities. The prevalence of Omicron also had a significant impact on our home health care operations as a result of the large number of caregivers that were unable to work because they were sick or isolating due to exposure to a positive case. At the end of January, we experienced peak absenteeism of more than 900 staff in our home health care operations due to the virus, impeding our ability to respond to the demand for home health care services, with our average daily volumes ("ADV") declining 4.8% in Q1 2022 as compared to Q4 2021.

While the fifth wave peaked in late January 2022, the onset of the sixth wave in recent weeks has resulted in a resurgence of cases within our LTC homes, retirement communities and home health care operations. We are focused on facilitating a safe return to work for all staff and maintaining strict adherence to our infection control and mandatory vaccination policies. Staffing shortages across the health care sector continue to be a challenge, in particular the long-standing shortage of nurses, which is further exacerbated by the duration and stress of the ongoing pandemic.

Despite the challenges in staffing levels, we continue to invest in our personal support worker ("PSW") college partnerships and in-house home support worker ("HSW") training programs; we graduated and hired more than 170 new caregivers in Q1 2022 and remain on track to achieve our target of adding 600 additional staff in 2022.

## **COVID-19 Related Expenses and Funding**

We continue to invest the resources required to help protect our residents, clients and staff and are grateful to receive the ongoing financial support for our LTC operations from provincial governments to offset some of our COVID-19 related expenses.

The resurgence of COVID-19 outbreaks within our LTC homes and retirement communities throughout Q1 2022, resulted in increased COVID-19 related expenses. Our aggregate COVID-19 expenses from continuing operations increased by \$11.0 million to \$42.2 million in Q1 2022 as compared to Q4 2021.

The timing of COVID-19 funding announcements and receipt of any reimbursements continue to create volatility in our financial results. During Q1 2022, our Ontario LTC operations recognized \$13.3 million in prevention and containment funding related to unfunded COVID-19 costs incurred in 2021.

As summarized in the table below, during Q1 2022, we incurred an estimated \$37.9 million of pandemic-related operating expenses, another \$4.2 million associated with government funded temporary pandemic pay programs and \$0.1 million in COVID-19 related administrative costs. These costs were offset by funding of \$50.7 million from various provincial governments, resulting in improvements in our consolidated NOI<sup>(1)</sup> and Adjusted EBITDA<sup>(1)</sup> of approximately \$8.6 million and \$8.5 million, respectively. Excluding the impact of \$13.3 million in funding received in Q1 2022 related to costs incurred in 2021, we incurred unfunded COVID costs of \$4.7 million and \$4.8 million, impacting consolidated NOI and Adjusted EBITDA, respectively, for Q1 2022. Additionally, our discontinued operations were impacted by an estimated \$3.2 million of unfunded COVID-19 costs for Q1 2022.

Since the beginning of the pandemic in Q1 2020, we have incurred estimated cumulative pandemic-related operating expenses of \$211.3 million, another \$95.0 million associated with government funded temporary pandemic pay programs and \$6.5 million in COVID-19 related administrative costs. These costs were partially offset by funding of \$196.0 million from various provincial governments, resulting in cumulative reductions in our consolidated NOI and Adjusted EBITDA of approximately \$15.3 million and \$21.8 million, respectively. In addition, our discontinued operations realized an estimated \$11.3 million of cumulative unfunded COVID-19 costs.

Subsequent to Q1 2022, the MLTC announced additional COVID-19 prevention and containment funding of \$278.0 million for April 1, 2022 through to March 31, 2023, of which \$130.0 million will be funded in Q2 2022. The Alberta and Manitoba governments have indicated their intention to continue to provide funding support on a retroactive basis for COVID-19 costs incurred through to March 31, 2022. Although we are encouraged by these announcements, we expect ongoing volatility in our operating and financial results until the effects of COVID-19 subside, and while we believe the financial impacts of COVID-19 will largely subside as we emerge from the pandemic, 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 on a quarterly and year-to-date basis since the start of the pandemic in Q1 2020. The temporary pandemic pay premiums funded by the Ontario and Alberta governments are recorded in operating expenses and the related offsetting funding for these programs is recognized as revenue.

<b>Estimated COVID-19 Revenue, Operating Expenses and Administrative Costs</b>											
<i>(millions of dollars)</i>	<b>2022</b>				<b>2021</b>			<b>2020</b>			
	<b>Q1</b>	<b>Q4</b>	<b>Q3</b>	<b>Q2</b>	<b>Q1</b>	<b>Year</b>	<b>Q4</b>	<b>Q3</b>	<b>Q2</b>	<b>Q1</b>	<b>Year</b>
<b>Revenue</b>											
Long-term care <sup>(i)</sup>	<b>43.1</b>	27.4	23.3	24.7	45.8	121.2	24.1	20.4	17.6	0.4	62.5
Home health care	<b>7.6</b>	8.7	7.7	7.8	8.8	33.0	6.4	7.6	9.6	—	23.6
<b>Revenue impact</b>	<b>50.7</b>	36.1	31.0	32.5	54.6	154.2	30.5	28.0	27.2	0.4	86.1
<b>Operating Expenses</b>											
Long-term care	<b>32.3</b>	21.3	21.9	30.1	44.9	118.2	31.9	27.1	25.6	0.7	85.3
Home health care	<b>9.8</b>	9.8	8.2	8.8	9.0	35.8	7.2	7.7	10.0	—	24.9
<b>Operating expenses impact</b>	<b>42.1</b>	31.1	30.1	38.9	53.9	154.0	39.1	34.8	35.6	0.7	110.2
<b>NOI</b>											
Long-term care	<b>10.8</b>	6.1	1.4	(5.4)	0.9	3.0	(7.8)	(6.7)	(8.0)	(0.3)	(22.8)
Home health care	<b>(2.2)</b>	(1.1)	(0.5)	(1.0)	(0.2)	(2.8)	(0.8)	(0.1)	(0.4)	—	(1.3)
<b>NOI impact</b>	<b>8.6</b>	5.0	0.9	(6.4)	0.7	0.2	(8.6)	(6.8)	(8.4)	(0.3)	(24.1)
Administrative costs	<b>0.1</b>	0.1	0.8	1.1	0.9	2.9	0.7	1.6	1.2	—	3.5
<b>Adjusted EBITDA impact</b>	<b>8.5</b>	4.9	0.1	(7.5)	(0.2)	(2.7)	(9.3)	(8.4)	(9.6)	(0.3)	(27.6)
<b>Discontinued operations impact</b>	<b>(3.2)</b>	(0.7)	(0.8)	(2.0)	(2.1)	(5.6)	(1.0)	(0.4)	(1.1)	—	(2.5)
<b>Total impact</b>	<b>5.3</b>	4.2	(0.7)	(9.5)	(2.3)	(8.3)	(10.3)	(8.8)	(10.7)	(0.3)	(30.1)

(i) Q1 2022 includes \$13.3 million in funding for Ontario towards costs incurred in 2021. Q1 2021 includes funding of \$18.8 million (\$18.2 million for Ontario) towards costs incurred in 2020; Q3 2021 and Q4 2021 include Ontario funding of \$5.1 million and \$11.9 million, respectively, towards costs incurred in Q1 2021.

## **LTC and Retirement Occupancy Down Due to Omicron; Ontario LTC Occupancy Protection Ends**

The surge in COVID-19 related outbreaks across our LTC homes slowed the pace of our occupancy recovery and contributed to a sequential decline in average occupancy of 120 bps to 88.6% in Q1 2022 from 89.8% in Q4 2021.

The sector has through the pandemic received full funding for the third and fourth ward beds no longer in service. In April 2022, the MLTC confirmed that the sector will not be returning to ward-style rooms and that funding will be provided to support this shift, with further details to be provided at a future date, including any potential changes related to the funding for these ward-style beds.

Occupancy targets were reinstated on February 1, 2022, requiring LTC homes in Ontario to achieve average occupancy of 97%, adjusted to exclude the third and fourth beds in ward rooms, in order to maintain full funding. The average occupancy of our Ontario LTC homes, adjusted to exclude 185 ward-style beds not in use, was 94.9% for the two months ended March 31, 2022, down slightly from 95.8% in December 2021.

Occupancy levels of our retirement communities improved in the latter half of 2021, following the resumption of in-person tours and relaxation of certain move-in conditions. However, a combination of seasonal factors and surge of COVID-19 contributed to a sequential decline in occupancy levels in Q1 2022, with average stabilized occupancy declining 180 bps to 90.0% from 91.8% in Q4 2021.

### **Home Health Care Volumes and Margins Impacted by Omicron Driven Staffing Challenges**

Ongoing workforce capacity constraints, exacerbated by the Omicron variant, resulted in a reduction in our home health care volumes in Q1 2022 compared to Q4 2021. Demand for our home health care services remains above pre-COVID-19 levels but the dramatic impact on our home health care staffing levels throughout Q1 2022 resulted in a 4.8% drop in our ADV to 24,552 in Q1 2022 from Q4 2021, up modestly from Q1 2021 ADV by 0.8%.

NOI margins in our home health care operations in Q1 2022, adjusting for the net cost impacts of COVID-19, were 5.5%, as compared to 8.8% in Q4 2021 (adjusted for retroactive rate increase). The decrease in NOI margins was largely due to the 4.8% decline in ADV and increased wages and benefits, sick pay, training and recruiting costs related to the staffing challenges.

We continue to focus on safely returning our staff who are on leave back to work, building capacity through large scale recruiting efforts and hiring through our PSW college partnerships and in-house HSW training programs. Consistent with our experience in 2021, we anticipate that we will resume our recovery in our ADV as the effects of the pandemic recede and our staffing capacity improves.

### **Continued Commitment to Long-term Care Redevelopment**

The Company has three homes under construction in Sudbury, Kingston and Stittsville, Ontario, that will replace a total of 624 Class C LTC beds with 704 new beds requiring a net investment of \$178.9 million. The homes are being constructed exclusively with private and semi-private rooms, the latter of which accommodate two residents in separate bedrooms with a shared bathroom. For more information refer to the discussion under “Key Performance Indicators – LTC Projects Under Construction”.

Since the introduction of the Long-Term Care Home Capital Development Funding program in 2020 (the “New Funding Program”), the MLTC has awarded more than 58,000 new and redeveloped beds, taking steps to address the aging infrastructure within long-term care and improving the quality of care for our LTC residents. Extencare, and the entire LTC sector, has been advocated for this much needed redevelopment for more than a decade. We continue to advance our redevelopment strategy to replace our older Class C LTC beds in Ontario. 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, including three projects currently under construction. We are actively engaged with our industry partners and the government to identify and implement necessary enhancements to the New Funding Program to make these projects economically feasible given the current level of inflation, particularly in respect of construction costs, being experienced by all operators. We continue to work through the MLTC and municipal approval processes and are targeting to have six more projects ready for construction before the end of 2023.

### **Sale of Retirement Living Portfolio**

In February 2022, the Company entered into a definitive 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, for an aggregate purchase price of \$307.5 million, representing an implied realized capitalization rate on the stabilized net operating income (“NOI”) of approximately 6.0%.

Closing of the Retirement Living Sale is scheduled to close on or about May 16, 2022. All regulatory approvals have been obtained and closing is only subject to customary closing conditions. Estimated proceeds include cash of approximately \$254.1 million and assumption of mortgages of \$53.4 million on certain retirement communities. Cash proceeds will be used to repay all remaining outstanding indebtedness related to the retirement living operations of approximately \$117.1 million. The estimated net proceeds to be realized on the sale, net of debt repayments, taxes, certain closing adjustments and transactions costs, is estimated to be approximately \$125.0 million, subject to customary post-closing working capital adjustments. The net book value of the property and equipment and intangible assets related to the retirement living operations is approximately \$220.0 million at closing, resulting in an estimated gain, net of taxes and transaction costs, on the Retirement Living Sale of \$75.0 million, which will be recognized in our Q2 2022 results through Discontinued Operations. These operations contributed \$1.3 million to AFFO<sup>(1)</sup> (\$0.01 AFFO per basic share) in Q1 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”).

The sale repositions Extencicare to focus on growth in our LTC and home health care segments where we will leverage our deep expertise and scale to drive improved performance and high-quality care for seniors across Canada. The services we provide to other senior living operators through Extencicare Assist and SGP will continue to be a prominent part of our growth strategy. Proceeds from the sale will provide the flexibility to allocate capital strategically, including priority investments in our people, technology and our LTC redevelopment program.

## **Strategic Transactions with Revera and Axiom to Expand Focus on Long-term Care**

On March 1, 2022, the Company entered into agreements with Revera and Axiom 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 Extencicare Assist portfolio of managed homes, bringing the total homes owned and/or managed to 164
- Extencicare to acquire Revera’s 15% interest in a portfolio of 24 long-term care homes owned in partnership with Axiom, and an opportunity to purchase future Revera redevelopment projects
- The 56 LTC homes will also join the SGP, bringing the total participating beds to over 100,000
- Revera’s long-term care operations team to join Extencicare to advance the delivery of high-quality care and services across all of our homes
- Extencicare to form a joint venture with Axiom for the redevelopment of “Class C” homes owned by Extencicare

These transactions, combined with the Retirement Living Sale, transition Extencicare’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 long-term care homes, while substantially reducing the amount of its own capital required to redevelop its “class C” portfolio, providing the Company to deploy capital more efficiently and provide greater flexibility for growth initiatives, including acquisitions.

### **THE 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 Axiom, 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 Axiom and Extencicare 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 3,700 funded LTC beds and 760 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 Extencicare (either alone or with Axiom) 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 Extencicare 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 Extencicare (either alone or with Axiom) and Extencicare 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 Extencicare expects it will participate in along with Axiom, 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 Extencicare.

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 \$36.0 million plus the assumption of approximately \$34.0 million in debt (at Extencicare'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 Other Operations segment and, excluding integration costs, NOI and AFFO 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 26 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 Extencicare'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 Extencicare 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, Extencicare and Axium have entered into a master development agreement pursuant to which Extencicare has granted Axium a right to participate in the redevelopment of five of Extencicare's Ontario Class C homes located in Sudbury (two homes), Kingston, Stittsville and Peterborough, Ontario. This development arrangement could also apply to additional redevelopment projects 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 Extencicare/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.

There are currently three Class C homes comprising an aggregate of 704 funded LTC beds under construction that Axium has agreed to participate in, subject to customary conditions, (see "Key Performance Indicators – LTC Projects Under Construction").

Closing of 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.

## **Regulatory Developments**

On May 1, 2022, 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*, and to help seniors and recovering patients stay in their homes, the Ontario government announced in its budget an additional \$1.0 billion investment over the next three years to further expand home care. 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 by recruiting and training 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.

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 *Fixing Long-Term Care Act, 2021* (formerly Bill 37), received Royal Assent on December 9, 2021 and, along with accompanying regulations, came into effect on April 11, 2022. The Act will replace 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 a phased-in approach that started in

November 2021), double fines as a financial deterrent for non-compliance and allows the Minister to make a policy that could be used in lieu of individual licensing determinations, thus streamlining the approval process.

## BUSINESS OVERVIEW

As at March 31, 2022, the Company owned and operated 58 LTC homes and 11 retirement communities, through its Extencicare and Esprit Lifestyle Communities divisions, respectively, and provided management services to 50 LTC homes and retirement communities for third parties through Extencicare Assist. In total, Extencicare operated or provided management services to a network of 119 LTC homes and retirement communities across four provinces in Canada, with capacity for 15,451 residents. The majority of these homes are in Ontario and Alberta, which accounted for approximately 76% and 11% of residents served, respectively. This overview includes the Saskatchewan LTC Homes and retirement living segment that 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 98,800 senior residents across Canada, as at March 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 March 31, 2022. The majority of ParaMed’s volumes are generated in Ontario and Alberta, representing 93% and 4%, respectively.

The Company reports on the following segments: i) long-term care; ii) home health care; iii) management, consulting and group purchasing services as “other operations”; 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 three months ended March 31, 2022 and 2021 and year ended December 31, 2021. The impact of COVID-19 on all segments and of CEWS on the home health care segment effects 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”, “Key Performance Indicators – Home Health Care – ParaMed Canada Emergency Wage Subsidy” and “2022 First Quarter Financial Review” for additional details to understand the impacts on the business segments.

Operating Segments as % of	Three months ended March 31				Year ended December 31	
	2022		2021		2021	
	Revenue	NOI	Revenue	NOI	Revenue	NOI
Long-term care	65.3 %	80.6 %	64.4 %	43.5 %	62.4 %	50.6 %
Home health care	32.3 %	8.2 %	33.1 %	43.9 %	35.2 %	37.3 %
Other	2.4 %	11.2 %	2.5 %	12.6 %	2.4 %	12.1 %
<b>Total</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>

The following describes the operating segments of the Company.

### Long-term Care

The Company owns and operates 58 LTC homes with capacity for 8,138 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.

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**

In April 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 \$14.1 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. Based on the incremental funding per LTC bed per month included in the announcement, the Company estimates that this will provide incremental revenue in 2022 of approximately \$40.0 to \$45.0 million through the nursing and program flow-through envelopes, where any funding not spent on resident care is returned to the government.

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 0.7%, respectively. However, to provide relief to families experiencing challenges due to COVID-19, these increases to residents have been deferred until October 1, 2022, and LTC providers are instead being compensated directly by the MLTC. For older LTC beds that are not classified as “New” or “A” beds, the maximum daily preferred accommodation premiums are \$8.74 and \$19.67 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 \$13.11 and \$27.34 for semi-private and private rooms, respectively.

### **ALBERTA LTC FUNDING CHANGES**

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. AHS has deferred the typical effective date of July 1, 2022 for the increase to residents to October 1, 2022, and will compensate operators directly during the deferral period. This increase represents additional annual revenue for the Company of approximately \$1.8 million (2021 – 0.6% effective July 1, 2021, \$0.2 million).

In October 2021, AHS announced adjustments to the portion of government funding for providers of LTC and designated supportive living homes retroactive to April 1, 2021, which are estimated to represent additional annual revenue for the Company of approximately \$0.1 million. As at May 11, 2022, there has been no announced changes for this funding component for the year commencing April 1, 2022.

### **MANITOBA LTC FUNDING CHANGES**

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 retroactive one-time funding amount 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.

### **Retirement Living**

Under the Esprit Lifestyle Communities brand, the Company owns and operates 11 retirement communities with 1,050 suites. Four of these communities (339 suites) are located in Saskatchewan and seven communities (711 suites) are located in Ontario.

The Company's retirement communities provide accommodation and services to private-pay residents at rates set by the Company based on the services provided and market conditions. The monthly fees vary depending on the type of accommodation, level of care and services chosen by the resident and the location of the retirement community. Residents are able to choose the living arrangements best suited to their personal preference and needs, as well as the level of care and support they receive as their needs evolve over time.

As previously announced, the Company has entered into an agreement to sell its 11 retirement communities (refer to "Significant Developments – Sale of Retirement Living Portfolio").

## **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**

In April 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. Based on ADV and mix of home health care services provided for the trailing twelve months ended March 31, 2022, the Company estimates that the annualized impact on revenue to be approximately \$25.0 million to support the associated increased labour costs.

In October 2021, the Government of Ontario implemented increased home health care rates for government contracted services by approximately 1.9%, effective April 1, 2021. In addition, AHS increased home health care rates by 1%, effective April 1, 2021. These Ontario and Alberta 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.

## **Other Operations**

The Company leverages its size, scale and operational expertise in the senior care industry to provide management and consulting services to third-parties through other operations, which are composed of 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 6,263 residents as at March 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 March 31, 2022, SGP provided services to third parties representing approximately 98,800 senior residents 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;

**"Occupancy"** is measured as the percentage of the number of earned resident days (or the number of occupied suites in the case of a retirement community) relative to the total available resident days. Total available resident days is the number of beds (or suites in the case of a retirement community) available for occupancy multiplied by the number of days in the period;

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

**"Lease-up"** is any LTC home or retirement community not classified as stabilized.

## 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.

Long-term Care Homes	2022				2021			2020
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
<b>Average Occupancy (%)</b>								
Total LTC	<b>88.6 %</b>	89.8 %	88.7 %	85.7 %	83.4 %	87.5 %	89.8 %	93.3 %
Change over prior year period (bps)	<b>520</b>	230	(110)	(760)	(1,360)	(1,030)	(830)	(430)
Sequential quarterly change (bps)	<b>(120)</b>	110	300	230	(410)	(230)	(350)	(370)
Ontario LTC								
Total ON LTC	<b>87.2 %</b>	87.8 %	86.6 %	82.8 %	80.3 %	85.3 %	87.9 %	92.9 %
Preferred Accommodation <sup>(i)</sup>								
"New" homes – private	<b>85.9 %</b>	87.9 %	85.6 %	83.6 %	82.6 %	88.4 %	88.0 %	91.7 %
"C" homes – private	<b>83.5 %</b>	83.9 %	79.9 %	81.0 %	76.6 %	80.7 %	86.5 %	89.5 %
"C" homes – semi-private	<b>53.1 %</b>	54.1 %	51.3 %	49.3 %	50.0 %	54.6 %	58.6 %	63.5 %

(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 average occupancy of the Company's LTC homes was 88.6% in Q1 2022, up 520 bps from Q1 2021 and down 120 bps from Q4 2021. 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 Omicron variant slowed the pace of occupancy recovery and contributed to a sequential decline in Q1 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 that have been taken out of service. The average occupancy of our Ontario LTC homes, adjusted to exclude 185 ward-style beds not in use, was 94.9% for the two months ended March 31, 2022, down slightly from 95.8% in December 2021. The sector has continued to receive full funding for the third and fourth ward beds no longer in service. In April 2022, the MLTC confirmed that the sector will not be returning to ward-style rooms and that funding will be provided to support this shift, with further details to be provided on potential funding changes. Occupancy protection does not compensate for the loss of preferred accommodation premiums from private and semi-private room vacancies. The reduction in preferred accommodation premiums for the year ended December 31, 2021, was approximately \$1.1 million from 2020 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 following table summarizes the LTC projects that are under construction:

LTC Project	# of Beds	Construction Commenced	Expected Opening	Estimated Adjusted Development Costs <sup>(1)</sup> (\$ millions)	Adjusted Development Costs <sup>(1)</sup>		Annual CFS <sup>(i)</sup> (\$ millions)	Estimated Stabilized NOI <sup>(1)</sup> (\$ millions)	Expected NOI Yield <sup>(1)</sup>
					Incurring as at March 31, 2022 (\$ millions)	Incurred as at March 31, 2022 (\$ millions)			
Sudbury	256	Q4-20	Q2-23	64.3	24.4	1.9	3.1	7.7 %	
Kingston	192	Q2-21	Q1-23	45.4	14.0	1.4	2.3	8.1 %	
Stittsville	256	Q4-21	Q1-24	69.2	15.1	2.2	3.0	7.6 %	
<b>704</b>				<b>178.9</b>	<b>53.5</b>	<b>5.5</b>	<b>8.4</b>	<b>7.8 %</b>	

(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.

The construction industry across Ontario is experiencing significant inflationary cost increases and disruptions in the labour forces across various trades. Subsequent to Q1 2022, we have experienced labour disruptions of selected trades across all of our current construction projects, which may cause delays to our scheduled completion and expected opening dates. These delays may also result in cost increases that could be in excess of the contingency levels included in our Estimated Adjusted Development Costs. We continue to work with our general contractors and construction partners to identify opportunities to mitigate the impacts on schedules and costs of any prolonged labour disruptions experienced at any of our projects.

## Home Health Care

### AVERAGE DAILY VOLUME

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, and since that time, we saw a steady recovery in our ADV levels through to the end of 2021. Despite the impacts of various periods of COVID-19 lockdown measures, traditional seasonal impacts and the recovery of our workforce capacity throughout 2021 our ADV levels recovered to reach pre-pandemic levels in Q2-21 and remained at those levels through the balance of 2021. Referral activity remains above pre-COVID-19 levels as strong demand for our services continues. However, our progress has been impaired by the dramatic impact of the Omicron variant on our workforce capacity in Q1-22 and continuing into Q2-22, with as many as 900 staff in late January 2022 on public health leave due to COVID (refer to the discussion under "Significant Developments – Home Health Care Volumes and Margins Impacted by Omicron Driven Staffing Challenges"). As a result, our Q1 2022 ADV of 24,552 was down 4.8% from Q4 2021, and up modestly from Q1 2021 ADV by 0.8%.

Home Health Care Service Volumes	2022				2021			2020
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Hours of service (000's)	2,209.7	2,373.2	2,331.7	2,299.0	2,191.7	2,202.7	2,093.2	1,854.6
ADV	24,552	25,796	25,345	25,264	24,352	23,943	22,752	20,380
Change over prior year period	0.8 %	7.7 %	11.4 %	24.0 %	(1.3)%	(5.4)%	(9.9)%	(20.7)%
Sequential quarterly change	(4.8)%	1.8 %	0.3 %	3.7 %	1.7 %	5.2 %	11.6 %	(17.4)%

### PARAMED CANADA EMERGENCY WAGE SUBSIDY

On April 11, 2020, the Government of Canada enacted the CEWS program, which was designed to help Canadian employers that have experienced revenue declines to re-hire workers laid off as a result of COVID-19, help prevent further job losses and better position the employers to resume normal operations after the COVID-19 pandemic.

As a result of the revenue declines experienced by ParaMed, the Company's home health care subsidiary, ParaMed applied for and received CEWS funding in 2020 and 2021. For the year ended December 31, 2021, ParaMed recognized \$17.4 million in CEWS (\$9.7 million in Q1 2021 and \$7.7 million in Q2 2021). During 2020, ParaMed recognized \$91.2 million in CEWS (\$50.8 million in Q3 2020 and \$40.4 million in Q4 2020). 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.

## Other Operations

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 March 31, 2022, Extendicare Assist was providing management services to third-parties representing 50 LTC homes and retirement communities with capacity for 6,263 senior residents. SGP continues to grow its market share, increasing its third-party residents served by 21.9% at March 31, 2022, over March 31, 2021, and by 6.0% from Q4 2021.

Other Operations	2022				2021			2020
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
<b>Extendicare Assist Management Services</b>								
Homes at period end	50	50	51	51	51	52	53	53
Resident capacity	6,263	6,263	6,359	6,359	6,359	6,379	6,543	6,543
Change over prior year period	(1.5)%	(1.8)%	(2.8)%	(2.8)%	(3.7)%	(3.4)%	(0.9)%	(0.9)%
Sequential quarterly change	— %	(1.5)%	— %	— %	(0.3)%	(2.5)%	— %	(0.9)%
<b>SGP Clients</b>								
Third-party senior residents	98,845	93,208	88,431	83,511	81,110	78,937	79,372	75,165
Change over prior year period	21.9 %	18.1 %	11.4 %	11.1 %	11.3 %	21.9 %	23.5 %	28.1 %
Sequential quarterly change	6.0 %	5.4 %	5.9 %	3.0 %	2.8 %	(0.5)%	5.6 %	3.1 %

## SELECT QUARTERLY FINANCIAL INFORMATION

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

(thousands of dollars unless otherwise noted)	2022				2021 <sup>(2)</sup>			2020 <sup>(2)</sup>
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenue	305,710	306,162	284,271	281,693	294,861	280,231	271,233	257,391
Net operating income <sup>(1)</sup>	32,976	38,741	29,007	28,898	36,319	52,441	72,342	16,660
NOI margin <sup>(2)</sup>	10.8%	12.7%	10.2%	10.3%	12.3%	18.7%	26.7%	6.5%
Adjusted EBITDA <sup>(1)</sup>	19,563	24,505	16,787	15,464	23,778	37,683	60,160	4,893
Adjusted EBITDA margin <sup>(1)</sup>	6.4%	8.0%	5.9%	5.5%	8.1%	13.4%	22.2%	1.9%
Earnings (loss) from continuing operations	4,045	(4,483)	2,812	1,663	7,512	15,689	34,643	(6,331)
per basic share (\$)	0.04	(0.06)	0.03	0.02	0.08	0.17	0.39	(0.07)
per diluted share (\$)	0.04	(0.06)	0.03	0.02	0.08	0.17	0.36	(0.07)
Earnings (loss) from discontinued operations	75	661	3,231	(703)	811	1,787	(177)	2,672
Net earnings (loss)	4,120	(3,822)	6,043	960	8,323	17,476	34,466	(3,659)
per basic share (\$)	0.04	(0.04)	0.07	0.01	0.09	0.19	0.38	(0.04)
per diluted share (\$)	0.04	(0.04)	0.07	0.01	0.09	0.19	0.36	(0.02)
AFFO <sup>(1)</sup>	12,048	16,530	9,573	8,073	19,545	21,804	42,787	2,946
per basic share (\$)	0.13	0.18	0.11	0.09	0.22	0.24	0.48	0.03
per diluted share (\$)	0.13	0.17	0.11	0.09	0.21	0.23	0.44	0.03
Maintenance capex	1,412	5,472	3,833	3,746	1,033	7,573	2,381	2,157
Cash dividends declared	10,750	10,746	10,752	10,744	10,752	10,743	10,746	10,743
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	90,075	90,040	90,009	89,980	89,929	89,898	89,864	89,826
Diluted	101,190	100,953	100,786	100,615	100,520	100,362	100,223	100,177

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” and “Key Performance Indicators – Home Health Care – ParaMed Canada Emergency Wage Subsidy”). The significant factors that impact the results from period to period, in addition to the impacts that result from COVID-19, 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 1<sup>st</sup> and increases in preferred accommodation premiums effective July 1<sup>st</sup>, and Alberta long-term care providers generally receive annual inflationary rate increases and acuity-based funding adjustments on April 1<sup>st</sup> and accommodation funding increases effective July 1<sup>st</sup>;
- maintenance capex spending, which impacts AFFO, fluctuates on a quarterly basis with the timing of projects and seasonality and is generally at its lowest in 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”.

<i>(thousands of dollars)</i>	2022		2021 <sup>(2)</sup>				2020 <sup>(2)</sup>	
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
<b>Earnings (loss) from continuing operations before income taxes</b>	<b>6,264</b>	(3,559)	4,196	2,697	10,650	21,847	47,456	(8,427)
<b>Add:</b>								
Depreciation and amortization	<b>8,251</b>	7,845	7,827	7,432	7,726	7,726	7,213	7,507
Net finance costs	<b>5,048</b>	5,250	4,764	5,335	5,402	5,624	5,491	5,813
Other expense	—	14,969	—	—	—	2,486	—	—
<b>Adjusted EBITDA</b>	<b>19,563</b>	24,505	16,787	15,464	23,778	37,683	60,160	4,893
Administrative costs	<b>13,413</b>	14,236	12,220	13,434	12,541	14,758	12,182	11,767
<b>Net operating income</b>	<b>32,976</b>	38,741	29,007	28,898	36,319	52,441	72,342	16,660



## STATEMENT OF EARNINGS

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

<i>(thousands of dollars unless otherwise noted)</i>	Three months ended March 31		
	2022	2021 <sup>(2)</sup>	Change
<b>Revenue</b>	<b>305,710</b>	294,861	10,849
Operating expenses	<b>272,734</b>	258,542	14,192
<b>Net operating income<sup>(1)</sup></b>	<b>32,976</b>	36,319	(3,343)
Administrative costs	<b>13,413</b>	12,541	872
<b>Adjusted EBITDA<sup>(1)</sup></b>	<b>19,563</b>	23,778	(4,215)
Depreciation and amortization	<b>8,251</b>	7,726	525
<b>Earnings before net finance costs and income taxes</b>	<b>11,312</b>	16,052	(4,740)
Interest expense (net of capitalized interest)	<b>5,058</b>	5,345	(287)
Interest revenue	<b>(750)</b>	(515)	(235)
Accretion	<b>847</b>	298	549
Foreign exchange and fair value adjustments	<b>(107)</b>	274	(381)
<b>Net finance costs</b>	<b>5,048</b>	5,402	(354)
<b>Earnings from continuing operations before income taxes</b>	<b>6,264</b>	10,650	(4,386)
<b>Income tax expense (recovery)</b>			
Current	<b>3,960</b>	2,803	1,157
Deferred	<b>(1,741)</b>	335	(2,076)
Total income tax expense	<b>2,219</b>	3,138	(919)
<b>Earnings from continuing operations</b>	<b>4,045</b>	7,512	(3,467)
Earnings from discontinued operations	<b>75</b>	811	(736)
<b>Net earnings</b>	<b>4,120</b>	8,323	(4,203)
<b>Earnings from continuing operations</b>	<b>4,045</b>	7,512	(3,467)
<b>Add (Deduct)<sup>(i)</sup>:</b>			
Foreign exchange and fair value adjustments	<b>(84)</b>	271	(355)
<b>Earnings from continuing operations before separately reported items, net of taxes<sup>(1)</sup></b>	<b>3,961</b>	7,783	(3,822)

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

## 2022 FIRST QUARTER FINANCIAL REVIEW

The following is an analysis of the consolidated results from operations for Q1 2022, as compared to Q1 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 \$305.7 million for Q1 2022 increased by \$10.8 million or 3.7% from \$294.9 million in Q1 2021. Improvements in revenue were driven primarily by LTC funding enhancements, including \$2.9 million in retroactive LTC funding, and home health care billing rate increases, partially offset by reduced COVID-19 funding (\$3.9 million) and the impact of timing of flow-through funding.

### Operating Expenses

Operating expenses of \$272.7 million for Q1 2022 increased by \$14.2 million or 5.5% from Q1 2021. Excluding the year-over-year impact on operating expenses from CEWS (\$9.7 million) received by the home health care segment in Q1 2021, operating expenses increased by \$4.5 million or 1.7% to \$272.7 million in Q1 2022 from \$268.2 million in the same prior year period. The increase in operating expenses was driven by increased labour related costs, utilities and information technology (“IT”) costs across the business segments, partially offset by lower estimated costs related to COVID-19 and funded pandemic pay programs (\$11.8 million).

## **Net Operating Income**

Net operating income was \$33.0 million for Q1 2022 as compared to \$36.3 million for Q1 2021 and represented 10.8% of revenue as compared to 12.3% for Q1 2021. Excluding the impact of CEWS (\$9.7 million) received by the home health care segment in Q1 2021, NOI increased by \$6.4 million to \$33.0 million in Q1 2022 from \$26.6 million in the same prior year period, representing 10.8% and 9.0% of revenue, respectively. The increase in NOI was impacted by a higher recovery of estimated net COVID-19 costs (\$7.9 million) and retroactive LTC funding in Manitoba (\$2.9 million), partially offset by higher operating costs and the impact of the loss of occupancy protection for Ontario LTC homes.

## **Administrative Costs**

Administrative costs increased by \$0.9 million to \$13.4 million for Q1 2022, largely attributable to higher transaction related professional fees (\$0.6 million) and increased IT costs, partially offset by reduced COVID-19 related costs of \$0.8 million.

## **Adjusted EBITDA**

Adjusted EBITDA was \$19.6 million for Q1 2022 as compared to \$23.8 million for Q1 2021 and represented 6.4% of revenue as compared to 8.1%, respectively. Excluding the impact of CEWS (\$9.7 million) received by the home health care segment in Q1 2021, Adjusted EBITDA increased by \$5.5 million to \$19.6 million in Q1 2022 from \$14.1 million in the same prior year period, representing 6.4% and 4.8% of revenue, respectively, reflecting the increase in NOI, partially offset by higher administrative costs.

## **Depreciation and Amortization**

Depreciation and amortization costs increased by \$0.5 million to \$8.3 million for Q1 2022, due to higher capital expenditures.

## **Net Finance Costs**

Net finance costs declined by \$0.4 million for Q1 2022, primarily due to higher interest income, lower interest expense and a net favourable change of \$0.4 million in foreign exchange and fair value adjustments related to the Company's interest rate swaps, partially offset by an increase in accretion costs. Interest expense of \$5.1 million declined by \$0.3 million, due to lower debt levels and \$0.2 million of interest capitalized in Q1 2022.

## **Income Taxes**

The income tax provision was \$2.2 million for Q1 2022, representing an effective tax rate of 35.4%, as compared to \$3.1 million and an effective tax rate of 29.5% for Q1 2021, largely due to a decline in taxable income of certain of the legal entities. The Q1 2021 income tax provision includes \$2.6 million of current income taxes payable on CEWS (\$9.7 million) received by the home health care segment.

## **Earnings from Continuing Operations**

Earnings from continuing operations declined by \$3.5 million to \$4.0 million (\$0.04 per basic share) for Q1 2022 from \$7.5 million (\$0.08 per basic share) for Q1 2021, reflecting the decline in Adjusted EBITDA. The year-over-year decline in earnings included the impact of CEWS (\$9.7 million) received by the home health care segment in Q1 2021 (\$7.1 million net of tax, or \$0.08 per basic share), partially offset by an increase in the net recovery of estimated COVID-19 costs in Q1 2022 (\$6.3 million net of tax, or \$0.07 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 March 31 <i>(thousands of dollars unless otherwise noted)</i>	Long-term Care	Home Health Care	Other Operations	Total
<b>2022</b>				
Revenue	199,808	98,649	7,253	305,710
Operating expenses	173,244	95,938	3,552	272,734
Net operating income <sup>(1)</sup>	26,564	2,711	3,701	32,976
<i>NOI margin<sup>(1)</sup></i>	13.3 %	2.7 %	51.0 %	10.8 %
<b>2021<sup>(2)</sup></b>				
Revenue	189,789	97,667	7,405	294,861
Operating expenses	173,999	81,705	2,838	258,542
Net operating income <sup>(1)</sup>	15,790	15,962	4,567	36,319
<i>NOI margin<sup>(1)</sup></i>	8.3 %	16.3 %	61.7 %	12.3 %
<b>Change</b>				
Revenue	10,019	982	(152)	10,849
Operating expenses	(755)	14,233	714	14,192
Net operating income <sup>(1)</sup>	10,774	(13,251)	(866)	(3,343)

### LONG-TERM CARE OPERATIONS

Revenue from the LTC operations grew by \$10.0 million or 5.3% to \$199.8 million for Q1 2022, largely driven by funding enhancements, including \$2.9 million retroactive funding in Manitoba and \$9.1 million in Ontario flow-through funding, partially offset by reduced funding of \$2.7 million to support the costs associated with COVID-19 and pandemic pay programs, and the impact of the loss of occupancy protection for Ontario LTC homes.

Net operating income from the LTC operations was \$26.6 million for Q1 2022 as compared to \$15.8 million for Q1 2021, an improvement of \$10.8 million, with NOI margins of 13.3% and 8.3%, respectively, due in part to a higher recovery of estimated net COVID-19 costs of \$9.9 million (refer to "Significant Developments – COVID-19 Related Expenses and Funding"). Excluding the net change in COVID-19 costs, NOI improved by \$0.9 million due to funding enhancements, including retroactive funding in Manitoba of \$2.9 million, partially offset by higher costs of labour and utilities, and the impact of the loss of occupancy protection for Ontario LTC homes.

### HOME HEALTH CARE OPERATIONS

The following discussion of the home health care operations excludes CEWS of \$9.7 million received in Q1 2021 (refer to "Key Performance Indicators – Home Health Care – ParaMed Canada Emergency Wage Subsidy").

Revenue from the home health care operations increased by \$1.0 million or 1.0% to \$98.6 million for Q1 2022 from \$97.7 million for Q1 2021 due to billing rate increases and an increase in ADV of 0.8%, partially offset by reduced funding of \$1.2 million to support the costs associated with COVID-19 and pandemic pay programs.

Net operating income from the home health care operations declined by \$3.6 million to \$2.7 million for Q1 2022 from \$6.3 million for Q1 2021, with NOI margins of 2.7% and 6.4%, respectively. The decline in NOI was largely due to an increase in unfunded net COVID-19 costs of \$2.0 million (refer to the discussion under "Significant Developments – COVID-19 Related Expenses and Funding") and higher costs to address staffing capacity challenges, resulting in higher wages and benefits, recruitment, travel and training costs and higher IT costs.

### OTHER OPERATIONS

Revenue from other operations declined by \$0.2 million or 2.1% to \$7.3 million in Q1 2022 compared to Q1 2021, largely due to lower management services revenue.

Net operating income from other operations declined by \$0.9 million or 19.0% to \$3.7 million for Q1 2022 compared to Q1 2021, reflecting the decline in revenue and increased staff and IT 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”.

<i>(thousands of dollars unless otherwise noted)</i>	<b>Three months ended March 31</b>		
	<b>2022</b>	<b>2021<sup>(2)</sup></b>	<b>Change</b>
<b>Earnings from continuing operations</b>	<b>4,045</b>	7,512	(3,467)
<b>Add (Deduct):</b>			
Depreciation and amortization	<b>8,251</b>	7,726	525
Depreciation for FFEC (maintenance capex)	<b>(1,789)</b>	(1,661)	(128)
Depreciation for office leases	<b>(657)</b>	(727)	70
Foreign exchange and fair value adjustments	<b>(107)</b>	274	(381)
Deferred income tax expense (recovery)	<b>(1,741)</b>	335	(2,076)
FFO from discontinued operations	<b>(234)</b>	2,123	(2,357)
<b>FFO</b>	<b>7,768</b>	15,582	(7,814)
Amortization of deferred financing costs	<b>457</b>	535	(78)
Accretion costs	<b>773</b>	317	456
Non-cash share-based compensation	<b>1,485</b>	658	827
Principal portion of government capital funding	<b>1,115</b>	1,521	(406)
Additional maintenance capex	<b>450</b>	932	(482)
<b>AFFO</b>	<b>12,048</b>	19,545	(7,497)
<b>Per Basic Share (\$)</b>			
FFO	<b>0.09</b>	0.17	(0.08)
AFFO	<b>0.13</b>	0.22	(0.09)
<b>Per Diluted Share (\$)</b>			
FFO	<b>0.09</b>	0.17	(0.08)
AFFO	<b>0.13</b>	0.21	(0.08)
<b>Dividends (\$)</b>			
Declared	<b>10,750</b>	10,752	(2)
Declared per share (\$)	<b>0.12</b>	0.12	—
<b>Weighted Average Number of Shares (thousands)</b>			
Basic	<b>90,075</b>	89,929	
Diluted	<b>101,190</b>	100,520	
<b>Current income tax expense included in FFO</b>	<b>3,594</b>	2,827	767
<i>FFO effective tax rate</i>	<b>31.6 %</b>	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”.

<i>(thousands of dollars)</i>	Three months ended March 31		
	2022	2021	Change
<b>Net cash from (used in) operating activities</b>	<b>50,224</b>	(13,147)	63,371
<b>Add (Deduct):</b>			—
Net change in operating assets and liabilities, including interest, and taxes	(37,222)	32,931	(70,153)
Depreciation for office leases	(657)	(727)	70
Depreciation for FFEC (maintenance capex) <sup>(i)</sup>	(1,862)	(1,965)	103
Additional maintenance capex <sup>(i)</sup>	450	932	(482)
Principal portion of government capital funding	1,115	1,521	(406)
<b>AFFO</b>	<b>12,048</b>	19,545	(7,497)
<b>Total maintenance capex<sup>(i)</sup></b>	<b>1,412</b>	1,033	379

(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 Q1 2022, AFFO declined by \$7.5 million to \$12.0 million (\$0.13 per basic share) from \$19.5 million (\$0.22 per basic share) for Q1 2021, reflecting the decrease in Adjusted EBITDA and higher current income taxes and maintenance capex. The year-over-year decline in AFFO included the impact of CEWS received in Q1 2021 by the home health care segment of \$7.1 million net of tax (\$0.08 per basic share), partially offset by a favourable change in estimated unfunded COVID-19 costs from continuing operations of \$6.3 million net of tax (a net recovery of \$6.2 million (\$0.07 per basic share) in Q1 2022 in comparison to unfunded costs of \$0.1 million in Q1 2021).

Dividends declared as a percentage of AFFO for the three months ended March 31, 2022, represented a payout ratio of 89%. In addition to cash on hand of \$118.4 million at March 31, 2022, and ongoing cash generated from operations, the Company has available undrawn credit facilities totalling \$72.8 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 First Quarter Financial Review” and “Discontinued Operations”.

The current income tax expense included in arriving at AFFO was \$3.6 million for the three months ended March 31, 2022, and \$2.8 million for the same prior year period, representing an effective tax rate on FFO of 31.6% 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 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 2022, the Company expects the effective tax rate on FFO will be in the range of 24% to 26%. 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 \$1.4 million for Q1 2022 as compared to \$1.0 million for Q1 2021 and to \$5.5 million for Q4 2021, representing 0.4%, 0.3% and 1.6% of revenue, respectively. These costs fluctuate on a quarterly and annual basis with the timing of projects and seasonality.

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”.

<i>(thousands of dollars)</i>	Three months ended March 31		
	2022	2021	Change
<b>Adjusted EBITDA</b>	<b>19,563</b>	23,778	(4,215)
<b>Add (Deduct):</b>			
Depreciation for FFEC (maintenance capex)	<b>(1,789)</b>	(1,661)	(128)
Depreciation for office leases	<b>(657)</b>	(727)	70
Accretion costs	<b>(847)</b>	(298)	(549)
Interest expense	<b>(5,058)</b>	(5,345)	287
Interest revenue	<b>750</b>	515	235
Discontinued operations, pre-tax	<b>(600)</b>	2,147	(2,747)
	<b>11,362</b>	18,409	(7,047)
Current income tax expense (recovery)	<b>3,594</b>	2,827	767
<b>FFO</b>	<b>7,768</b>	15,582	(7,814)
Amortization of deferred financing costs	<b>457</b>	535	(78)
Accretion costs	<b>773</b>	317	456
Non-cash share-based compensation	<b>1,485</b>	658	827
Principal portion of government capital funding	<b>1,115</b>	1,521	(406)
Additional maintenance capex	<b>450</b>	932	(482)
<b>AFFO</b>	<b>12,048</b>	19,545	(7,497)

## 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 March 31, 2022 and 2021.

<i>(thousands of dollars)</i>	Three months ended March 31, 2022			Three months ended March 31, 2021		
	Continuing	Discontinued	Total	Continuing	Discontinued	Total
<b>Net cash from (used in) operating activities</b>	<b>51,556</b>	<b>(1,332)</b>	<b>50,224</b>	(13,090)	(57)	(13,147)
<b>Net cash from (used in) investing activities</b>	<b>(18,244)</b>	<b>(174)</b>	<b>(18,418)</b>	(7,002)	(319)	(7,321)
<b>Net cash from (used in) financing activities</b>	<b>(14,247)</b>	<b>(3,703)</b>	<b>(17,950)</b>	(16,711)	(1,493)	(18,204)
Foreign exchange gain (loss) on U.S. cash held	<b>(91)</b>	—	<b>(91)</b>	(13)	—	(13)
<b>Increase (decrease) in cash and cash equivalents</b>	<b>18,974</b>	<b>(5,209)</b>	<b>13,765</b>	(36,816)	(1,869)	(38,685)

As at March 31, 2022, the Company had cash and cash equivalents on hand of \$118.4 million, reflecting an increase in cash of \$13.8 million from the beginning of the year. Cash flow from operating activities of the continuing operations was \$51.6 million for the three months ended March 31, 2022, and was in excess of dividends paid of \$10.8 million for the same period.

**Net cash from operating activities** was a source of cash of \$50.2 million for the three months ended March 31, 2022, up \$63.4 million from cash used of \$13.1 million for the same prior year period, reflecting favourable changes in operating assets and liabilities and cash income taxes between periods. Net income taxes received of \$7.2 million in Q1 2022 included receipt of an prior year tax recoverable related to the former U.S. operations, compared to taxes paid of \$22.9 million in Q1 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 COVID-19 and the timing of payroll cycles.

**Net cash from investing activities** was a use of cash of \$18.4 million for the three months ended March 31, 2022 as compared to \$7.3 million for the same prior year period. The 2022 activity included purchases of property, equipment and other intangible assets of \$19.5 million, partially offset by the collection of other assets of \$1.1 million. The 2021 activity included purchases of property, equipment and other intangible assets of \$8.8 million, partially offset by the collection of other assets of \$1.5 million.

The table that follows summarizes the capital expenditures 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 actual capital expenditures incurred to sustain and upgrade existing property and equipment.

<i>(thousands of dollars)</i>	Three months ended March 31, 2022			Three months ended March 31, 2021		
	Continuing	Discontinued	Total	Continuing	Discontinued	Total
<b>Growth capex</b>	<b>18,080</b>	<b>42</b>	<b>18,122</b>	7,634	176	7,810
<b>Maintenance capex</b>	<b>1,308</b>	<b>104</b>	<b>1,412</b>	897	136	1,033
	<b>19,388</b>	<b>146</b>	<b>19,534</b>	8,531	312	8,843

Management monitors and prioritizes the capital expenditure requirements of its properties throughout the year, taking into account the urgency and necessity of the expenditure. In 2022, the Company expects to spend in the range of \$15.0 million to \$17.0 million in maintenance capex and in the range of \$140.0 million to \$150.0 million in growth capex related primarily to 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. Depending on the timing of further announcements of our LTC redevelopment projects the level of our growth capex could change (refer to “Key Performance Indicators – LTC Projects Under Construction”).

**Net cash from financing activities** was a use of cash of \$18.0 million for the three months ended March 31, 2022, an increase of \$0.3 million from \$18.2 million for the same prior year period. The 2022 activity included debt repayments of \$10.7 million including \$2.6 million related to debt retirements for the Saskatchewan LTC Homes, cash dividends paid of \$10.8 million and financing costs, partially offset by draws on LTC construction financings of \$3.7 million. The 2021 activity included debt repayments of \$7.3 million, cash dividends paid of \$10.8 million and financing costs.

**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 14* of the unaudited interim condensed consolidated financial statements.

## Capital Structure

### SHAREHOLDERS’ EQUITY

Total shareholders’ equity as at March 31, 2022, was \$99.8 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 \$10.8 million.

As at March 31, 2022, the Company had 89,562,499 Common Shares issued and outstanding (carrying value – \$500.9 million), unchanged from December 31, 2021.

<b>Share Information (thousands)</b>	<b>May 11, 2022</b>	<b>March 31, 2022</b>	<b>March 31, 2021</b>
Common Shares (TSX symbol: EXE) <sup>(i)</sup>	<b>89,562.5</b>	<b>89,562.5</b>	89,562.5

(i) Closing market value per TSX on May 11, 2022, was \$6.90.

As at May 12, 2022, the Company had an aggregate of 4,240,738 Common Shares reserved and available for issuance pursuant to the Company’s long-term incentive plan, of which there were in aggregate 2,258,834 performance share units and deferred share units outstanding as at March 31, 2022 (refer to *Note 9* of the unaudited interim condensed consolidated financial statements).

As at May 12, 2022, 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 \$0.12 per share or \$10.8 million in the three months ended March 31, 2022, consistent with that declared in the same 2021 period.

### Long-term Debt

Long-term debt totalled \$367.0 million as at March 31, 2022, as compared to \$536.9 million as at December 31, 2021, representing a decrease of \$169.8 million, reflecting the reclassification of \$167.5 million, net of related deferred financing costs, as held for sale and debt repayments of \$8.1 million, partially offset by draws on construction loans of \$3.7 million,

new lease liabilities and changes in accretion and deferred financing costs. The current portion of long-term debt as at March 31, 2022, was \$24.7 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 March 31, 2022. Details of the components, maturities dates, terms and conditions of long-term debt are provided in *Note 7* of the unaudited interim condensed consolidated financial statements.

### LTC CONSTRUCTION FINANCING

As at March 31, 2022, \$6.0 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% 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.

### 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 March 31, 2022, \$33.7 million of the facilities secure the Company's defined benefit pension plan obligations and \$5.8 million was used in connection with obligations relating to LTC homes and retirement communities, leaving \$72.8 million available. The letter of credit to secure the pension plan obligations renews annually in May based on an actuarial valuation, and on May 1, 2022, it reduced to \$30.5 million. In addition, \$1.3 million in letters of credit related to the retirement operations will be cancelled.

Management has limited the amount of debt that may be subject to changes in interest rates, with only \$21.7 million of mortgage debt and \$6.0 million of construction loans in connection with the LTC projects at variable rates. The Company's term loan aggregating \$24.4 million as at March 31, 2022, has effectively been converted to fixed-rate financings with interest rate swaps over the full term. As at March 31, 2022, the interest rate swaps were valued as a liability of less than \$0.1 million.

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

<i>(thousands of dollars unless otherwise noted)</i>	<b>March 31, 2022</b>	<b>December 31, 2021<sup>(2)</sup></b>
Weighted average interest rate of long-term debt outstanding	<b>5.0 %</b>	4.3 %
Weighted average term to maturity of long-term debt outstanding	<b>6.4 yrs</b>	5.9 yrs
Trailing twelve months consolidated interest coverage ratio <sup>(1)</sup>	<b>3.6 X</b>	3.5 X
<b>Debt to Gross Book Value (GBV)</b>		
Total assets (carrying value)	<b>901,144</b>	900,323
Accumulated depreciation on property and equipment	<b>258,503</b>	284,428
Accumulated amortization on other intangible assets	<b>32,368</b>	31,852
Deduct assets held for sale	<b>(230,216)</b>	(7,262)
Proforma net proceeds from Retirement Living Sale	<b>125,000</b>	—
GBV <sup>(i)</sup>	<b>1,086,799</b>	1,209,341
Debt <sup>(ii)</sup>	<b>375,902</b>	550,212
<b>Debt to GBV<sup>(i)</sup></b>	<b>34.6 %</b>	45.5 %

(i) GBV excludes assets held for sale and is further adjusted at March 31, 2022 to proforma estimated net proceeds of \$125.0 million from the Retirement Living Sale (refer to (refer to the discussion under "Significant Developments – Sale of Retirement Living Portfolio").

(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 \$118.4 million as at March 31, 2022, as compared with \$104.6 million as at December 31, 2021, representing an increase of \$13.8 million. In addition, the Company has access to a further \$72.8 million in undrawn demand credit facilities. Cash and cash equivalents exclude restricted cash of \$3.2 million.

The Company has construction facilities in connection with three LTC projects in the aggregate of \$156.6 million, of which \$6.0 million was drawn as at March 31, 2022. For more information refer to the discussion under "Liquidity and Capital Resources – Long-term Debt – LTC Construction Financing".



The estimated net proceeds from the Retirement Living Sale are approximately \$125.0 million, net of debt repayments, taxes, transactions costs and estimated customer post-closing adjustments.

Management believes that cash from operating activities, future debt financings, and estimated net proceeds from the Retirement Living Sale will be sufficiently available to support the Company's ongoing business operations, maintenance capex and debt repayment obligations and fund the completion of the Revera and Axium Transactions (refer to "Significant Developments - Revera and Axium Transactions"). 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 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 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 March 31, 2022, the Company has outstanding commitments of \$98.7 million in connection with construction contracts for three LTC redevelopment projects, of which \$50.3 million is estimated to be payable in 2022, \$44.6 million in 2023 and the balance in 2024, based on the anticipated construction schedules. The Company also has outstanding commitments of \$23.7 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 15* of the unaudited interim condensed 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 – Strategic Transactions with Revera and Axium to Expand Focus on Long-term Care").

### **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 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. The amended claim 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 claim seeks damages in the aggregate of \$110 million.

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 past eight quarters.

### **Retirement Living Sale**

The Company has entered into 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, for an aggregate purchase price of \$307.5 million (refer to "Significant Developments – Sale of Retirement Living Portfolio").

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.

### **Saskatchewan LTC Home Transition**

The Company is in the process of transitioning the delivery of long-term care services operated at its Saskatchewan LTC Homes to the SHA. The timing of the transfer of the operations, and potentially the related assets, is anticipated to be completed in 2022.

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.

### **Former U.S. Segment**

After the sale of its U.S. business in 2015 (the "U.S. Sale Transaction"), the Company retained its wholly owned Bermuda captive insurance company (the "Captive"), which, along with third-party insurers, insured the Company's U.S. general and professional liability risks up to the date of the U.S. Sale Transaction, and was reported as the U.S. segment. In June 2020, the Company completed the dissolution of the Captive, which included the transfer of certain remaining obligations of the Captive to the Company in accordance with a termination agreement and a release of the balance of the accrued for self-insured liabilities.

Accordingly, the Company classified the formerly separate U.S. segment as discontinued in Q2 2020 and re-presented its comparative consolidated statement of earnings, including the comparative financial information presented in this MD&A. Any expense incurred or release of reserves for the former U.S. self-insured liabilities are presented as discontinued operations.

## Earnings (Loss) from Discontinued Operations

The following is an analysis of the results of discontinued operations for the periods ended March 31, 2022 and 2021. There was no impact from the former U.S. operations on these periods. Further details are provided in *Note 14* of the unaudited interim condensed consolidated financial statements.

Net operating income from discontinued operations declined by \$3.2 million to \$0.8 million for Q1 2022, compared to \$3.9 million for Q1 2021, and included the impact of an increase in estimated unfunded net COVID-19 costs of \$1.1 million. NOI of the retirement living segment decreased by \$0.6 million, largely due to estimated unfunded COVID-19 costs of \$0.5 million and higher operating expenses in excess of increased revenue. Average occupancy increased 40 bps to 85.0% in Q1 2022 from 84.6% in Q1 2021 (refer to “– Retirement Living Key Performance Indicators”). NOI of the Saskatchewan LTC Homes declined by \$2.5 million largely due to the impact of retroactive funding received in Q1 2021 related to 2020, higher operating expenses, and an increase in estimated unfunded COVID-19 costs of \$0.6 million.

Earnings from discontinued operations for Q1 2022 was essentially flat compared to \$0.8 million for Q1 2021, reflecting the reduction in NOI, partially offset by lower depreciation and amortization of \$1.4 million and reduced net finance costs, which were impacted by a \$0.6 million favourable change in fair value adjustments related to interest rate swaps associated with floating-rate debt on the retirement communities.

AFFO from discontinued operations declined by \$2.7 million to a loss of \$0.2 million for Q1 2022, compared to AFFO of \$2.5 million for Q1 2021, largely due to the \$3.2 million decline in NOI.

The following table provides the results of discontinued operations and a calculation of AFFO for the for the periods ended March 31, 2022 and 2021.

DISCONTINUED OPERATIONS	Three months ended March 31						
	2022			2021			
<i>(thousands of dollars unless otherwise noted)</i>	Retirement Living	SK LTC Homes	Total	Retirement Living	SK LTC Homes	Total	Total Change
<b>Revenue</b>	<b>12,665</b>	<b>13,360</b>	<b>26,025</b>	12,174	15,346	27,520	(1,495)
Operating expense	9,856	15,390	25,246	8,727	14,848	23,575	1,671
<b>Net operating income</b>	<b>2,809</b>	<b>(2,030)</b>	<b>779</b>	3,447	498	3,945	(3,166)
<b>RECONCILIATION TO AFFO</b>							
<b>Earnings (loss) from discontinued operations</b>	<b>1,567</b>	<b>(1,492)</b>	<b>75</b>	588	223	811	(736)
<b>Add (Deduct):</b>							
Depreciation and amortization	565	—	565	1,962	167	2,129	(1,564)
Depreciation for FFEC (maintenance capex)	(73)	—	(73)	(234)	(70)	(304)	231
Foreign exchange and fair value adjustments	(1,195)	—	(1,195)	(781)	—	(781)	(414)
Deferred income tax expense (recovery)	394	—	394	188	80	268	126
<b>FFO from discontinued operations</b>	<b>1,258</b>	<b>(1,492)</b>	<b>(234)</b>	1,723	400	2,123	(2,357)
Amortization of deferred financing costs	167	—	167	199	—	199	(32)
Accretion costs	(74)	—	(74)	19	—	19	(93)
Additional maintenance capex	(31)	—	(31)	166	2	168	(199)
<b>AFFO from discontinued operations</b>	<b>1,320</b>	<b>(1,492)</b>	<b>(172)</b>	2,107	402	2,509	(2,681)
<b>AFFO per basic share (\$)</b>	<b>0.01</b>	<b>(0.02)</b>	<b>—</b>	0.02	—	0.03	(0.03)
<b>Total maintenance capex</b>	<b>104</b>	<b>—</b>	<b>104</b>	68	68	136	(32)

The following table provides the results of discontinued operations and a calculation of AFFO for the for the year ended December 31, 2021.

DISCONTINUED OPERATIONS	Twelve months ended December 31, 2021			
	Retirement Living	SK LTC Homes	U.S. Sale	Total
<i>(thousands of dollars unless otherwise noted)</i>				
<b>Revenue</b>	49,771	56,649	—	106,420
Operating expense	36,395	57,414	—	93,809
<b>Net operating income</b>	13,376	(765)	—	12,611
<b>RECONCILIATION TO AFFO</b>				
<b>Earnings (loss) from discontinued operations</b>	1,508	(1,150)	3,642	4,000
<b>Add (Deduct):</b>				
Depreciation and amortization	7,046	691	—	7,737
Depreciation for FFEC (maintenance capex)	(921)	(260)	—	(1,181)
Other expense, net of current tax	—	—	(3,642)	(3,642)
Foreign exchange and fair value adjustments	(1,567)	—	—	(1,567)
Deferred income tax expense (recovery)	369	(415)	—	(46)
<b>FFO from discontinued operations</b>	6,435	(1,134)	—	5,301
Amortization of deferred financing costs	697	3	—	700
Accretion costs	76	—	—	76
Additional maintenance capex	(69)	(267)	—	(336)
<b>AFFO from discontinued operations</b>	7,139	(1,398)	—	5,741
<b>AFFO per basic share (\$)</b>	0.08	(0.02)	—	0.06
<b>Total maintenance capex</b>	990	527	—	1,517

#### RETIREMENT LIVING KEY PERFORMANCE INDICATORS

The following tables provide the period end and average occupancy of the 11 retirement communities in total (1,050 suites) and for each of the stabilized (859 suites) and lease-up (191 suites) groupings for the past eight quarters based on the classifications as at March 31, 2022. Two communities remain in lease-up, Bolton Mills (112 suites) and West Park Crossing (79 suites).

Sequential occupancy declines in stabilized retirement communities are generally to be expected during the winter months. However, occupancy levels have been negatively impacted by COVID-19, resulting in periods of restricted move-ins and in-person tours by prospective residents since March 2020. Occupancy levels improved in the latter half of 2021, following the resumption of in-person tours and relaxation of certain move-in conditions. However, a combination of seasonal factors and a surge of Omicron related COVID-19 outbreaks in December 2021, which continued into Q1 2022, contributed to a sequential decline in occupancy levels in Q1 2022.

Retirement Communities	2022				2021			2020
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
<b>As at Occupancy (%)</b>								
Total communities	85.0 %	88.6 %	87.1 %	84.6 %	84.6 %	84.6 %	85.6 %	84.1 %
Change over prior year period (bps)	40	400	150	50	(140)	(100)	(100)	30
Sequential quarterly change (bps)	(360)	150	250	—	—	(100)	150	(190)
Stabilized communities	88.1 %	91.6 %	91.4 %	89.9 %	90.5 %	90.3 %	92.2 %	90.2 %
Lease-up communities	70.7 %	74.9 %	68.1 %	60.7 %	58.1 %	58.6 %	56.0 %	56.5 %

Retirement Communities	2022				2021			2020
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
<b>Average Occupancy (%)</b>								
Total communities	86.7 %	87.8 %	85.7 %	84.4 %	84.1 %	84.6 %	84.4 %	84.4 %
Change over prior year period (bps)	260	320	130	—	(160)	290	(110)	240
Sequential quarterly change (bps)	(110)	210	130	30	(50)	20	—	(130)
Stabilized communities	90.0 %	91.8 %	90.7 %	90.1 %	90.1 %	90.6 %	90.8 %	90.4 %
Lease-up communities	71.8 %	70.0 %	63.2 %	58.7 %	57.0 %	57.6 %	55.6 %	57.4 %

## ACCOUNTING POLICIES AND ESTIMATES

### Critical Accounting Policies and Estimates

A full discussion of the Company's critical accounting policies and estimates was provided in the MD&A and the accompanying notes to the audited consolidated financial statements for the year ended December 31, 2021, contained in the Company's 2021 Annual Report. The disclosures in such report have not materially changed since that report was filed, and to the extent there have been any changes in management's estimates, they are discussed under "Significant Developments".

### Accounting Standards Adopted During the Period

During the three months ended March 31, 2022, the Company adopted certain IFRS standards and amendments, the nature and effect of which are provided in *Note 3* of the unaudited interim condensed consolidated financial statements, and described below:

#### DERECOGNITION OF FINANCIAL LIABILITIES

Beginning on January 1, 2022, the Company adopted the IASB amendment *Annual Improvements to IFRS Standards 2018-2020*. The particular amendment to IFRS 9 *Financial instruments* among *Annual Improvements to IFRS Standards 2018-2020* will clarify which fees are included for the purposes of performing the '10 per cent test' for derecognition of financial liabilities. The adoption of the IFRS 9 *Financial instruments* among *Annual Improvements to IFRS Standards 2018-2020* did not have a material impact on the consolidated financial statements.

### 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 unaudited interim condensed consolidated financial statements, and described below:

#### CLASSIFICATION OF LIABILITIES AS CURRENT OR NON-CURRENT

Beginning on January 1, 2023, the Company will adopt IASB amendments to IAS 1 *Presentation of financial statements*, which will clarify the criteria of classification of liabilities as current or non-current. The adoption of these amendments is not expected to have a material impact on the consolidated financial statements.

#### DISCLOSURE INITIATIVE – ACCOUNTING POLICIES

Beginning on January 1, 2023, the Company will adopt IASB amendment *Disclosure Initiative - Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements)*. This amendment includes a requirement for companies to disclose material accounting policies rather than significant accounting policies among other clarifications on which accounting policies are to be considered material. The adoption of this amendment is not expected to have a material impact on the consolidated financial statements.

#### DEFERRED TAX RELATED TO ASSETS AND LIABILITIES ARISING FROM A SINGLE TRANSACTION

Beginning on January 1, 2023, the Company will adopt IASB amendment *Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)*. This amendment narrows the scope of the initial recognition exemption to no longer apply to transactions that give rise to equal and offsetting temporary differences, such as those on initial recognition of a lease or a decommissioning provision. The adoption of this amendment is not expected to have a material impact on the consolidated financial statements.

#### DEFINITIONS OF ACCOUNTING ESTIMATES

Beginning on January 1, 2023, the Company will adopt IASB amendment *Definition of Accounting Estimates (Amendments to IAS 8)*. This amendment replaces the previous definition of an accounting estimate to provide clarity on the difference between a change in an accounting policy and a change in an accounting estimate. The adoption of this amendment is not expected to have a material impact on the consolidated financial statements.

## 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. They relate to the change in the fair value of or gains and losses on termination of convertible debentures and interest rate agreements, as well as gains or losses on the disposal or impairment of assets and investments, and foreign exchange gains or losses on capital items. In addition, these line items may include acquisition related costs, restructuring charges, proxy related costs and the write-off of unamortized deferred financing costs on early retirement of debt. The above separately reported line items are reported on a pre-tax and on an after-tax basis as a means of deriving earnings (loss) from operations and related earnings per share excluding such items.

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 by the Company as the estimated stabilized NOI of a development property in the first year it achieves expected stabilized occupancy, plus the annual construction funding subsidy ("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 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, which investors should carefully consider before investing in the Company. Risks and uncertainties are disclosed in the Company's 2021 Annual Information Form, including without limitation, "Risks Related to a Pandemic, Epidemic or Outbreak of a Contagious Illness, such as COVID-19", "Risks Related to Inflationary Pressures", "Risks Related to Liability and Insurance" and "Risks Related to Government Funding and Regulatory Changes" found under the section "Risk Factors – Risks Related to the Business". To the extent there have been any changes to those risks or uncertainties as of the date of this MD&A, they are discussed under "Forward-looking Statements" and "Significant Developments".

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### Endnotes

- (1) This is a non-GAAP financial measure. Refer to the discussion under "Non-GAAP Measures".
- (2) Comparative figures have been re-presented to reflect discontinued operations. Refer to the discussion under "Discontinued Operations".