

**Disclaimer**

This management's discussion and analysis is filed by Symcare Portfolio ("Symcare") pursuant to the undertaking (the "Undertaking") of Invesque Inc. ("Invesque") to applicable securities regulatory authorities dated May 26, 2016.

The accompanying Management's Discussion & Analysis ("MD&A") relates to the unaudited interim condensed combined financial statements of Symcare, and has been prepared by, and is solely the responsibility of Symcare, and not of Invesque, Invesque's management nor Invesque's directors.

Although Invesque has no reason to believe that the MD&A contains a misrepresentation, Symcare is a private company that is independent of, and unrelated to, Invesque and, consequently, neither Invesque, its management nor its directors (in their capacities as such) have been involved in the preparation of the MD&A. Readers are cautioned, therefore, not to place undue reliance on that information.

## Management Discussion & Analysis

### Reader Advisories

The Management's Discussion & Analysis ("MD&A") was prepared as of November 15, 2022 to assist readers in understanding Symcare Portfolio's ("Symcare") financial performance for the three and nine month periods ended September 30, 2022 and 2021, and significant trends that may affect Symcare's future performance. The following discussion and analysis should be read in conjunction with the interim condensed combined financial statements and accompanying notes to the interim condensed combined financial statements of Symcare for the three and nine month periods ended September 30, 2022 and 2021. Results are reported in U.S. dollars, and are prepared using generally accepted accounting principles of the United States ("U.S. GAAP"). References to notes are to the notes of the interim condensed combined financial statements of Symcare, unless otherwise stated.

### Overview of Symcare

Symcare is privately owned whose primary business is the operation of skilled nursing facilities in the State of Illinois. Symcare's registered office is located at 7257 N. Lincoln Ave., Lincolnwood, Illinois, 60712.

The interim condensed combined financial statements referred to as the Symcare Portfolio include Symcare Healthcare, LLC ("Symcare Healthcare"), Symcare ML, LLC ("Symcare ML"), its wholly owned subsidiary, Symcare Healthcare's 99.9 percent owned eleven operating entities and four related party operating entities with common ownership:

Symcare Healthcare owned:

- Symphony Aria LLC ("Aria") – discontinued operations April 30, 2021
- Symphony Beverly LLC ("Beverly")
- Symphony Buffalo Grove LLC ("Buffalo Grove")
- Symphony Bronzeville Park LLC ("Bronzeville Park")
- Symphony Hanover Park LLC ("Hanover Park")
- Symphony Ivy LLC ("Ivy") – deconsolidated June 1, 2021
- Symphony Jackson Square LLC ("Jackson Square")
- Symphony Lincoln Park LLC ("Lincoln Park") – deconsolidated June 1, 2021
- Symphony Midway LLC ("Midway")
- Symphony Park South LLC ("Park South")
- Symphony South Shore LLC ("Shore Shore") – deconsolidated June 1, 2021

Related party owned:

- Symphony Oswego LLC ("Oswego")
- Symphony of Evanston Healthcare LLC ("Evanston")
- Symphony of California Gardens LLC ("California")
- Nuglen LLC ("Nuglen") – discontinued operations April 30, 2021

The interim condensed combined financial statements also include Symcare HMG LLC, a related party, which owns 0.01 percent of the Symcare Healthcare owned operating entities. All entities have the same management and substantially the same owners. The basis for combination is that the 15 operating entities were all parties to the Symcare ML lease at some point during the nine months ended September 30, 2022 and 2021.

Prior to June 1, 2021, Symcare consisted of 14 long-term care facilities and one assisted living facility totaling 3,105 beds, which are located throughout the Chicago metropolitan area, with the exception of one long-term care facility located near Milwaukee, Wisconsin. Effective June 1, 2021, Symcare consists of 10 operating long-term care facilities, totaling 2,199 beds all located throughout the Chicago metropolitan area.

On April 30, 2021, the Landlord terminated the leases with Aria, Nuglen, Evanston and Bronzeville Park, and the Landlord entered into new leases with an unrelated party. Symcare began subleasing the Evanston and Bronzeville Park facilities from the unrelated party but Symcare no longer leases the Aria and Nuglen facilities. All of Aria and Nuglen's property and equipment were abandoned by Symcare and remained at the facilities. Therefore, the estimated useful lives of the property and equipment were shortened to coincide with the termination of the lease, which was April 30, 2021. The deferred rent related to Aria and Nuglen was written off as of April 30, 2021.

## **Overall Performance**

For the three-month period ended September 30, 2022, Symcare recorded a net loss of approximately \$5.4M versus a net loss of approximately \$5.8M for the three-month period ended September 30, 2021. Those income and loss amounts included the accounting recognition of facility deferred rent expense totaling approximately \$320K and \$910K for the three-month periods ended September 30, 2022 and 2021, respectively. Symcare as well as other post-acute/skilled nursing operators continue to be adversely impacted by downward pressure on census, revenues and operating income, the growth of Managed Care plans, increased competition for alternative healthcare providers, increased regulatory scrutiny on government reimbursements and increased wage pressure in a tightening labor market.

There have been numerous lobbying efforts by providers and health care associations in the State of Illinois to rectify or mitigate this problem. As a result of these efforts, there were increases in the Medicaid rates effective July 1, 2022. Healthcare and Family Services has approved changes to Illinois Medicaid reimbursement rate methodology to align with Medicare PDPM for nursing care and incentivize quality and staffing levels. Changes have also been made to assessment fees and provider tax programs.

We are continuing to monitor the risks related to the worldwide pandemic of the disease caused by the novel coronavirus SARS-COV2, or COVID-19, and the impact to our business and the senior living industry as a whole. Our highest priority is maintaining the health and well-being of our residents, clients and team members. As a result, we have, among other steps:

- Enhanced infectious disease prevention and control policies, procedures and protocols;
- Provided additional and enhanced training to team members at all levels of the organization;
- Worked with vendors to ensure adequate supplies and personal protective equipment are available to our facilities.

Also, periodically federal, state or local health departments have banned or limited admissions to some of our facilities as a precautionary measure. The pandemic has resulted in a decline in occupancy at some of our facilities and we expect that it will continue to cause declines in occupancy due to current residents leaving our facilities and continued limitations on new residents moving into our facilities or the desire of potential residents to obtain care at the long-term care facilities. Our revenues are largely dependent on occupancy at our facilities and any decline in occupancy adversely impacts our revenues, unless we are able to offset those lost revenues with increased rates charged to our residents and clients or other sources of increased revenues. We have also incurred, and will continue to incur, significant costs to address COVID-19, which include increased supply costs, including for personal protective equipment, and additional labor costs. The amounts and type of revenue, expense and cash flow impacts resulting from the COVID-19 pandemic will be dependent on a number of factors, including, the speed, depth, geographic reach and duration of the spread of the disease; mutations of the disease into new variants; the legal, regulatory and administrative developments that occur; our infectious disease control and prevention efforts; vaccine rollout and the demand for our facilities and services. Given the uncertain nature of these circumstances, the impact on our results of operations, cash flows and financial condition cannot be reasonably estimated at this time, but may be substantial. As of the end of the 3<sup>rd</sup> quarter, we anticipate that the limitations on admissions will be lifted to be in line with CDC issued guidelines.

The Coronavirus Aid, Relief, and Economic Security Act, or CARES Act, was signed into law on March 27, 2020. Symcare continues to assess the availability of CARES Act Relief Funds and to access those we qualify for such as Provider Relief Funds distributed by the U.S. Health and Human Services Department.

On March 11, 2021, the American Rescue Plan Act of 2021 ("ARPA") was signed into law by the President.

Section 9901 of ARPA amended Title IV of the Social Security Act to establish two Fiscal Recovery Funds with the intended purposes of providing support to state, local and tribal governments in responding to the impact of COVID-19 and in their efforts to contain COVID-19 on their communities, residents, and businesses.

Symcare received CARES Act Relief Funds during the years ended December 31, 2021 and 2020. Management also received distributions of ARPA funds from the Illinois Department of Healthcare and Family Services during the year ended December 31, 2021. Management continues to assess the availability of additional funds and programs that they may qualify for.

Symcare recognized gain on extinguishment of debt in nonoperating revenue of \$7.3M and \$1.3M for the nine-month periods ended September 30, 2022 and 2021, respectively, for forgiveness of the Paycheck Protection Program Loans.

## **Discussion of Operations**

### **Operating Revenues**

Combined revenue for the three-month period ended September 30, 2022 was approximately \$38.7M, or approximately \$275 on a per patient day (“PPD”) basis. Combined revenue for the three-month period ended September 30, 2021 was approximately \$37.5M, or approximately \$253 on a PPD basis.

### **Total Expenses**

Combined expenses (including general and administrative and capital expense) for the three-month period ended September 30, 2022 and 2021 were approximately \$43.8M, or approximately \$311 PPD and \$42.6M, or approximately \$288 PPD, respectively. Excluding deferred rent, operating expenses were approximately \$43.5M or \$309 PPD and \$41.7M or \$282 PPD for the three-month periods ended September 30, 2022 and 2021, respectively. Bad debt expense for the three-month periods ended September 30, 2022 and 2021 totaled approximately \$865K and \$897K, or 2.2% and 2.4%, of revenue, respectively, primarily caused by continued delays in payment processing from various Medicaid Managed Care payors.

### **Risk Factors**

Symcare faces a number of business risks that could cause our actual results to differ materially from those disclosed in this MD&A. If any of the business risks identified were to occur, our business, financial condition, results of operations, cash flows or prospects could be materially adversely affected. Additional risks and uncertainties not presently known to Symcare, or that we currently deem immaterial, may also adversely affect our business and operations.

Risks, uncertainties and other factors, many of which are beyond control of Symcare, could influence actual results. These include, but are not limited to:

- Changes to and delays in government reimbursement programs;
- Reform to the U.S. Healthcare system will impose new requirements that adversely impact our results;
- Increased competition or shortage of nursing labor or other skilled costs continues to lead to increased labor costs;
- Increased civil and criminal enforcement efforts of government agencies against skilled nursing facilities could harm our business, and could preclude us from participating in federal healthcare programs;
- State efforts to regulate or deregulate the healthcare services industry or the construction or expansion of healthcare facilities could impair our ability to expand our operations, or could result in increased competition;
- Changes in federal and state employment laws could increase our overall costs;
- Changes to our third-party payors, payor mix and levels of acuity could result in adverse impact to our revenue, financial condition and results of operations;
- Litigation costs from legal suits brought against us could result in significant adverse results to operations;
- Cost containment pressures of the Medicaid program;
- Competition from other healthcare providers and Symcare may not be successful in attracting patients and residents to our affiliated facilities;
- Inability to access the financial markets could inhibit our ability to provide the necessary liquidity to fund our operations and growth;
- Our self-insurance program may lead to unexpected and significant losses and costs;
- Spread of COVID-19, or any similar outbreaks in the future; and
- Other legislative developments.

Symcare's activities are exposed to a variety of financial risks of varying degrees of significance which could affect Symcare's ability to achieve its strategic objectives. The overall risk management program focuses on the unpredictability of financial and economic markets and seeks to reduce potential adverse effects on financial performance. Risk management is carried out by financial management in conjunction with overall corporate governance. Details of Symcare's risks and uncertainties are included in the notes to the interim condensed combined financial statements for the three-month periods ended September 30, 2022 and 2021. The principal financial risks to which Symcare is exposed are described below:

***Interest rate cash flow risk***

Symcare is exposed to interest rate cash flow risk on its floating rate borrowings. Interest rate cash flow risk is the risk that cash flows will fluctuate due to changes in the market interest rates. The revolving line of credit bears a floating rate of interest.

***Credit risk***

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Symcare is exposed to credit risk in the event of non-performance by counterparties in connection with its cash and accounts receivable. Symcare does not obtain collateral or other security to support the accounts receivable subject to credit risk but mitigates this risk by dealing only with what management believes to be financially sound counterparties and, accordingly, does not anticipate significant loss for non-performance. Symcare's primary payment sources are the federal government of the United States, the state government of the State of Illinois, and managed care providers, all of which Symcare believes to be creditworthy and present a low risk of non-performance. Included in accounts receivable is an allowance for doubtful accounts at September 30, 2022 in the amount of approximately \$13.5M (December 31, 2021 – \$12.5M).

**Liquidity risk**

Liquidity risk is the risk that Symcare will encounter difficulty in meeting obligations associated with financial liabilities. Liquidity risk includes that, as a result of operational liquidity requirements, Symcare will not have sufficient funds to settle transactions on the due date; will be forced to sell financial assets at a value which is less than what they are worth; or may be unable to settle or recover a financial asset. Liquidity risk arises from bank indebtedness, accounts payable and accrued liabilities, scheduled repayments of long-term debt and future minimum rent payments. Symcare's ability to meet obligations depends on the receipt of funds from its ongoing operations, and the availability and continuation of funds on the revolving line of credit.

Symcare actively manages its working capital to ensure that it can meet its liabilities as they become due.

**Liquidity**

The principal uses of funds are for meeting the operating needs of the day to day operations, repayment of debt, and funding routine capital spending. These requirements are met by using cash generated from operating activities and through short-term indebtedness.

The following table details Symcare's remaining maturity for its financial liabilities. The amounts below have been determined based on the undiscounted maturities of the financial liabilities. Contractual interest payable includes interest that will accrue to these liabilities except where Symcare is entitled and intends to repay the liability before its maturity.

**September 30, 2022 (Dollars in 000's)**

Checks issued in excess of bank balance	\$ 1,511
Line of credit	7,560
Trade and other payables	56,757
Notes payable	48,018
Advances from third-party payor	9,054
Third-party payor accelerated payments	122
Professional liability claims	4,266
Deferred rent	18,444
Due to related parties	<u>12,032</u>
Total liabilities	<u>\$157,764</u>

**Capital Expenditures**

Capital expenditures primarily consist of patient care equipment, computer equipment, leasehold improvements, office equipment, service equipment and signs. Management expects that annual capital expenditures will approximate depreciation expense to replace equipment when it reaches the end of its useful life. Planned capital expenditures are expected to be funded through operations. The Invesque lease requires minimum annual capital expenses of \$1,000 per unit. There are a total of 748 units, as defined in the Invesque lease agreement.

**Off Balance Sheet Arrangements**

Symcare has entered into a master operating lease with Invesque with a lease term of 15 years and was amended on June 1, 2021 for the use of the eight facilities. Per all leases in effect at September 30, 2022, Symcare is committed to total leases in the amount of approximately \$251.2M.

**Related-Party Transactions**

Note 7 of the notes to the interim condensed combined financial statements of Symcare for the three-months and nine month periods ended Sept 30, 2022 summarizes the transactions between Symcare and its related parties.

Amounts owed included in prepaid expenses, accounts payable, notes payable, and due from and to related parties at September 30, 2022 are as follows:

**September 30, 2022 (Dollars in 000's)**

Due from related parties	\$ 56,247
Management fees	(369)
Insurance services	(4,838)
Medical supplies	(831)
Dialysis services	(320)
Pharmacy services	(720)
Other consulting and regional operating services	(1,621)
Note payable, pharmacy services	(1,260)
Other supplies and services	(1,078)
Housekeeping services	(1,158)
Due to related parties	<u>(10,410)</u>
	<u>\$ 33,642</u>

The expenses incurred for these services and supplies for the three-months ended September 30, 2022 are as follows:

Management fees	\$ 1,926
Other consulting and regional operating services	1,288
Insurance services	1,801
Pharmacy services	964
Dialysis services	219
Medical supplies	268
Housekeeping services	1,431
Other supplies and services	<u>63</u>
	<u>\$ 7,960</u>

These transactions are in the normal course of operations and are measured at their exchange amount, which is the amount of consideration established and agreed to by the related parties. There are no key management personnel or Board of Directors that are directly paid out of Symcare.

**Critical Accounting Estimates, Judgments and Measurement Uncertainty**

Information related to critical accounting estimates, judgments and measurement uncertainty can be found in the notes to the interim condensed combined financial statements for the three-months ended September 30, 2022 and 2021.