EXTENDICARE®

... helping people live better

ENRICHING LIVES
EMBRACING CHANGE

Shareholders' Quarterly Report
Six Months Ended June 30, 2018

SINCE 1968

YEARS OF HELPING PEOPLE LIVE BETTER

Dated: August 9, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

Six Months Ended June 30, 2018

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Management's Discussion and Analysis

August 9, 2018

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BASIS OF PRESENTATION

This Management's Discussion and Analysis (MD&A) provides information on Extendicare Inc. and its subsidiaries, and unless the context otherwise requires, references to "Extendicare", the "Company", "we", "us" and "our" or similar terms refer to Extendicare Inc., either alone or together with its subsidiaries. The Company's common shares (the "Common Shares") are listed on the Toronto Stock Exchange (TSX) under the symbol "EXE". The registered office of Extendicare is located at 3000 Steeles Avenue East, Suite 700, Markham, Ontario, Canada, L3R 9W2.

Extendicare and its predecessors have been in operation since 1968, providing care and services to seniors throughout Canada. Following the sale of its U.S. business in 2015 and the repositioning of the Company as a pure-play Canadian services provider to the expanding senior care sector, we have continued to grow the Company's operations across the continuum of seniors' care.

Extendicare has prepared this MD&A to provide information to current and prospective investors of the Company to assist them to understand Extendicare's financial results for the three and six months ended June 30, 2018. This MD&A should be read in conjunction with Extendicare's unaudited interim condensed consolidated financial statements for the three and six months ended June 30, 2018, and the notes thereto, together with the annual MD&A and the audited consolidated financial statements for the year ended 2017, and the notes thereto, prepared in accordance with International Financial Reporting Standards (IFRS), found in Extendicare's 2017 Annual Report. The accompanying unaudited interim condensed consolidated financial statements for the three and six months ended June 30, 2018, including the notes thereto, have been prepared in accordance with International Accounting Standard (IAS) 34 "Interim Financial Reporting", as issued by the International Accounting Standards Board (IASB). The annual and interim MD&A, financial statements and notes thereto are available on Extendicare's website at www.extendicare.com. All currencies are in Canadian dollars unless otherwise indicated. Except as otherwise specified, references to years indicate the fiscal year ended December 31, 2017, or December 31 of the year referenced.

The discussion and analysis in this MD&A are based upon information available to management as of August 9, 2018. This MD&A should not be considered all-inclusive, as it excludes changes that may occur in general economic, political and environmental conditions. Additionally, other events may or may not occur, which could affect the Company in the future.

ADDITIONAL INFORMATION

Additional information about Extendicare, including its 2017 Annual Information Form, may be found on SEDAR's website at www.sedar.com under Extendicare's issuer profile and on Extendicare's website at www.extendicare.com. A copy of this and other public documents of Extendicare are available upon request to the Corporate Secretary of Extendicare.

FORWARD-LOOKING STATEMENTS

Information provided by Extendicare from time to time, including in this Quarterly Report, contains or may contain forward-looking statements concerning anticipated future events, results, circumstances, economic performance or expectations with respect to the Company, including, without limitation: statements regarding its business operations, business strategy, growth strategy, results of operations and financial condition; statements relating to the expected annual revenue, net operating income yield (NOI Yield) to be derived from development projects and adjusted funds from operations to be derived from acquisitions and development projects; and statements relating to indemnification provisions and deferred consideration in respect of disposed operations. Forward-looking statements can be identified by the expressions "anticipate", "believe", "estimate", "expect", "intend", "objective", "plan", "project", "will" or other similar expressions or the negative thereof. These forward-looking statements reflect the Company's current expectations regarding future results, performance or achievements and are based upon information currently available to the Company and on assumptions that the Company believes are reasonable.

Although forward-looking statements are based upon estimates and assumptions that the Company believes are reasonable based upon information currently available, these statements are not representations or guarantees of future results, performance or achievements of the Company and are inherently subject to significant business, economic and competitive uncertainties and contingencies. In addition to the assumptions and other factors referred to specifically in connection with these forward-looking statements, the risks, uncertainties and other factors that could cause the actual results, performance or achievements of Extendicare to differ materially from those expressed or implied by the forward-looking statements, include, without limitation, the following: changes in the overall health of the economy and government; the ability of the Company to attract and retain qualified personnel; changes in the health care industry in general and the long-term care industry in particular because of political and economic influences; changes in applicable accounting policies; changes in regulations governing the health care and long-term care industries and the compliance by Extendicare with such regulations; changes in government funding levels for health care services; 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 Extendicare to maintain and increase resident occupancy levels and home health care volumes; changes in competition; changes in demographics and local environment economies; changes in foreign exchange and interest rates; changes in the financial markets, which may affect the ability of Extendicare to refinance debt; and the availability and terms of capital to Extendicare to fund capital expenditures and acquisitions; changes in the anticipated outcome and benefits of dispositions, acquisitions and development projects, including risks relating to completion; and those other risks, uncertainties and other factors identified in the Company's other public filings with the Canadian securities regulators available on SEDAR's website at www.sedar.com under Extendicare's issuer profile.

The forward-looking statements contained in this Quarterly Report are expressly qualified by this cautionary statement. Given these risks and uncertainties, readers are cautioned not to place undue reliance on the forward-looking statements of Extendicare. The forward-looking statements speak only as of the date of this Quarterly Report. Except as required by applicable securities laws, the Company assumes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

NON-GAAP MEASURES

Extendicare assesses and measures operating results and financial position based on performance measures referred to as "net operating income", "net operating income margin", "EBITDA", "Adjusted EBITDA", "Adjusted EBITDA margin", "earnings before depreciation, amortization, and other expense", "earnings (loss) from continuing operations before separately reported items, net of taxes", "Funds from Operations", and "Adjusted Funds from Operations". These measures are commonly used by Extendicare and its investors as a means of assessing the performance of the core operations in comparison to prior periods. They are presented by Extendicare on a consistent basis from period to period, thereby allowing for consistent comparability of its operating performance. In addition, the Company assesses its return on investment in development activities using the non-GAAP financial measure "NOI Yield". These measures are not recognized under GAAP and do not have standardized meanings prescribed by GAAP. These non-GAAP measures are presented in this document because either: (i) management believes that they are a relevant measure for users of the Company's financial statements to assess the Company's operating performance and ability to pay cash dividends; or (ii) certain ongoing rights and obligations of Extendicare may be calculated using these measures. Such non-GAAP measures may differ from similar computations as reported by other issuers, and accordingly, may not be comparable to similarly titled measures as reported by such issuers. They are not intended to replace earnings (loss) from continuing operations, net earnings (loss), cash flow, or other measures of financial performance and liquidity reported in accordance with GAAP.

References to “net operating income”, or “NOI”, in this document are to revenue less operating expenses, and this value represents the underlying performance of our operating business segments. References to “net operating income margin” are to net operating income as a percentage of revenue.

References to “EBITDA” in this document are to earnings (loss) from continuing operations before net finance costs, income taxes, depreciation and amortization. References to “Adjusted EBITDA” in this document are to EBITDA adjusted to exclude the line item “other expense”, and as a result, is equivalent to the line item “earnings before depreciation, amortization, and other expense” reported on the consolidated statements of earnings. References to “Adjusted EBITDA Margin” are to Adjusted EBITDA as a percentage of revenue. Management believes that certain lenders, investors and analysts use EBITDA and Adjusted EBITDA to measure a company’s ability to service debt and meet other payment obligations, and as a common valuation measurement in the long-term care industry. For example, certain of our debt covenants use Adjusted EBITDA in their calculations.

References to “earnings (loss) from continuing operations before separately reported items, net of tax” in this document are to earnings (loss) from continuing operations, excluding the following separately reported line items: “fair value adjustments”, “loss (gain) on foreign exchange and investments”, 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 contest costs, and the write-off of unamortized financing costs on early retirement of debt. The above separately reported line items are reported on a pre-tax and on an after-tax basis as a means of deriving earnings (loss) from operations and related earnings per share excluding such items.

“Funds from Operations”, or “FFO”, is defined as Adjusted EBITDA less depreciation for furniture, fixtures, equipment and computers, or “depreciation for FFEC”, accretion costs, net interest expense, and current income taxes. Depreciation for FFEC is considered representative of the amount of maintenance (non-growth) capital expenditures, or “maintenance capex”, to be used in determining “Funds from Operations”, as the depreciation term is generally in line with the life of these assets. FFO is a recognized earnings measure that is widely used by public real estate entities, particularly by those entities that own and/operate income-producing properties. Management believes that certain investors and analysts use FFO, and as such has included FFO to assist with their understanding of the Company’s operating results.

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

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

References to “payout ratio” in this document are to the ratio of dividends declared per share to AFFO per basic share.

References to “NOI Yield” in this document are to a financial measure used by the Company to assess its return on investment in development activities. NOI Yield is defined by the Company as the estimated stabilized NOI of a development property in the first year it achieves expected stabilized occupancy divided by the estimated Adjusted Development Costs, as defined below. Management believes that this is a relevant measure of the Company’s total economic return of a development project.

“Adjusted Development Costs” is defined as development costs on a GAAP basis (which includes the cost of land, hard and soft development costs, furniture, fixtures and equipment) plus/minus cumulative net operating losses/earnings generated by the development property prior to achieving expected stabilized occupancy, plus an estimated imputed cost of capital during the development period through to the expected stabilized occupancy.

Reconciliations of “earnings (loss) from continuing operations before income taxes” to “Adjusted EBITDA” and “net operating income” are provided under the headings “2018 Selected Quarterly Information”, “2018 Second Quarter Financial Review” and “2018 Six Month Financial Review”.

Reconciliations of “earnings from continuing operations” to “FFO” and “AFFO” are provided under the heading “Adjusted Funds from Operations”.

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

BUSINESS STRATEGY

Our strategy is to be the leading provider of care and services to seniors in Canada. To do this, we strive to provide quality, person-centred care through compassionate caregivers across the continuum of care – offering the right care at the right time, in the right place for Canadian seniors as they age and their care and service needs change – and to be an employer of choice in the communities in which we operate.

Our core long-term care services are complemented by a market leading home health care platform operating under the ParaMed banner and a private-pay retirement business operating under the Esprit Lifestyles Communities banner, as well as growing management/consulting and group purchasing divisions. We have continued to grow Esprit through acquisition and development and to assess private-pay home health care opportunities available to the ParaMed business with the intent being to diversify our revenue streams to achieve a better balance between government and privately funded activities.

We believe that the effective execution of this strategy will provide an appropriate and consistent return to our shareholders who have demonstrated their belief in our mission by investing in Extendicare.

SIGNIFICANT 2018 EVENTS AND DEVELOPMENTS

This section provides an update on our current activities related to the continued expansion into the Canadian retirement sector and convertible debt refinancing. Refer to the discussion under the heading “Other Significant Developments” for a summary of other developments affecting the financial results or operations of Extendicare.

Growth of Retirement Operations

As part of the execution of our strategy to continue to grow along the senior care and services continuum, we continue to expand our private-pay retirement operations through the acquisition and development of retirement communities under our Esprit Lifestyle Communities brand. Our retirement communities offer independent and enhanced living and memory care, as well as short-term stay, and respite care.

As at June 30, 2018, Esprit Lifestyle Communities had nine retirement communities in operation, seven of which were acquired since 2015, and two were developed. In the 2016 fourth quarter, we completed the development of Cedar Crossing Retirement Community (Cedar Crossing) in Simcoe, Ontario, and in the 2017 fourth quarter we completed the first phase of Douglas Crossing Retirement Community (Douglas Crossing) in Uxbridge, Ontario.

RETIREMENT ACQUISITIONS

In April 2018, the Company completed the acquisition of the Lynde Creek Retirement Community, located in Whitby, Ontario, for a cash purchase price of $33.8 million, including working capital adjustments (the “Lynde Creek Acquisition”). The acquired community consists of Lynde Creek Manor, a retirement residence offering 93 independent and assisted living suites, (the “Manor”); Lynde Creek Village, a life lease seniors community of 113 townhomes, (the “Village”); and 3.7 acres of adjacent land for expansion (the “Excess Land”). Further details of the Lynde Creek Acquisition are provided in *note 5* of the unaudited interim consolidated financial statements.

The Manor is a modern private pay luxury retirement residence with 93 suites offering independent supportive living (ISL) and assisted living (AL) suites. The Village is an enclave of 113 townhomes adjacent to the Manor. Included in the purchase agreement is the ownership of the underlying land and the leasehold interest related to the life leases. Upon the resale of a townhome, the Company earns a fee equal to 10% of the proceeds. The Excess Land is situated immediately adjacent to the Manor, with zoning that allows for a strategic expansion to include additional ISL/AL suites or seniors’ apartments.

PROJECTS IN DEVELOPMENT

In October 2017, we opened the initial 103 suites of our Douglas Crossing Retirement Community, in Uxbridge, Ontario. As a result of the robust pre-lease activity at Douglas Crossing, we accelerated our expansion plans for this community, and are well under way with the construction of a 47-suite addition that is anticipated to be completed in late 2018. As well, construction is under way on our Bolton (112 suites) and Barrie (124 suites) retirement projects, which are anticipated to open in the first and third quarters of 2019, respectively.

The following table summarizes these projects, which are in various stages of development, and provides our expected stabilized occupancy, estimated Adjusted Development Costs, estimated stabilized NOI, and corresponding NOI Yield. The NOI Yield is a non-GAAP financial measure that we use to assess our return on investment. Refer to the discussion under the heading "Non-GAAP measures".

Name/Location	**# of Suites**	**Actual / Expected Opening**	**Expected Stabilized Occupancy Date**	**Expected Stabilized Occupancy** *(%)*	**Estimated Adjusted Development Costs** *(millions)*	**Estimated Stabilized NOI** *(millions)*	**Expected NOI Yield**
Douglas Crossing, Uxbridge, ON							
Phase I	103	Oct. 30/17					
Phase II	47	Q4/2018	Q1/2020	93%	$40.3	$3.5	8.6%
Bolton, ON	112	Q1/2019	Q4/2021	95%	$31.5	$2.4	7.6%
Barrie, ON	124	Q3/2019	Q4/2021	92%	$39.7	$3.2	8.0%

ISSUE OF 2025 CONVERTIBLE DEBENTURES AND REDEMPTION OF 2019 CONVERTIBLE DEBENTURES

As previously announced, in April 2018 the Company issued $126.5 million aggregate principal amount of 5.00% convertible unsecured subordinated debentures due April 30, 2025 (the "2025 Debentures"), with a conversion price of $12.25 per Common Share (the "Offering"). The initial offering for $110.0 million of the 2025 Debentures closed on April 17, 2018, and the exercise of the over-allotment option for $16.5 million debentures closed on April 25, 2018.

The net proceeds from the Offering of $120.9 million, together with cash on hand, was used by the Company to finance the redemption of its outstanding 6.00% convertible unsecured subordinated debentures due September 30, 2019 (the "2019 Debentures"). The redemption of the 2019 Debentures was completed on April 30, 2018, at a price equal to the sum of the outstanding aggregate principal amount of $126.5 million and all accrued and unpaid interest thereon for a total of $127.1 million, or $1,004.93 for each $1,000 principal amount of 2019 Debentures. As a result of the early redemption, the unaccreted liability of $1.4 million and unamortized finance costs of $1.1 million were expensed, and the related equity portion of $5.6 million was classified as part of accumulated deficit during the 2018 second quarter. Further details of the issuance and redemption are provided in *note 9* of the unaudited interim consolidated financial statements.

BUSINESS OVERVIEW

Extendicare, through its subsidiaries, is the largest private-sector operator of long-term care centres in Canada and we believe is the largest private-sector provider of publicly funded home health care services in Canada through our wholly owned subsidiary ParaMed Inc. (ParaMed). In addition, the Company owns and operates retirement communities under the Esprit Lifestyle Communities brand, provides management and consulting services to third-party owners of senior care and living centres through its Extendicare Assist division, and provides group purchasing services to third-party clients through its SGP Purchasing Partner Network division. In the first six months of 2018, approximately 56% of the revenue from our Canadian operations was derived from our long-term care operations, approximately 39% was from our home health care business, approximately 3% was from our retirement living operations, and the balance was from our management, consulting and group purchasing operations.

As at June 30, 2018, Extendicare owned and operated 58 LTC centres, 9 retirement communities, and managed 53 senior care and living centres for third parties. In total, we operated 120 senior care and living centres across four provinces in Canada, with capacity for 15,538 residents, with a significant presence in Ontario and Alberta, where approximately 77% and 11% of its residents, respectively were served. ParaMed's home health care services operated from 35 locations across six provinces providing approximately 11.1 million hours of service annually, based on the trailing twelve months. SGP Purchasing Partner Network provided group purchasing services to third-party clients representing over 50,300 seniors across Canada. In all, as at June 30, 2018, the Company employed approximately 23,700 individuals across Canada that are dedicated to helping people live better through a commitment to quality service and passion for what we do.

The table below summarizes the senior care and living centres operated by Extendicare, including those managed for third parties, as at June 30, 2018. Included are nine LTC centres in Ontario that the Company operates under 25-year finance lease arrangements, with full ownership obtained at the end of the lease term. In addition to the following, the Company owns land adjacent to its retirement residence at Lynde Creek in Whitby, Ontario, on which there is an enclave of 113 townhomes, known as Lynde Creek Village, that are leased by the Company to seniors under life leases.

	Long-term Care		Retirement Living		Chronic Care Unit		Total	
By Province	**No. of Centres**	**Resident Capacity**	**No. of Centres**	**Resident Capacity**	**No. of Centres**	**Resident Capacity**	**No. of Centres**	**Resident Capacity**
Owned/Leased								
Ontario	34	5,207	5	428	–	–	39	5,635
Alberta	14	1,519	–	–	–	–	14	1,519
Saskatchewan	5	649	4	341	–	–	9	990
Manitoba	5	762	–	–	–	–	5	762
	58	8,137	9	769	–	–	67	8,906
Managed								
Ontario	43	5,581	5	552	1	120	49	6,253
Alberta	1	102	1	109	–	–	2	211
Manitoba	2	168	–	–	–	–	2	168
	46	5,851	6	661	1	120	53	6,632
Total	**104**	**13,988**	**15**	**1,430**	**1**	**120**	**120**	**15,538**

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

The following reflects the change in operating capacity of our Canadian senior care and living centres during the first six months of 2018 and the 2017 year.

	Six months ended June 30, 2018		Year 2017	
Senior Care Centres	**No. of Centres**	**Resident Capacity**	**No. of Centres**	**Resident Capacity**
As at beginning of year	**116**	**15,004**	118	15,022
Managed contracts added	**3**	**416**	7	764
Managed contracts ceased	**–**	**–**	(10)	(900)
Retirement communities acquired/developed	**1**	**93**	1	103
LTC addition	**–**	**24**	–	–
Operational capacity adjustments	**–**	**1**	–	15
As at end of period	**120**	**15,538**	116	15,004

Operating Segments

The Company reports the following segments within its Canadian operations: i) long-term care; ii) retirement living; iii) home health care; iv) management, consulting and group purchasing as “other Canadian operations”; and v) the Canadian corporate functions and any intersegment eliminations as “corporate Canada”. For financial reporting purposes, the Company’s owned and operated centres are reported under the “long-term care” or the “retirement living” operating segment based on the predominate level of care provided. The Company’s managed centres are reported under the “other Canadian operations” segment, as the revenue from those operations is earned on a fee-for-service basis.

The Company continues to group its former and remaining U.S. operations as one segment, consisting of its wholly owned Bermuda-based captive insurance company, Laurier Indemnity Company, Ltd. (the “Captive”) that insured Extendicare’s U.S. general and professional liability risks up to the date of the sale of our U.S. business in 2015 (the “U.S. Sale Transaction”). The Captive’s expense incurred or release of reserves for self-insured liabilities as well as the disposed U.S. businesses are presented as discontinued operations; while the Captive’s costs to administer and manage the settlement of the remaining claims are reported as continuing operations within the U.S. segment.

The following describes the continuing businesses and operating segments of Extendicare.

LONG-TERM CARE (including government-funded supportive living)

Extendicare owns and operates for its own account 58 LTC centres with capacity for 8,137 residents, inclusive of a stand-alone designated supportive living centre (140 suites) and a designated supportive living wing (60 suites) in Alberta, and two retirement wings (76 suites) in Ontario. Revenue from the long-term care operations represented 56.0% of consolidated revenue from continuing operations for the first six months of 2018, compared to 55.9% for the same 2017 period (2017 year – 56.2%).

In Canada, provincial legislation and regulations closely control all aspects of operation and funding of LTC centres, including the fee structure, subsidies, the adequacy of physical centres, standards of care and accommodation, equipment and personnel. A substantial portion of the fees paid to providers of these services are funded by provincial programs, with a portion to be paid by the resident. Nobody is refused access to long-term care due to an inability to pay. A government subsidy, generally based on an income test, is available for residents who are unable to afford the resident co-payment. In Alberta, designated supportive living centres provide services similar to those provided by retirement communities, and were introduced by Alberta Health Services (AHS) as an alternative setting for residents not yet requiring the needs of a more expensive LTC centre. The designated supportive living operations are licensed, regulated and funded by AHS in a similar manner to LTC centres, including a government-determined fee structure.

In Ontario, 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. Operators are permitted to designate up to 60% of the resident capacity of a centre as preferred accommodation and charge higher accommodation rates that vary according to the structural classification of the LTC centre.

The following summarizes the composition of the owned/leased LTC centres operated by Extendicare in Ontario, as at June 30, 2018, as well as the maximum preferred differential rates for each classification of bed that took effect July 1, 2018.

		Composition of Beds				
Ontario Owned/Leased	**No. of Centres**	**Private $26.04 premium**	**Private $18.74 premium**	**Semi-private $8.33 premium**	**Basic/Other**	**Total**
New	13	1,106	–	–	741	1,847
Class C (1)	21	–	476	1,396	1,412	3,284
	34	1,106	476	1,396	2,153	5,131

(1) Beds in operation of 3,284 exclude 3 beds held in abeyance.

RETIREMENT LIVING

Under the Esprit Lifestyle Communities brand, the Company owned and operated nine retirement communities with 769 suites as at June 30, 2018. Four of these communities (341 suites) are located in Saskatchewan and five communities (428 suites) are located in Ontario. Two new retirement communities, plus an addition to an existing community, are presently under construction in Ontario, representing an additional 283 suites, and plans are under way for the expansion of our Empire Crossing retirement community in Port Hope, Ontario.

Extendicare's retirement communities provide services to private-pay residents at rates set by Extendicare 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. Revenue from these operations represented 2.8% of consolidated revenue from continuing operations for the first six months of 2018, compared to 1.7% for the same 2017 period (2017 year – 1.9%).

HOME HEALTH CARE

Extendicare 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. Revenue from these operations represented 39.3% of consolidated revenue from continuing operations for the first six months of 2018, compared to 40.2% for the same 2017 period (2017 year – 39.7%).

Provincial governments fund a wide range of home health care services, and contract these services to providers such as ParaMed. For the first six months of 2018, ParaMed received approximately 98% of its revenue from contracts tendered by locally administered provincial agencies (2017 year – 98%), with the remainder from private-pay clients. ParaMed operates from 35 locations in six provinces across Canada (29 in Ontario, 1 in British Columbia, 2 in Alberta, 1 in Manitoba, 1 in Nova Scotia, and 1 in Quebec), providing approximately 11.1 million hours of service annually, based on the trailing twelve months. For the first six months of 2018, approximately 83% of ParaMed's hours of service were provided in Ontario, 11% were provided in British Columbia, 4% in Alberta, and the balance were provided in Manitoba, Nova Scotia and Quebec.

OTHER CANADIAN OPERATIONS

Extendicare's other Canadian operations are composed of its management and consulting services provided by Extendicare Assist, and group purchasing services provided by SGP Purchasing Partner Network. Revenue from these two divisions, collectively, represented 1.9% of consolidated revenue from continuing operations for the first six months of 2018, compared to 1.6% for the same 2017 period (2017 year – 1.7%).

Management and Consulting Services

Through its Extendicare Assist division, Extendicare leverages its expertise in operating senior care centres in providing a wide range of management and consulting services to third-party owners of senior care and living centres. Extendicare Assist partners with not-for-profit and for-profit organizations, hospitals and municipalities that seek 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 partners, which services can range from operational consulting to overall facility management. The management service offering can include a broad spectrum of services, including: financial administration, record keeping, regulatory compliance and purchasing. In addition, Extendicare Assist provides consulting services to third parties in connection with development and redevelopment projects in the long-term care sector, and it recently secured a contract to provide consulting services to a Toronto area hospital network in connection with a redevelopment of a long-term care centre.

As a skilled manager and operator of senior care centres for third parties, Extendicare Assist's managed portfolio consisted of 53 senior care centres with capacity for 6,632 residents as at June 30, 2018 (December 31, 2017 – 50 centres with capacity for 6,216 residents).

Group Purchasing Services

Through its SGP Purchasing Partner Network division (SGP), Extendicare offers cost-effective purchasing contracts to other senior care providers for food, capital equipment, furnishings, cleaning and nursing supplies, and office products. SGP negotiates long-term and high volume contracts with suppliers that provide members with preferred pricing, thereby providing a cost-effective way to secure quality national brand-name products, along with a range of innovative services. As at June 30, 2018, SGP provided services to third-party clients, serving approximately 50,300 seniors across Canada (December 31, 2017 – 45,200 seniors).

U.S. REMAINING OPERATIONS – CAPTIVE INSURANCE COMPANY

Prior to the U.S. Sale Transaction, Extendicare self-insured certain risks related to general and professional liability of its disposed U.S. operations through the Captive. The obligation to settle any such claims relating to the period prior to the closing of the U.S. Sale Transaction, including claims incurred but yet to be reported, remains with Extendicare, which it intends to continue to fund through the Captive. The majority of the risks that Extendicare self-insured relating to the U.S. operations are long-term in nature, and accordingly, claim payments for any particular policy year can occur over a long period of time. In addition, through the Captive, the Company maintained third-party liability insurance on a "claims made" basis, as opposed to "occurrence based" coverage, meaning that some level of coverage may continue to be required. Any expense incurred or release of reserves for U.S. self-insured liabilities are presented as discontinued operations; while the costs to administer and manage the settlement of the remaining claims are reported as continuing operations within the U.S. segment.

As at June 30, 2018, the accrual for U.S. self-insured general and professional liabilities was $51.3 million (US$39.1 million) compared to $61.1 million (US$48.6 million) at the beginning of the year, and the investments held for U.S. self-insured liabilities totalled $84.9 million (US$64.7 million) compared to $86.3 million (US$68.6 million) at the beginning of the year, with the decline in each primarily reflecting the "run off" of these operations and release of reserves. Following the completion of an independent actuarial review, the Company released US$4.5 million of reserves for self-insured liabilities in the 2018 second quarter, bringing the total since the sale of the U.S. operations in 2015 to US$24.2 million. Following the release of these reserves, the Captive has transferred US$21.0 million of its funds previously held for investment to the Company for general corporate use, with plans to repatriate a further US$7.5 million in the 2018 third quarter. The loss provisions for our U.S. general and professional liability risks are based upon management's best available information, including independent actuarial estimates. The Captive is currently appropriately capitalized, but there can be no assurance that it will remain as such in the future should general and professional liability claims incurred prior to the closing of the U.S. Sale Transaction, including claims incurred but yet to be reported, increase significantly. For further information on our self-insured liabilities, refer to the discussion under the heading "Accrual for U.S. Self-insured Liabilities" found within the "Liquidity and Capital Resources" section of this MD&A.

KEY PERFORMANCE INDICATORS

In addition to those measures identified under the heading "Non-GAAP Measures", management uses certain key performance indicators in order to compare the financial performance of Extendicare'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 Extendicare's financial results from continuing operations.

The following is a glossary of terms for some of our key performance indicators:

"Stabilized community" is the classification by the Company of a retirement community that has achieved its expected stabilized occupancy level, which varies from project to project; such operations in respect of this report specifically refer to four retirement communities (Empire Crossing, Lynde Creek Manor, Riverbend Crossing and Stonebridge Crossing);

"Non same-store" or "NSS", generally refers to those centres or business that were not continuously operated by us since the beginning of the previous fiscal year or have been classified as held for sale, such operations in respect of this report specifically refer to one retirement community that opened during 2017 (Douglas Crossing), Lynde Creek that was acquired in April 2018, and two retirement communities that are under development (Bolton and Barrie);

"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; and

"Same-store" or "SS" generally refers to those centres or businesses that were continuously operated by us since the beginning of the previous fiscal year, and which are not classified as held for sale; such operations in respect of this report specifically refer to all continuing operations excluding the three retirement communities classified as NSS above.

Long-term Care

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

	2018		2017				2016	
Long-term Care Centres	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**
Average Occupancy *(%)*								
Total LTC	**97.2%**	**96.4%**	97.7%	98.2%	97.6%	97.2%	97.9%	98.1%
Ontario LTC								
Total operations	**97.7%**	**97.1%**	98.2%	98.5%	98.2%	97.6%	98.2%	98.6%
Preferred Accommodation (1)								
"New" centres – private	**96.7%**	**96.3%**	98.1%	98.3%	98.0%	97.1%	97.2%	96.9%
"C" centres – private	**97.3%**	**97.4%**	98.8%	97.8%	98.3%	98.5%	97.9%	98.7%
"C" centres – semi-private	**65.7%**	**65.2%**	66.5%	67.3%	65.7%	64.5%	65.0%	64.8%

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

The average occupancy at our LTC centres was 97.2% this quarter compared to 97.6% in the 2017 second quarter, and to 96.4% in the 2018 first quarter. In terms of the quarterly trends throughout the year, slightly lower occupancy levels are to be expected during the winter months as a result of outbreaks, which can lead to temporary freezes on admissions. In addition, occupancy in the 2018 first quarter was impacted by the fill-up of a 24-bed addition that opened in February at one of our LTC centres, which achieved stabilized occupancy in April 2018.

In Ontario, overall government funding is occupancy-based, but once the average occupancy level of 97% or higher for the calendar year is achieved, operators receive government funding based on 100% occupancy. In 2017, Extendicare's LTC centres in Ontario achieved an overall average occupancy of 98.1%, with all but two of the centres achieving the 97% occupancy threshold.

In addition, Extendicare's Ontario LTC centres receive premiums for preferred accommodation. The average occupancy of the private beds in our "New" centres was 96.7% this quarter compared to 98.0% in the 2017 second quarter, and to 96.3% in the 2018 first quarter. The average occupancy of the private beds at our Class C centres was 97.3% compared to 98.3% in the 2017 second quarter, and to 97.4% in the 2018 first quarter.

Retirement Living

Our retirement living operating segment consists of nine retirement communities in operation, one of which is classified as non same-store having opened in October 2017. Four of our retirement communities are considered stabilized, consisting of three that were acquired in 2015, Empire, Riverbend, and Stonebridge, and the recently acquired Lynde Creek Manor.

AS AT OCCUPANCY

The following table provides the combined occupancy of our stabilized and lease-up retirement communities as at the end of each quarter in 2018 and 2017, and as at the end of 2016.

Retirement Communities		**2018**				**2017**	**2016**
As at Occupancy:	**Jun. 30**	**Mar. 31**	**Dec. 31**	**Sept. 30**	**Jun. 30**	**Mar. 31**	**Dec. 31**
Stabilized communities							
(Empire/Lynde Creek/Riverbend/Stonebridge)	**92.6%**	**90.2%**	95.9%	95.9%	90.2%	90.7%	93.9%
Lease-up communities	**80.7%**	**75.3%**	68.6%	61.3%	50.6%	47.3%	41.5%

The as at occupancy of the four stabilized communities averaged 92.6% on June 30, 2018, compared to 95.9% on December 31, 2017, reflecting slower than anticipated recovery from the higher attrition experienced through the winter months. The as at occupancy of the five lease-up communities continued to improve to an average of 80.7% on June 30, 2018, compared to 68.6% on December 31, 2017.

AVERAGE OCCUPANCY

The following table provides the average occupancy of the retirement communities in total and for each of the stabilized and lease-up groupings for the past eight quarters. The decline in average occupancy of the stabilized retirement communities to 92.2% in the 2018 second quarter from 95.5% in the 2017 fourth quarter was impacted by higher attrition through the winter months, which extended into the first half of the 2018 second quarter.

		2018				**2017**		**2016**
Retirement Communities	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**
Average Occupancy *(%)* – total	**84.4%**	**80.4%**	75.9%	71.9%	66.6%	63.4%	63.0%	61.0%
Stabilized communities	**92.2%**	**93.2%**	95.5%	92.1%	88.1%	87.6%	87.6%	84.4%
Lease-up communities	**78.5%**	**73.1%**	63.8%	56.7%	50.6%	45.2%	41.7%	38.5%

Home Health Care

Revenue from provincial programs represented approximately 98% of Extendicare's home health care revenue in the first six months of 2018 (2017 year – 98%). ParaMed's average daily hours of service declined this quarter by 4.3% to 30,053 from 31,418 in the 2017 second quarter, and was relatively flat compared to 30,055 in the 2018 first quarter. Approximately 90% of the decline in volumes this quarter over the 2017 second quarter was experienced in Ontario, with the balance in British Columbia largely attributable to fiscal year end provincial funding constraints. In Ontario, the competition for personal support workers (PSWs), and to a lesser extent nurses, has continued to intensify, thereby contributing to a capacity shortage in many areas across the province and adversely impacting our ability to continue to meet the growing demand in services that began in the latter half of 2016. During the second quarter of 2018, we have continued efforts to build the capacity required to address these challenges and to otherwise take advantage of the significant organic growth opportunity that exists in the province today. Also, we have recently successfully launched new enterprise software to replace three legacy systems. The roll out of the new software is anticipated to be completed by the end of the 2019 third quarter and is expected to enhance ParaMed's operational capabilities. For the 2017 year, our average daily hours of service increased by 4.1% to 31,032 from 29,807 in 2016, reflecting the government's commitment to allocate additional funds to this segment of the Canadian health care system. For further information on the home health care operations, refer to the discussion under the heading "Update of Regulatory and Funding Changes Affecting Results – Ontario Home Health Care Legislation and Funding".

The following table provides the service volumes of our home health care operations for the past eight quarters.

Home Health Care	**2018**		**2017**				**2016**	
Service Volumes	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**
Hours of service (000's)	**2,734.8**	**2,705.0**	2,818.4	2,833.6	2,859.1	2,815.7	2,845.8	2,772.0
Hours per day	**30,053**	**30,055**	30,634	30,800	31,418	31,285	30,932	30,130

2018 SELECTED QUARTERLY INFORMATION

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

	2018		**2017**				**2016**	
(thousands of dollars unless otherwise noted)	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**
Revenue	**279,488**	**271,424**	281,398	273,230	273,845	268,858	276,854	268,096
Net operating income	**36,307**	**29,322**	35,622	34,729	33,867	31,604	33,754	35,040
NOI margin	***13.0%***	***10.8%***	*12.7%*	*12.7%*	*12.4%*	*11.8%*	*12.2%*	*13.1%*
Adjusted EBITDA	**27,330**	**19,977**	27,555	24,025	24,588	21,429	24,246	25,525
Adjusted EBITDA margin	***9.8%***	***7.4%***	*9.8%*	*8.8%*	*9.0%*	*8.0%*	*8.8%*	*9.5%*
Earnings from continuing operations	**5,975**	**3,566**	10,301	6,545	9,919	4,947	13,250	9,955
Loss on sale of U.S. operations, net of taxes	**–**	**–**	–	–	–	–	(8,458)	–
Earnings (loss) from discontinued operations	**5,852**	**1,265**	3,333	–	(32,913)	–	19,848	(643)
Net earnings (loss)	**11,827**	**4,831**	13,634	6,545	(22,994)	4,947	24,640	9,312
AFFO (continuing operations)	**17,133**	**14,669**	15,713	15,646	14,448	12,688	13,534	20,832
per basic share *($)*	**0.194**	**0.166**	0.178	0.176	0.162	0.143	0.152	0.236
AFFO	**17,133**	**14,669**	15,713	15,646	14,448	12,688	13,366	20,300
per basic share *($)*	**0.194**	**0.166**	0.178	0.176	0.162	0.143	0.150	0.230
Maintenance Capex								
Continuing operations	**3,783**	**1,051**	3,271	2,777	1,858	907	5,419	2,825
Discontinued operations	**–**	**–**	–	–	–	–	112	280
Cash dividends declared	**10,570**	**10,578**	10,623	10,642	10,666	10,652	10,637	10,619
per share *($)*	**0.120**	**0.120**	0.120	0.120	0.120	0.120	0.120	0.120
Weighted Average Number of Shares								
Basic	**88,208**	**88,379**	88,633	88,844	88,938	88,807	88,663	88,495
Diluted	**98,595**	**99,688**	99,916	100,123	100,244	100,086	99,918	99,739

The following is a reconciliation of "earnings (loss) from continuing operations before income taxes" to Adjusted EBITDA and "net operating income".

	2018		**2017**				**2016**	
(thousands of dollars)	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**
Earnings from continuing operations before income taxes	9,131	5,380	13,212	9,874	12,763	6,715	13,618	13,169
Add (Deduct):								
Depreciation and amortization	**8,235**	**7,837**	8,170	7,766	7,911	7,532	8,496	7,783
Net finance costs	**6,591**	**6,580**	6,173	6,385	3,914	7,182	460	4,573
Other expense	**3,373**	**180**	–	–	–	–	1,672	–
Adjusted EBITDA	27,330	19,977	27,555	24,025	24,588	21,429	24,246	25,525
Add (Deduct):								
Administrative costs	**7,309**	**7,718**	6,372	9,058	7,524	8,513	7,843	7,843
Lease costs	**1,668**	**1,627**	1,695	1,646	1,755	1,662	1,665	1,672
Net operating income	36,307	29,322	35,622	34,729	33,867	31,604	33,754	35,040

There are a number of factors affecting the trend of our quarterly results from continuing operations. With respect to our core operations, while year-over-year quarterly comparisons will generally remain comparable, sequential quarters can vary materially for seasonal and other trends. The significant factors that impact the results from period to period are as follows:

- Ontario long-term care funding tied to flow-through 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, and they are generally at their lowest in the first quarter and at their highest in the fourth quarter;
- Ontario long-term care providers generally receive annual flow-through funding increases and case mix index adjustments effective April 1st and accommodation funding increases effective July 1st, and Alberta long-term care providers generally receive annual inflationary rate increases and acuity-based funding adjustments on April 1st, and accommodation funding increases effective July 1st;
- maintenance capex spending, which impacts our AFFO, fluctuates on a quarterly basis with the timing of projects and seasonality, and is generally at its lowest in the first quarter and its highest in the fourth quarter; and
- utility costs are generally at their highest in the first quarter and their lowest in the second and third quarters, and can vary by as much as $1.5 million to $1.7 million quarterly.

In addition, we report as separate line items, “other expense”, “fair value adjustments”, and “loss (gain) on foreign exchange and investments”, as these are transitional in nature and would otherwise distort historical trends. Those items impacting our results are as follows:

- transaction and integration costs in connection with acquisitions, asset impairment charges, gains or losses on disposals, proxy contest costs and other costs considered transitional in nature are reported as “other expense”; as a result of these items, the results from continuing operations included: “other expense” of $0.2 million in the 2018 first quarter and $3.4 million in the 2018 second quarter, compared to no such charges during 2017, and compared to $4.0 million for the 2016 year ($2.1 million, $0.2 million, nil, $1.7 million, in each of the quarters, respectively);
- interest rate swaps are measured at fair value through profit or loss each period, along with realized gains or losses, as part of “fair value adjustments”; as a result, a gain of $0.3 million was recorded in the 2018 first quarter, compared to a net gain of $2.5 million in the 2017 year (loss of $0.1 million, gain of $1.1 million, gain of $1.2 million, and a gain of $0.3 million, in each of the quarters, respectively), and compared to a net gain of $1.0 million in the 2016 year (loss of $0.8 million in the third quarter and a gain of $1.8 million in the fourth quarter); and
- foreign currency exchange rate fluctuations between the U.S. and Canadian dollars impact translation of our remaining U.S. net assets in connection with net proceeds and deferred consideration received in respect of the disposed U.S. operations and repatriation of funds from our Captive, in addition, our investments held for U.S. self-insured liabilities are measured at fair value through profit and loss and reflected as part of “loss (gain) on foreign exchange and investments”; as a result of these activities our earnings from continuing operations included: a net loss of $0.2 million in the 2018 first quarter and a net gain of $0.4 million in the 2018 second quarter, compared to a net gain of $0.8 million in the 2017 year (loss of $0.4 million , gain of $1.5 million, loss of $0.7 million, and a gain of $0.4 million, in each of the quarters, respectively), and compared to a net loss of $1.2 million in 2016 (loss of $4.0 million, loss of $0.8 million, gain of $1.3 million and gain of $2.3 million, in each of the quarters, respectively).

Further details on the above can be found under the sections “Significant 2018 Events and Developments”, “Key Performance Indicators”, “Other Significant Developments” and “Update of Regulatory and Funding Changes Affecting Results”.

2018 SECOND QUARTER FINANCIAL REVIEW

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

							Three months ended June 30
			2018			**2017**	**Total**
(thousands of dollars)	**Canada**	**U.S.**	**Total**	**Canada**	**U.S.**	**Total**	**Change**
Revenue	**279,437**	**51**	**279,488**	272,540	1,305	273,845	5,643
Operating expenses	**243,181**	**–**	**243,181**	239,978	–	239,978	3,203
Net operating income	**36,256**	**51**	**36,307**	32,562	1,305	33,867	2,440
Administrative costs	**7,036**	**273**	**7,309**	7,250	274	7,524	(215)
Lease costs	**1,668**	**–**	**1,668**	1,755	–	1,755	(87)
Adjusted EBITDA	**27,552**	**(222)**	**27,330**	23,557	1,031	24,588	2,742
Depreciation and amortization	**8,235**	**–**	**8,235**	7,911	–	7,911	324
Other expense	**3,373**	**–**	**3,373**	–	–	–	3,373
Earnings (loss) before net finance costs and income taxes	**15,944**	**(222)**	**15,722**	15,646	1,031	16,677	(955)
Interest expense (net of capitalized interest)	**7,089**	**–**	**7,089**	6,832	–	6,832	257
Interest revenue	**(898)**	**–**	**(898)**	(870)	(207)	(1,077)	179
Accretion	**367**	**473**	**840**	360	349	709	131
Fair value adjustments	**(35)**	**–**	**(35)**	(1,053)	–	(1,053)	1,018
Loss (gain) on foreign exchange and investments	**(30)**	**(375)**	**(405)**	250	(1,747)	(1,497)	1,092
Net finance costs (income)	**6,493**	**98**	**6,591**	5,519	(1,605)	3,914	2,677
Earnings (loss) from continuing operations before income taxes	**9,451**	**(320)**	**9,131**	10,127	2,636	12,763	(3,632)
Income tax expense (recovery)							
Current	**2,886**	**–**	**2,886**	3,531	–	3,531	(645)
Deferred	**270**	**–**	**270**	(874)	187	(687)	957
Total income tax expense	**3,156**	**–**	**3,156**	2,657	187	2,844	312
Earnings (loss) from continuing operations	**6,295**	**(320)**	**5,975**	7,470	2,449	9,919	(3,944)
Earnings (loss) from discontinued operations	**–**	**5,852**	**5,852**	–	(32,913)	(32,913)	38,765
Net earnings (loss)	**6,295**	**5,532**	**11,827**	7,470	(30,464)	(22,994)	34,821
Earnings (loss) from continuing operations	**6,295**	**(320)**	**5,975**	7,470	2,449	9,919	(3,944)
Add (Deduct) (1)**:**							
Fair value adjustments	**(26)**	**–**	**(26)**	(772)	–	(772)	746
Loss (gain) on foreign exchange and investments	**(58)**	**(375)**	**(433)**	299	(1,645)	(1,346)	913
Other expense	**2,880**	**–**	**2,880**	–	–	–	2,880
Earnings (loss) from continuing operations before separately reported items, net of taxes	**9,091**	**(695)**	**8,396**	6,997	804	7,801	595

(1) The separately reported items being added to or deducted from earnings (loss) from continuing operations are net of income taxes, and are non-GAAP measures. Refer to the discussion of non-GAAP measures.

The following provides a reconciliation of "earnings from continuing operations before income taxes" to "Adjusted EBITDA" and "net operating income".

							Three months ended June 30
			2018			**2017**	**Total**
(thousands of dollars)	**Canada**	**U.S.**	**Total**	**Canada**	**U.S.**	**Total**	**Change**
Earnings (loss) from continuing operations before income taxes	**9,451**	**(320)**	**9,131**	10,127	2,636	12,763	(3,632)
Add (Deduct):							
Depreciation and amortization	**8,235**	**–**	**8,235**	7,911	–	7,911	324
Net finance costs (income)	**6,493**	**98**	**6,591**	5,519	(1,605)	3,914	2,677
Other expense	**3,373**	**–**	**3,373**	–	–	–	3,373
Adjusted EBITDA	**27,552**	**(222)**	**27,330**	23,557	1,031	24,588	2,742
Add (Deduct):							
Administrative costs	**7,036**	**273**	**7,309**	7,250	274	7,524	(215)
Lease costs	**1,668**	**–**	**1,668**	1,755	–	1,755	(87)
Net operating income	**36,256**	**51**	**36,307**	32,562	1,305	33,867	2,440

The following is an analysis of the consolidated results from operations for the 2018 second quarter in comparison to the 2017 second quarter. Refer to the discussion that follows under the heading "Summary of Results of Operations by Segment" for an analysis of the revenue and net operating income by operating segment, including the components of non same-store revenue and net operating income.

Consolidated Revenue

Consolidated revenue from continuing operations grew by $5.6 million or 2.1% to $279.5 million in the 2018 second quarter, driven primarily by LTC funding enhancements, expansion of the retirement living operations, home health care funding increases and improvements in service mix, including enhanced funding of approximately $2.1 million to support recent amendments to Ontario's *Employment Standards Act, 2000* (ESA), and growth in management and group purchasing services, partially offset by a decline in home health care volumes, and lower investment income from the Captive.

Consolidated Operating Expenses

Consolidated operating expenses from continuing operations increased by $3.2 million or 1.3% to $243.2 million in the 2018 second quarter, driven by, increased costs of resident care, expansion of the retirement living operations, and the impact of legislated amendments to Ontario's ESA, partially offset by the impact of lower home health care volumes delivered, and the timing of Good Friday. Total labour costs increased by $1.6 million over the 2017 second quarter, and represented 86.5% and 86.9% of operating expenses in the second quarters of 2018 and 2017, respectively, and as a percentage of revenue were 75.2% and 76.2%, respectively.

Consolidated Net Operating Income

Consolidated net operating income from continuing operations improved by $2.4 million or 7.2% to $36.3 million in the 2018 second quarter, and represented 13.0% of revenue compared to 12.4% in the same 2017 quarter. Net operating income from the Canadian operations improved by $3.7 million and was favourably impacted by one less statutory holiday this quarter, home health care funding enhancements and service mix, and growth of our retirement living, management and group purchasing operations, partially offset by lower home health care volumes and a decline in the contribution from our LTC operations primarily due to the timing of spending under the LTC envelopes and labour-related accrual adjustments. Net operating income from our U.S. operations reflects investment income from the Captive, which was nominal this quarter compared to the same 2017 period.

Administrative and Lease Costs

Administrative and lease costs from continuing operations declined to $9.0 million in the 2018 second quarter from $9.3 million in the same 2017 period, reflecting slightly lower compensation and lease costs.

Consolidated Adjusted EBITDA

Consolidated Adjusted EBITDA from continuing operations improved by $2.7 million or 11.2% to $27.3 million this quarter, and represented 9.8% of revenue compared to 9.0% in the same 2017 period, reflecting an improvement from the Canadian operations, partially offset by lower Captive investment income from the remaining U.S. operations.

Other Expense

Other expense of $3.4 million this quarter represents $2.5 million expensed in connection with the redemption of the 2019 Debentures and transaction costs of $0.9 million associated with the Lynde Creek Acquisition.

Net Finance Costs

Net finance costs increased by $2.7 million to $6.6 million this quarter, primarily due to changes in loss (gain) on foreign exchange and the Captive's investments, and interest rate swap fair value adjustments, aggregating $2.1 million, with the balance due to slightly higher net interest costs associated increased net debt levels.

Income Taxes

The consolidated income tax provision this quarter was $3.2 million, and represented an effective tax rate of 34.6%, compared to $2.8 million and an effective tax rate of 22.3% in the 2017 second quarter. The effective tax rate of the Canadian operations was 33.4% this quarter compared to 26.2% in the 2017 second quarter, and was impacted by, among other things, fair value adjustments, gains and losses on foreign exchange and investments, and other expense items that have been separately reported. The effective tax rate of the Canadian operations excluding the impact of separately reported items was 28.7% compared to 25.0%.

Discontinued Operations

The earnings from discontinued operations reported this quarter of $5.8 million (US$4.5 million) related to a release of the Captive's reserves for U.S. self-insured liabilities following the results of an independent actuarial review conducted this quarter.

Summary of Results of Operations by Segment

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

Three months ended June 30 *(thousands of dollars)*	**Long-term Care**	**Retirement Living**	**Home Health Care**	**Other Canadian Operations**	**Corporate Canada**	**Total Canada**	**Total U.S.**	**Total**
2018 – Same-store								
Revenue	**155,833**	**5,941**	**109,852**	**5,510**	–	**277,136**	**51**	**277,187**
Operating expenses	**137,716**	**4,369**	**97,287**	**2,282**	–	**241,654**	–	**241,654**
Net operating income	**18,117**	**1,572**	**12,565**	**3,228**	–	**35,482**	**51**	**35,533**
NOI margin %	***11.6%***	***26.5%***	***11.4%***	***58.6%***	–	***12.8%***	***100.0%***	***12.8%***
2018 – Non Same-store								
Revenue	–	**2,301**	–	–	–	**2,301**	–	**2,301**
Operating expenses	–	**1,527**	–	–	–	**1,527**	–	**1,527**
Net operating income	–	**774**	–	–	–	**774**	–	**774**
2018 – Total								
Revenue	**155,833**	**8,242**	**109,852**	**5,510**	–	**279,437**	**51**	**279,488**
Operating expenses	**137,716**	**5,896**	**97,287**	**2,282**	–	**243,181**	–	**243,181**
Net operating income	**18,117**	**2,346**	**12,565**	**3,228**	–	**36,256**	**51**	**36,307**
NOI margin %	***11.6%***	***28.5%***	***11.4%***	***58.6%***	–	***13.0%***	***100.0%***	***13.0%***
2017 – Same-store								
Revenue	152,976	4,802	110,133	4,624	5	272,540	1,305	273,845
Operating expenses	134,501	4,292	98,997	2,095	–	239,885	–	239,885
Net operating income	18,475	510	11,136	2,529	5	32,655	1,305	33,960
NOI margin %	*12.1%*	*10.6%*	*10.1%*	*54.7%*	*100.0%*	*12.0%*	*100.0%*	*12.4%*
2017 – Non Same-store								
Revenue	–	–	–	–	–	–	–	–
Operating expenses	–	93	–	–	–	93	–	93
Net operating loss	–	(93)	–	–	–	(93)	–	(93)
2017 – Total								
Revenue	152,976	4,802	110,133	4,624	5	272,540	1,305	273,845
Operating expenses	134,501	4,385	98,997	2,095	–	239,978	–	239,978
Net operating income	18,475	417	11,136	2,529	5	32,562	1,305	33,867
NOI margin %	*12.1%*	*8.7%*	*10.1%*	*54.7%*	*100.0%*	*11.9%*	*100.0%*	*12.4%*
Change in Total								
Revenue	2,857	3,440	(281)	886	(5)	6,897	(1,254)	5,643
Operating expenses	3,215	1,511	(1,710)	187	–	3,203	–	3,203
Net operating income	(358)	1,929	1,429	699	(5)	3,694	(1,254)	2,440

LONG-TERM CARE OPERATIONS

Net operating income from our long-term care operations was $18.1 million this quarter compared to $18.5 million in the 2017 second quarter, representing 11.6% of revenue compared to 12.1%. Revenue this quarter grew by $2.8 million, or 1.9%, of which approximately $1.1 million related to our Ontario flow-through envelopes, and was therefore directly offset by increased costs of resident care, approximately $0.1 million was from improvements in preferred accommodation, and the balance was from other funding enhancements. Operating expenses increased by $3.2 million, or 2.4%, primarily due to higher labour, supply, maintenance, and food costs, partially offset by lower property taxes and utility costs. Total labour costs increased by $2.2 million and represented 83.2% of operating expenses this quarter compared to 83.6% in the same 2017 period.

RETIREMENT LIVING OPERATIONS

Net operating income from our retirement living operations improved by $1.9 million this quarter, reflecting continued improvements across all communities. On a same-store basis, growth in net operating income of $1.0 million was primarily attributable to higher revenue, reflecting an improvement in average occupancy to 83.2% this quarter from 66.6% in the 2017 second quarter. Non same-store net operating income improved by $0.9 million this period, reflecting the contribution from the Lynde Creek Acquisition in April 2018 and the opening of Douglas Crossing in October 2017, partially offset by pre-opening costs associated with two communities under construction.

HOME HEALTH CARE OPERATIONS

Net operating income from our home health care operations improved by $1.4 million or 12.8% this quarter, and represented 11.4% of revenue compared to 10.1% in the 2017 second quarter. Operations benefited this quarter from funding improvements, including higher revenue of approximately $1.3 million in respect of contracts for nursing, therapies and personal support services in Ontario, favourable mix of services provided, the timing of Good Friday and other cost savings, partially offset by a 4.3% decline in volumes. Total labour costs declined by $1.5 million due to the decline in volumes and timing of the statutory holiday, partially offset by increased government-funded costs associated with legislated amendments to Ontario's ESA, and represented 92.8% of operating expenses in both quarters. The reduction in home health care volumes was in large part due to an industry-wide capacity shortage of PSWs, and to a lesser extent nurses, which has adversely impacted our ability to continue to meet the growing demand. Initiatives are under way to improve our ability to attract and retain care staff. Refer to the discussion under the heading "Key Performance Indicators – Home Health Care".

OTHER CANADIAN OPERATIONS

Net operating income from our management and group purchasing operations increased by $0.7 million this quarter, and represented 58.6% of revenue compared to 54.7% in the 2017 second quarter, due to growth in clients served.

U.S. OPERATIONS

The decline in net operating income from the U.S. operations reflected lower investment income of the Captive.

2018 SIX MONTH FINANCIAL REVIEW

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

	Six months ended June 30						
			2018			2017	Total
(thousands of dollars)	Canada	U.S.	Total	Canada	U.S.	Total	Change
Revenue	**550,822**	**90**	**550,912**	539,903	2,800	542,703	8,209
Operating expenses	**485,283**	**–**	**485,283**	477,232	–	477,232	8,051
Net operating income	**65,539**	**90**	**65,629**	62,671	2,800	65,471	158
Administrative costs	**14,471**	**556**	**15,027**	15,240	797	16,037	(1,010)
Lease costs	**3,295**	**–**	**3,295**	3,417	–	3,417	(122)
Adjusted EBITDA	**47,773**	**(466)**	**47,307**	44,014	2,003	46,017	1,290
Depreciation and amortization	**16,072**	**–**	**16,072**	15,443	–	15,443	629
Other expense	**3,553**	**–**	**3,553**	–	–	–	3,553
Earnings (loss) before net finance costs and income taxes	**28,148**	**(466)**	**27,682**	28,571	2,003	30,574	(2,892)
Interest expense (net of capitalized interest)	**14,170**	**–**	**14,170**	13,752	–	13,752	418
Interest revenue	**(1,933)**	**–**	**(1,933)**	(1,699)	(207)	(1,906)	(27)
Accretion	**696**	**808**	**1,504**	670	692	1,362	142
Fair value adjustments	**(360)**	**–**	**(360)**	(1,001)	–	(1,001)	641
Loss (gain) on foreign exchange and investments	**(584)**	**374**	**(210)**	318	(1,429)	(1,111)	901
Net finance costs (income)	**11,989**	**1,182**	**13,171**	12,040	(944)	11,096	2,075
Earnings (loss) from continuing operations before income taxes	**16,159**	**(1,648)**	**14,511**	16,531	2,947	19,478	(4,967)
Income tax expense (recovery)							
Current	**3,469**	**–**	**3,469**	6,508	–	6,508	(3,039)
Deferred	**1,501**	**–**	**1,501**	(1,998)	102	(1,896)	3,397
Total income tax expense	**4,970**	**–**	**4,970**	4,510	102	4,612	358
Earnings (loss) from continuing operations	**11,189**	**(1,648)**	**9,541**	12,021	2,845	14,866	(5,325)
Earnings (loss) from discontinued operations	**–**	**7,117**	**7,117**	–	(32,913)	(32,913)	40,030
Net earnings (loss)	**11,189**	**5,469**	**16,658**	12,021	(30,068)	(18,047)	34,705
Earnings (loss) from continuing operations	**11,189**	**(1,648)**	**9,541**	12,021	2,845	14,866	(5,325)
Add (Deduct) (1)**:**							
Fair value adjustments	**(264)**	**–**	**(264)**	(734)	–	(734)	470
Loss (gain) on foreign exchange and investments	**(637)**	**374**	**(263)**	378	(1,412)	(1,034)	771
Other expense	**3,012**	**–**	**3,012**	–	–	–	3,012
Earnings (loss) from continuing operations before separately reported items, net of taxes	**13,300**	**(1,274)**	**12,026**	11,665	1,433	13,098	(1,072)

(1) The separately reported items being added to or deducted from earnings (loss) from continuing operations are net of income taxes, and are non-GAAP measures. Refer to the discussion of non-GAAP measures.

The following provides a reconciliation of "earnings from continuing operations before income taxes" to "Adjusted EBITDA" and "net operating income".

	Six months ended June 30						
			2018			2017	Total
(thousands of dollars)	Canada	U.S.	Total	Canada	U.S.	Total	Change
Earnings (loss) from continuing operations before income taxes	**16,159**	**(1,648)**	**14,511**	16,531	2,947	19,478	(4,967)
Add (Deduct):							
Depreciation and amortization	**16,072**	**–**	**16,072**	15,443	–	15,443	629
Net finance costs (income)	**11,989**	**1,182**	**13,171**	12,040	(944)	11,096	2,075
Other expense	**3,553**	**–**	**3,553**	–	–	–	3,553
Adjusted EBITDA	**47,773**	**(466)**	**47,307**	44,014	2,003	46,017	1,290
Add (Deduct):							
Administrative costs	**14,471**	**556**	**15,027**	15,240	797	16,037	(1,010)
Lease costs	**3,295**	**–**	**3,295**	3,417	–	3,417	(122)
Net operating income	**65,539**	**90**	**65,629**	62,671	2,800	65,471	158

The following is an analysis of the consolidated results from operations for the first six months of 2018 in comparison to the same 2017 period. Refer to the discussion that follows under the heading “Summary of Results of Operations by Segment” for an analysis of the revenue and net operating income by operating segment, including the components of non same-store revenue and net operating income.

Consolidated Revenue

Consolidated revenue from continuing operations grew by $8.2 million or 1.5% to $550.9 million in the first six months of 2018, driven primarily by LTC funding enhancements (despite the impact of a $0.8 million prior period settlement adjustment received in the 2017 first quarter), expansion of the retirement living operations, home health care funding increase and improvements in service mix, including enhanced funding of approximately $4.1 million to support recent amendments to Ontario’s *Employment Standards Act, 2000* (ESA), and growth in management and group purchasing services, partially offset by a decline in home health care volumes, and lower investment income from the Captive.

Consolidated Operating Expenses

Consolidated operating expenses from continuing operations increased by $8.0 million or 1.7% to $485.3 million in the first six months of 2018, driven by, increased costs of resident care, expansion of the retirement living operations, and the impact of legislated amendments to Ontario’s ESA, partially offset by the impact of lower home health care volumes delivered. Total labour costs increased by $5.7 million over the same 2017 period, and represented 86.5% and 86.8% of operating expenses in the first six months of 2018 and 2017, respectively, and as a percentage of revenue were 76.2% and 76.3%, respectively.

Consolidated Net Operating Income

Consolidated net operating income from continuing operations improved by $0.2 million or 0.2% to $65.6 million in the first six months of 2018, and represented 11.9% of revenue compared to 12.1% in the same 2017 period. Net operating income from the Canadian operations improved by $2.9 million or 4.6% to $65.5 million, and as a percentage of revenue was 11.9% this period compared to 11.6% in the same 2017 period, reflecting growth of our retirement living, management and group purchasing operations, partially offset by a decline in the contribution from our LTC operations of $1.3 million due to prior period adjustments, higher costs of resident care, and timing of spending under the Ontario flow-through envelopes, and a decline of $0.6 million from our home health care operations due to lower volumes. Net operating income from our U.S. operations reflects investment income from the Captive, which was nominal this period compared to $2.8 million in the same 2017 period.

Administrative and Lease Costs

Administrative and lease costs from continuing operations declined to $18.3 million in the first six months of 2018 from $19.4 million in the same 2017 period, primarily impacted by share-based compensation expense and professional fees.

Consolidated Adjusted EBITDA

Consolidated Adjusted EBITDA from continuing operations improved by $1.3 million or 2.8% to $47.3 million this period, and represented 8.6% of revenue compared to 8.5% in the same 2017 period. Adjusted EBITDA from the Canadian operations improved by $3.8 million, and as a percentage of revenue was 8.7% compared to 8.2% in the same 2017 period. Adjusted EBITDA from the U.S. operations declined by $2.5 million reflecting lower investment income from the Captive and a reduction in administrative costs.

Other Expense

Other expense of $3.6 million this period represents $2.5 million expensed in connection with the redemption of the 2019 Debentures and transaction costs of $1.1 million associated with the Lynde Creek Acquisition.

Net Finance Costs

Net finance costs increased by $2.1 million to $13.2 million this period, reflecting unfavourable changes in loss (gain) on foreign exchange and the Captive’s investments, and interest rate swap fair value adjustments, aggregating $1.5 million, with the balance due to higher net interest costs associated with increased net debt levels.

Income Taxes

The consolidated income tax provision for the first six months of 2018 was $5.0 million, and represented an effective tax rate of 34.2%, compared to $4.6 million and an effective tax rate of 23.7% in the same 2017 period. The effective tax rate of the Canadian operations was 30.8% this period compared to 27.3% in the same 2017 period, and was impacted by, among other things, fair value adjustments, gains and losses on foreign exchange and investments, and other expense items that have been separately reported. The effective tax rate of the Canadian operations excluding the impact of separately reported items was 29.1% compared to 26.4%.

Discontinued Operations

The earnings from discontinued operations of $7.1 million in the first six months of 2018, related to a $5.8 million release of the Captive reserves for U.S. self-insured liabilities and the impact of a discount rate adjustment applied to the Captive's accrual for U.S. self-insured liabilities.

Summary of Results of Operations by Segment

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

Six months ended June 30 *(thousands of dollars)*	**Long-term Care**	**Retirement Living**	**Home Health Care**	**Other Canadian Operations**	**Corporate Canada**	**Total Canada**	**Total U.S.**	**Total**
2018 – Same-store								
Revenue	**308,638**	**11,859**	**216,316**	**10,652**	**3**	**547,468**	**90**	**547,558**
Operating expenses	**274,560**	**8,859**	**195,122**	**4,366**	**–**	**482,907**	**–**	**482,907**
Net operating income	**34,078**	**3,000**	**21,194**	**6,286**	**3**	**64,561**	**90**	**64,651**
NOI margin %	***11.0%***	***25.3%***	***9.8%***	***59.0%***	***100.0%***	***11.8%***	***100.0%***	***11.8%***
2018 – Non Same-store								
Revenue	**–**	**3,354**	**–**	**–**	**–**	**3,354**	**–**	**3,354**
Operating expenses	**–**	**2,376**	**–**	**–**	**–**	**2,376**	**–**	**2,376**
Net operating income	**–**	**978**	**–**	**–**	**–**	**978**	**–**	**978**
2018 – Total								
Revenue	**308,638**	**15,213**	**216,316**	**10,652**	**3**	**550,822**	**90**	**550,912**
Operating expenses	**274,560**	**11,235**	**195,122**	**4,366**	**–**	**485,283**	**–**	**485,283**
Net operating income	**34,078**	**3,978**	**21,194**	**6,286**	**3**	**65,539**	**90**	**65,629**
NOI margin %	***11.0%***	***26.1%***	***9.8%***	***59.0%***	***100.0%***	***11.9%***	***100.0%***	***11.9%***
2017 – Same-store								
Revenue	303,586	9,432	217,927	8,949	9	539,903	2,800	542,703
Operating expenses	268,179	8,584	196,133	4,174	–	477,070	–	477,070
Net operating income	35,407	848	21,794	4,775	9	62,833	2,800	65,633
NOI margin %	*11.7%*	*9.0%*	*10.0%*	*53.4%*	*100.0%*	*11.6%*	*100.0%*	*12.1%*
2017 – Non Same-store								
Revenue	–	–	–	–	–	–	–	–
Operating expenses	–	162	–	–	–	162	–	162
Net operating loss	–	(162)	–	–	–	(162)	–	(162)
2017 – Total								
Revenue	303,586	9,432	217,927	8,949	9	539,903	2,800	542,703
Operating expenses	268,179	8,746	196,133	4,174	–	477,232	–	477,232
Net operating income	35,407	686	21,794	4,775	9	62,671	2,800	65,471
NOI margin %	*11.7%*	*7.3%*	*10.0%*	*53.4%*	*100.0%*	*11.6%*	*100.0%*	*12.1%*
Change in Total								
Revenue	5,052	5,781	(1,611)	1,703	(6)	10,919	(2,710)	8,209
Operating expenses	6,381	2,489	(1,011)	192	–	8,051	–	8,051
Net operating income	(1,329)	3,292	(600)	1,511	(6)	2,868	(2,710)	158

LONG-TERM CARE OPERATIONS

Net operating income from our long-term care operations was $34.1 million in the first six months of 2018 compared to $35.4 million in the same 2017 period, representing 11.0% of revenue this period compared to 11.7% in 2017. The decline of $1.3 million reflected the impact of $0.8 million of favourable prior period revenue adjustments received in 2017, higher costs of resident care, and timing of spending under the Ontario flow-through envelopes. Revenue grew by $5.0 million, or 1.7%, of which approximately $2.6 million related to our Ontario flow-through envelopes, and was therefore directly offset by increased costs of resident care, approximately $0.2 million was from improvements in preferred accommodation, and the balance was from other funding enhancements. Operating expenses increased by $6.3 million, or 2.4%, primarily due to higher labour, supply, maintenance, and food costs, partially offset by lower property taxes and utility costs. Total labour costs increased by $4.6 million and represented 83.0% of operating expenses this period compared to 83.3% in the same 2017 period.

RETIREMENT LIVING OPERATIONS

Net operating income from our retirement living operations improved by $3.3 million this period, reflecting continued improvements across all communities and the acquisition completed in April 2018. On a same-store basis, growth in net operating income of $2.2 million was primarily attributable to higher revenue, reflecting an improvement in average occupancy to 82.9% this period from 65.0% in the 2017 period. Non same-store net operating income improved by $1.1 million this period, reflecting the contribution from the Lynde Creek Acquisition and the opening of Douglas Crossing, partially offset by pre-opening costs associated with two communities under construction.

HOME HEALTH CARE OPERATIONS

Net operating income from our home health care operations declined by $0.6 million or 2.8% to $21.2 million this period, and represented 9.8% of revenue compared to 10.0% in the same 2017 period. The impact of a 4.1% decline in volumes this period, to 30,054 daily hours from 31,353, was partially offset by funding improvements, including higher revenue of approximately $1.3 million in respect of contracts for nursing, therapies and personal support services in Ontario, favourable mix of services provided and cost savings. Total labour costs decreased by $0.7 million, reflecting the lower volumes, partially offset by increased government-funded costs associated with legislated amendments to Ontario's ESA, and represented 92.9% of operating expenses this period compared to 92.8% in the same 2017 period. The reduction in home health care volumes was in large part due to an industry-wide capacity shortage of PSWs, and to a lesser extent nurses, which has adversely impacted our ability to continue to meet the growing demand. Initiatives are under way to improve our ability to attract and retain care staff. Refer to the discussion under the heading "Key Performance Indicators – Home Health Care".

OTHER CANADIAN OPERATIONS

Net operating income from our management and group purchasing operations increased by $1.5 million this period, and represented 59.0% of revenue compared to 53.4% in the same 2017 period, due to growth in clients served.

U.S. OPERATIONS

The decline in net operating income from the U.S. operations reflected lower investment income of the Captive.

ADJUSTED FUNDS FROM OPERATIONS

The following table provides a reconciliation of our "net earnings" to FFO and AFFO. A reconciliation of our "net cash from operating activities" to AFFO is also provided under the heading "Reconciliation of Net Cash from Operating Activities to AFFO".

	Three months ended June 30			Six months ended June 30		
(thousands of dollars unless otherwise noted)	**2018**	**2017**	**Change**	**2018**	**2017**	**Change**
Net earnings (loss)	**11,827**	(22,994)	34,821	**16,658**	(18,047)	34,705
Add (Deduct):						
Depreciation and amortization	**8,235**	7,911	324	**16,072**	15,443	629
Depreciation for FFEC (maintenance capex) [(1)]	**(1,807)**	(1,854)	47	**(3,717)**	(3,709)	(8)
Other expense (continuing operations)	**3,373**	–	3,373	**3,553**	–	3,553
Other expense (income) (discontinued operations)	**(5,852)**	40,017	(45,869)	**(7,117)**	40,017	(47,134)
Fair value adjustments	**(35)**	(1,053)	1,018	**(360)**	(1,001)	641
Gain on foreign exchange and investments	**(405)**	(1,497)	1,092	**(210)**	(1,111)	901
Current income tax expense (recovery) on other expense, fair value adjustments, and gain/loss on foreign exchange and investments [(2)]	**–**	(67)	67	**273**	167	106
Deferred income tax expense	**270**	(7,791)	8,061	**1,228**	(9,000)	10,228
FFO	**15,606**	12,672	2,934	**26,380**	22,759	3,621
Amortization of financing costs	**553**	454	99	**950**	897	53
Accretion costs	**840**	709	131	**1,504**	1,362	142
Non-cash share-based compensation	**599**	421	178	**1,033**	685	348
Principal portion of government capital funding	**1,300**	1,234	66	**2,600**	2,464	136
Income support (retirement acquisitions)	**–**	–	–	**–**	66	(66)
Amounts offset through investments held for self-insured liabilities [(3)]	**211**	(1,038)	1,249	**452**	(2,041)	2,493
Additional maintenance capex [(1)]	**(1,976)**	(4)	(1,972)	**(1,117)**	944	(2,061)
AFFO	**17,133**	14,448	2,685	**31,802**	27,136	4,666
Per Basic Share *($)*						
FFO	**0.177**	0.142	0.035	**0.299**	0.256	0.043
AFFO	**0.194**	0.162	0.032	**0.360**	0.305	0.055
Per Diluted Share *($)*						
FFO	**0.177**	0.142	0.035	**0.299**	0.256	0.043
AFFO	**0.188**	0.158	0.030	**0.349**	0.299	0.050
Dividends *($)*						
Declared	**10,570**	10,666	(96)	**21,148**	21,318	(170)
Declared per share *($)*	**0.120**	0.120	–	**0.240**	0.240	–
Weighted Average Number of Shares *(thousands)*						
Basic	**88,208**	88,938		**88,293**	88,873	
Diluted	**98,595**	100,244		**98,680**	100,179	
Total maintenance capex [(1)]	**3,783**	1,858	1,925	**4,834**	2,765	2,069

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

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

(3) Represents AFFO of the Captive that decreases/(increases) the Captive's investments held for self-insured liabilities not impacting the Company's reported cash and short-term investments.

AFFO 2018 Second Quarter Financial Review

AFFO improved by $2.7 million to $17.1 million ($0.194 per basic share) in the 2018 second quarter from $14.4 million ($0.162 per basic share) in the same 2017 period, reflecting the improvement in Adjusted EBITDA and lower current income taxes, partially offset by an increase in maintenance capex of $1.9 million and higher net interest expense. A discussion of the factors impacting net earnings can be found under the heading "2018 Second Quarter Financial Review".

Maintenance capex was $3.8 million this quarter, compared to $1.9 million in the same 2017 period, and compared to $1.0 million in the 2018 first quarter, representing 1.4%, 0.7% and 0.4% of revenue, respectively.

AFFO 2018 Six Month Financial Review

AFFO improved by $4.7 million to $31.8 million ($0.360 per basic share) in the first six months of 2018 from $27.1 million ($0.305 per basic share) in the same 2017 period, reflecting the improvement in Adjusted EBITDA and lower current income taxes of $2.9 million, partially offset by an increase in maintenance capex of $2.1 million and higher net interest expense. A discussion of the factors impacting net earnings can be found under the heading "2018 Six Month Financial Review".

Our current income taxes benefitted this period from favourable timing differences, and the utilization of tax loss carryforwards. For the 2018 year, we anticipated our effective tax rate on FFO will be in the range of 16% to 18%. 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 our FFO can be impacted by: adjustments to our estimates of annual deferred timing differences, particularly when dealing with cash-based tax items versus accounting accruals; changes in the proportion of earnings between taxable and non-taxable entities; book-to-file adjustments for prior year filings; and the ability to utilize loss carryforwards.

Maintenance capex was $4.8 million in the first six months of 2018, compared to $2.8 million in the same 2017 period, representing 0.9% and 0.5% of revenue, respectively. These costs fluctuate on a quarterly and annual basis with the timing of projects and seasonality. Management monitors and prioritizes the capital expenditure requirements of its properties throughout the year, taking into account the urgency and necessity of the expenditure. For the 2018 year, we are expecting to spend in the range of $10 million to $11 million in maintenance capex, and in the range of $45 million to $50 million in growth capex, excluding acquisitions, related primarily to the retirement development projects.

Reconciliation of Net Cash from Operating Activities to AFFO

The following table provides a reconciliation of our "net cash from operating activities" to AFFO.

	Three months ended June 30		**Six months ended June 30**	
(thousands of dollars)	**2018**	**2017**	**2018**	**2017**
Net cash from operating activities	**13,981**	8,209	**24,420**	19,812
Add (Deduct):				
Net change in operating assets and liabilities, including interest, taxes and payments for U.S. self-insured liabilities	**5,424**	7,968	**8,891**	9,433
Current income tax on items excluded from AFFO (1)	**–**	(67)	**273**	167
Depreciation for FFEC (maintenance capex) (2)	**(1,807)**	(1,854)	**(3,717)**	(3,709)
Additional maintenance capex (2)	**(1,976)**	(4)	**(1,117)**	944
Principal portion of government capital funding	**1,300**	1,234	**2,600**	2,464
Income support (retirement acquisitions)	**–**	–	**–**	66
Amounts offset through investments held for self-insured liabilities (3)	**211**	(1,038)	**452**	(2,041)
AFFO	**17,133**	14,448	**31,802**	27,136

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

(2) The aggregate of the items "depreciation for FFEC" and "additional maintenance capex" represents our total actual maintenance capex incurred in the period. An amount equivalent to our 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.

(3) Represents AFFO of the Captive that decreases/(increases) its investments held for self-insured liabilities not impacting the Company's reported cash and short-term investments.

OTHER SIGNIFICANT DEVELOPMENTS

The discussion under the heading "Significant 2018 Events and Developments" summarizes our current activities related to the continued expansion into the retirement sector and convertible debenture activity. This section provides a summary of other developments that have impacted the financial results or operations of Extendicare for 2018 in comparison to 2017.

Expansion of Alberta Long-term Care Centre

In February 2018, the Company completed a 24-bed addition to its Extendicare Eaux Claires long-term care centre in Edmonton, Alberta, at a cost of $3.6 million. The initial 180-bed centre was built in 2011 with a design allowing for expansion. This addition achieved stabilized occupancy in April 2018, and is anticipated to provide incremental net operating income of approximately $0.6 million annually.

2015 U.S. Sale Transaction – Deferred Consideration

As part of the proceeds from the U.S. Sale Transaction, the Company was entitled to receive an ongoing cash stream for a period of 15 years relating to certain U.S. skilled nursing centres that were leased prior to the closing (the "Leased Centres"). The present value ascribed to these proceeds was reflected as deferred consideration and was recorded at amortized cost using the effective interest method. During the 2017 second quarter, the Company was notified of the potential for an event of default by the operator of the Leased Centres, and subsequently received notice that the operator of the Leased Centres had failed to make its required minimum lease payments. As a result of this event and related discussions, the Company does not expect to receive any further amounts and wrote off the balance of the deferred consideration of US$27.9 million, resulting in a charge of $37.5 million in the 2017 second quarter.

UPDATE OF REGULATORY AND FUNDING CHANGES AFFECTING RESULTS

In Canada, provincial legislation and regulations closely control all aspects of operation and funding of long-term care centres and publicly funded home health care services, including the fee structure, subsidies, the adequacy of physical centres, standards of care and accommodation, equipment and personnel. A substantial portion of the fees paid to providers of these services are funded by provincial programs, with a portion to be paid by residents or clients. Each province has a different system for managing the services provided. In some provinces, the government has delegated responsibility for the funding and administration of long-term care programs to regional health authorities. As a result, there can be significant variability in the regulations governing the provision of and reimbursement for care from location to location. The Company is unable to predict the impact, if any, that the recent change of government in Ontario may have on the government's spending policies or budget priorities.

In most provinces, a license must be obtained from the applicable provincial ministry of health in order to operate either a long-term care centre or a retirement centre. In general, the issuance of new licenses for LTC beds is infrequent because of the funding implications for the provincial governments, while the issuance of licenses for retirement centres is less restrictive as the funding for these services is generally private-pay. In addition to the license procedure, or in some provinces in place of, LTC operators in Alberta, Manitoba, Ontario and Saskatchewan are required to sign service contracts that incorporate service expectations with the applicable provincial health authority.

Fair Workplaces, Better Jobs Act, 2017 (Ontario)

In November 2017, Bill 148, *Fair Workplaces, Better Jobs Act, 2017* (Ontario), received royal assent, and came into effect in 2018. The act contains a number of amendments to both the *Employment Standards Act* and the *Labour Relations Act,* as part of the Ontario government's efforts to overhaul workplace laws. These changes include, among other things, an increase in minimum wage to $14 per hour that took effect on January 1, 2018, with a further increase to $15 per hour on January 1, 2019, revisions to vacation, holiday pay and personal leave entitlements that took effect on January 1, 2018, equal pay for equal work standards to take effect on April 1, 2018, and amendments to schedule change notifications and minimum "on call" payments to take effect on January 1, 2019, in addition to lower voting thresholds for unionization. Operationally, the act necessitated changes in the manner in which the Company manages its workforce in a number of business areas and could subject the Company to increased unionization.

Financially, the impact of the act on the Company's private-pay businesses has not been significant, and the Company expects that the impact on its government-funded long-term care and home health care businesses will be offset by funding under its current government service contracts. There can, however, be no assurance that any such government funding will be commensurate with the Company's additional costs to service resulting from such legislative changes or that any such funding will not adversely impact future funding.

While the Company does not anticipate the increases to the minimum wage will have a significant impact on the financial results given the current pay rates of its workforce, there can be no assurance that these changes will not necessitate increased pay rates for those already above the minimum wage, in order for the Company to retain and attract employees.

As the Company's labour costs account for approximately 87% of its operating costs, increased labour costs could have a significant adverse effect on the Company's results from operations and cash flows, should such cost increases not be met with commensurate increases in government funding. Management is unable to predict the nature and extent of any changes the government may make to its funding programs or the effect of any such changes on the Company, but expects that the government will comply with its contractual obligations relating thereto.

Strengthening Quality and Accountability for Patients Act, 2017 (Ontario)

Bill 160, *Strengthening Quality and Accountability for Patients Act, 2017* (Ontario), received royal assent in December 2017. The act, which supports the Ontario government's Patients First: Action Plan for Health Care, includes new legislation as well as changes to a number of existing pieces of legislation. The act, among other things, provides updates to the *Long-Term Care Homes Act, 2007* (LTCHA) to add new enforcement tools, including financial penalties, and new provincial offences to ensure operators are addressing concerns promptly. The legislation also includes a consent-based framework to protect residents who need to be secured in a LTC centre for safety reasons. In addition, the act provides updates to the *Retirement Homes Act, 2010* that would strengthen the oversight powers of the Retirement Homes Regulatory Authority (RHRA) and increase transparency, accountability and governance of the RHRA. In addition, as part of a stated commitment to "improve the transparency of public information related to the Long-Term Care Home Quality Inspection Program in Ontario", the Ontario Ministry of Health and Long-term Care (MOHLTC) released information on the performance of every LTC centre in the province in April 2018.

Ontario Redevelopment Program

Extendicare has taken a leadership role in advancing the redevelopment of its 21 Class C LTC centres (3,287 beds) in Ontario under the MOHLTC's enhanced redevelopment program. During 2016 and 2017, we requested approval from the MOHLTC to move ahead with the redevelopment of 16 of our existing Class C centres.

In November 2017, the MOHLTC announced plans for 5,000 new LTC beds by 2022 and 30,000 new beds over the next decade, whether in connection with the redevelopment of an existing LTC centre or the development of a new LTC centre. In February 2018, the MOHLTC put out a call for applications (CFA) related to the 5,000 new LTC beds, indicating the prioritization for applications where an increase in needed capacity has been established. With this announcement of new LTC beds, we've modified our plans to include 500 to 600 new beds. In addition to enhancing some of our redevelopment projects, as part of the Company's approach to campus of care, we plan to participate in requests for beds in new developments where market opportunity exists.

To date, we have received confirmation from the MOHLTC that the licensing application for two of our LTC centres, one in Ottawa and one in Sudbury, have been approved. We had previously received confirmation that another four applications had advanced past the initial stage of the MOHLTC's review process; however, the advancement of two of those applications is now connected to our request for additional beds. The remainder of our original applications remain in the initial stages of the review process. With regards to requests for new beds, the MOHLTC has thus far confirmed that 158 new beds have been allocated to us, subject to the approval of the respective redevelopment projects. The MOHLTC has indicated that to the extent applications for new beds are not advanced in this round, they will be considered in future CFAs.

Each project is unique and the overall plan involves a combination of renovations and new construction. While factors could arise that affect the timing or sequence of our redevelopment plans, we are working closely with the MOHLTC with a goal to accelerating our efforts to redevelop these centres. As these redevelopment projects are completed, we expect to realize the benefit of improved performance and extended license terms.

Ontario Long-term Care Funding

Ontario is Extendicare's largest market for its senior care services. Funding for LTC centres in Ontario is based on reimbursement for the level of care assessed to be required by the residents, in accordance with scheduled rates. The MOHLTC allocates funds through "funding envelopes", specifically: nursing and personal care (NPC); programs and support services (PSS); and accommodation (which includes a sub-envelope for raw food). The funding for the NPC and PSS envelopes is generally adjusted annually based on the acuity of residents as determined by a classification assessment of resident care needs. The NPC, PSS and food envelopes are "flow-through" envelopes, whereby any deviation in actual costs from scheduled rates is either absorbed by the provider (if actual costs exceed funding allocations) or is returned to the MOHLTC (if actual costs are below funding allocations). With respect to the accommodation envelope, providers retain any excess funding received over costs incurred. The province sets the rates for standard accommodation, as well as the maximum amounts that a provider can charge for semi-private and private accommodation (preferred accommodation). The provider is permitted to bill and retain the premiums charged for preferred accommodation. The accommodation rates are substantially paid for by the resident; however, the province guarantees funding for standard accommodation through resident subsidies. Overall government funding is occupancy-based, but once the average occupancy level of 97% or higher for the calendar year is achieved, operators receive government funding based on 100% occupancy. In addition, under the MOHLTC's occupancy protection program, providers with occupancy levels equal to 90% and less than 94% receive funding based on their actual occupancy plus 1%, and those with occupancy levels equal to 94% and less than 97% receive funding based on their actual occupancy plus 2%. In 2017, all but two of Extendicare's LTC centres in Ontario achieved the 97% occupancy threshold.

On April 1st each year, the MOHLTC generally provides flow-through funding adjustments on the government funded portion of the fees. Funding for the NPC and PSS flow-through envelopes increased by 2% on April 1, 2018. These funding enhancements, along with our case mix index and re-indexing adjustments, are estimated to provide Extendicare with additional annual revenue of approximately $2.7 million to offset additional costs for resident care and services within the NPC and PSS flow-through envelopes (April 2017 – $3.4 million).

On July 1st each year, the MOHLTC generally implements annual accommodation funding increases to the per diem rates provided to long-term care providers. The July 1, 2018 funding enhancements are scheduled to increase the daily rates for the non flow-through component of the accommodation envelope by $0.91 (1.6%) and by $0.54 (6.0%) for the flow-through food component. Extendicare estimates that this enhanced funding represents additional annual revenue of approximately $2.7 million in total, of which approximately $1.0 million is flow-through funding (2017 – $2.5 million in total, of which $1.0 million was flow-through).

In addition, LTC operators in Ontario are permitted to designate up to 60% of the resident capacity of a centre as preferred accommodation and charge higher accommodation rates that vary according to the structural classification of the LTC centre. For beds that are not classified as "New" or "A" beds, the maximum preferred accommodation premiums are scheduled to increase effective July 1, 2018, by $0.13 to $8.33 per day for a semi-private room and by $0.29 to $18.74 per day for a private room. For beds that are classified as "New" and "A" beds, the maximum preferred accommodation premiums are scheduled to increase effective July 1, 2018, by $0.19 to $12.49 per day for a semi-private room and by $0.41 to $26.04 per day for a private room. Extendicare has 13 "New" LTC centres in Ontario with 1,847 beds, of which 1,106 are private beds. We will benefit from this premium increase for preferred accommodation over time as new residents are admitted.

Alberta Long-term Care Funding

Alberta is Extendicare's second largest market for its senior care services. Since April 2010, AHS has been using an activity-based funding system for continuing care centres that includes the measurement of a resident's acuity through the use of a resident assessment instrument – minimum data set, or RAI-MDS, to determine the resident's level of care and resources required. The Alberta Continuing Care Association is actively engaged in discussions with the Alberta Government and AHS to further enhance care funding to accommodate higher expenses within continuing care, and to revise the existing funding model used within continuing care. It was anticipated that a revised care funding model would have been implemented during 2016; however, following receipt of public input to inform new or revised legislation, the provincial government has publicly indicated that it will release its strategy related to continuing care in 2018 that will outline its approaches affecting long-term care in the future.

The April 1, 2018 funding adjustments for long-term care and designated supportive living for fiscal 2018/2019 represent additional annual revenue of approximately $1.2 million. Last year, the April 1, 2017 funding changes for fiscal 2017/2018 represented additional annual revenue of approximately $0.9 million. In addition, AHS provided retroactive funding adjustments for fiscal 2015/2016 and 2016/2017 in recognition of labour contract settlements. As a result, Extendicare received prior period funding of $0.8 million in the 2017 first quarter, and an increase in ongoing annual revenue of approximately $0.5 million.

Beginning on July 1, 2018, the annual accommodation charge adjustments (the portion paid directly by residents of long-term care and designated supportive living centres) is scheduled to increase by 2.2%, based on inflation as reflected by Alberta's CPI. Extendicare estimates that the 2.2% increase represents additional revenue of approximately $0.7 million (July 2017 – $0.6 million).

Ontario Home Health Care Funding

Extendicare's ParaMed Home Health Care division operates in six provinces across Canada, currently providing approximately 11.1 million hours of care annually, which we believe makes ParaMed the largest private-sector provider of publicly funded home health care in Canada, and the largest in Ontario. The Ontario market currently represents approximately 83% of ParaMed's service volumes, of which approximately 98% are received from government-funded contracts at specified rates, and the remainder from private-pay clients.

In shaping the delivery of health care to Canadians, both the federal and provincial governments have stated that home health care is an area that merits further investment to ensure that more health care services are available in the home. Recent health accord agreements reached between the federal government and each of the provinces that began in fiscal 2017/2018, include targeted funding for home health care. For Ontario alone, targeted home health care funding has been reported to be an additional $2.3 billion over the next decade. As additional funds are allocated by governments to this segment of the Canadian health care system, we believe that ParaMed is well-positioned to take advantage of the significant organic growth opportunity that exists today, and that steps we are taking to position ParaMed as the employer of choice for caregivers will further enhance our position. In addition, ParaMed continues to assess private-pay home health care opportunities that may enable it to further leverage its platform.

As part of the 2018 Ontario Budget, the government announced funding enhancements effective April 1, 2018, to provide for a 2% billing rate increase for nursing and therapies contracts, a 1% increase for harmonized personal support service contracts and a 2% increase for other personal support contracts. These rate increases are estimated to provide additional revenue for ParaMed of approximately $5.2 million annually based on volumes experienced in the 2018 second quarter. More generally under the 2018 Ontario Budget, the government announced plans to invest an additional $650 million on home care over the next three years, that would include $180 million in new funding for 2.8 million more personal support hours, 284,000 more nursing visits and 58,000 more therapy visits. Over the next three years, the Budget allocates $45 million to improve working conditions and contract rates for PSWs, registered practical nurses, registered nurses and therapists; $23 million to add an estimated 5,500 PSWs to the workforce; $38 million in education and training for new and existing PSWs; and $65 million for a pilot program to establish a tax-free savings account on behalf of eligible PSWs.

In October 2017, as part of an initiative to expand home health care, the MOHLTC announced two new self-directed care initiatives involving: i) a self-directed care program (SDC Program) for eligible clients (children and clients in exceptional circumstances) that involves direct funding; and ii) the creation of a self-directed care organization (SDCO) to provide eligible clients (those with a high volume of personal support service needs) with the opportunity to receive their personal support services from a new provincial agency, that does not include a direct funding component. In both instances, the LHINs were expected to conduct the client assessments and coordinate the care plans. The provision of services by the SDCO was scheduled to be phased in beginning in the spring of 2018. Though we cannot predict the impact that the recent change in the Ontario government may have with certainty, we do not anticipate that this initiative will be implemented in the near future, if at all.

LIQUIDITY AND CAPITAL RESOURCES

Sources and Uses of Cash

The following table summarizes the sources and uses of cash between our continuing and discontinued operations for each of the six months ended June 30, 2018 and 2017.

	Six months ended June 30, 2018			Six months ended June 30, 2017		
(thousands of dollars unless otherwise noted)	**Continuing**	**Discontinued**	**Total**	**Continuing**	**Discontinued**	**Total**
Cash provided by operating activities, before working capital changes and interest and income taxes	**48,340**	–	**48,340**	46,879	–	46,879
Net change in operating assets and liabilities						
Accounts receivable	**(730)**	–	**(730)**	7,934	–	7,934
Other assets	**300**	–	**300**	1,666	–	1,666
Accounts payable and accrued liabilities	**4,460**	–	**4,460**	(2,341)	–	(2,341)
	4,030	–	**4,030**	7,259	–	7,259
Interest, taxes and claims payments						
Interest paid	**(14,481)**	–	**(14,481)**	(15,407)	–	(15,407)
Interest received	**1,872**	–	**1,872**	1,913	–	1,913
Income taxes paid	**(9,386)**	–	**(9,386)**	(6,948)	–	(6,948)
Payments for U.S. self-insured liabilities	–	**(5,955)**	**(5,955)**	–	(13,884)	(13,884)
	(21,995)	**(5,955)**	**(27,950)**	(20,442)	(13,884)	(34,326)
Net cash from operating activities	**30,375**	**(5,955)**	**24,420**	33,696	(13,884)	19,812
Net cash from investing activities	**(55,314)**	**5,955**	**(49,359)**	3,493	13,884	17,377
Net cash from financing activities	**(39,364)**	–	**(39,364)**	(762)	–	(762)
Net cash from discontinued operations	–	–	–	–	–	–
Foreign exchange gain (loss) on U.S. cash held	**969**		**969**	(1,061)	–	(1,061)
Increase (decrease) in cash and short-term investments	**(63,334)**	–	**(63,334)**	35,366	–	35,366
Cash and short-term investments at beginning of year	**128,156**		**128,156**	101,582		101,582
Cash and short-term investments at end of period	**64,822**	–	**64,822**	136,948	–	136,948
Average U.S./Canadian dollar exchange rate			**1.2781**			1.3344

As at June 30, 2018, Extendicare had cash and short-term investments on hand of $64.8 million reflecting a decrease in cash of $63.3 million from the beginning of the year, primarily related to the acquisition completed in the 2018 second quarter, growth capital expenditures and the purchase of Common Shares for cancellation. Cash flow generated by the operating activities of our continuing operations of $30.4 million was in excess of our cash dividends paid of $18.7 million by $11.7 million, and was used to support our maintenance capital expenditures and principal debt repayments.

Discontinued operations reflect the payment of claims for U.S. self-insured liabilities as a component of net cash from operating activities, which payments are funded by the Captive's investments held for self-insured liabilities. Changes in the Captive's investments are reported as a component of net cash from investing activities, as those invested funds are not included in cash and short-term investments.

Net cash from operating activities of the continuing operations was a source of cash of $30.4 million in the first six months of 2018 compared to $33.7 million in the same 2017 period, primarily due to a decline in investment income of the Captive.

Net cash from investing activities of the continuing operations was a use of cash of $55.3 million in the first six months of 2018 compared to a source of cash of $3.5 million in the same 2017 period. The 2018 activity included the Lynde Creek Acquisition $33.8 million with the remainder primarily attributable to purchases of property, equipment and other intangible assets, as set out in the table below. The 2017 activity included the repatriation of funds from the Captive in the amount of $13.6 million, partially offset by capital expenditures. Growth capex, excluding acquisitions, relates to the construction of new beds, building improvements or other capital costs, all of which are aimed at earnings growth. The increase in growth capex relates primarily to the retirement communities currently under development in Ontario. Maintenance capex relates to our actual capital expenditures incurred to sustain and upgrade existing property and equipment. Management monitors and prioritizes the capital expenditure requirements of its properties throughout the year, taking into account the urgency and necessity of the expenditure. For the 2018 year, we are projecting to spend in the range of $10 million to $11 million in maintenance capex, and in the range of $45 million to $50 million in growth capex related primarily to the retirement development projects.

	Six months ended June 30	
(thousands of dollars)	**2018**	**2017**
Growth capex	**18,549**	8,938
Deduct: capitalized interest	**(642)**	(549)
Growth capex, excluding capitalized interest	**17,907**	8,389
Maintenance capex	**4,834**	2,765
	22,741	11,154

Net cash from financing activities of the continuing operations was a use of cash of $39.4 million in the first six months of 2018 compared to a use of cash of $0.8 million in the same 2017 period. The 2018 activity included scheduled debt repayments of $11.9 million, cash dividends paid of $18.7 million and Common Shares acquired for cancellation under a normal course issuer bid at a cost of $6.3 million, and financing costs primarily related to the issuance and redemption of convertible debentures, partially offset by draws on construction financing of $4.1 million. The 2017 activity included scheduled debt repayments of $11.1 million, cash dividends paid of $18.8 million, and other items, partially offset by the refinancing of long-term debt for a net issuance of $26.4 million, and draws on construction financing of $4.8 million. For information on the change in long-term debt, refer to "Liquidity and Capital Resources – Long-term Debt".

Capital Structure

SHAREHOLDERS' EQUITY

The following table summarizes our shareholders' equity for the six months ended June 30, 2018 and the 2017 year.

(thousands of dollars unless otherwise noted)	**Six months ended June 30, 2018**	**Year 2017**
Shareholders' Equity		
Common Shares	**489,589**	490,881
Equity portion of convertible debentures	**7,085**	5,573
Contributed surplus	**3,309**	2,437
	499,983	498,891
Accumulated deficit at beginning of year	**(365,084)**	(322,025)
Adoption of new standard on financial instruments	**4,334**	–
Net earnings for the period	**16,658**	2,132
Dividends declared	**(21,148)**	(42,583)
Equity portion of redeemed convertible debentures	**5,573**	
Purchase of Common Shares in excess of book value and other	**(2,357)**	(2,608)
Accumulated deficit at end of period	**(362,024)**	(365,084)
Accumulated other comprehensive loss	**(8,540)**	(4,851)
Shareholders' Equity	**129,419**	128,956
U.S./Canadian dollar exchange rate at end of period	**1.3133**	1.2571

Share Information *(thousands)*	**August 8, 2018**	**June 30, 2018**	December 31, 2017
Common Shares (TSX symbol: EXE) (1)	**88,209.0**	**88,144.9**	**88,523.3**

(1) Closing market value per the TSX on August 8, 2018, was $7.40.

The retrospective adoption of the new standard on financial instruments resulted in the reclassification of $4.3 million to the opening accumulated deficit in connection with unrealized gains on the investments held for self-insured liabilities that had been recorded as part of accumulated other comprehensive loss as at December 31, 2017. The net increase in the equity portion of convertible debentures reflects the classification of the equity portion of the 2025 Debentures issued this quarter, partially offset by the reclassification of the equity portion of the 2019 Debentures to the accumulated deficit upon their redemption.

DISTRIBUTIONS

The declaration and payment of distributions is at the discretion of our board of directors (the "Board") as to the amount and timing of dividends to be declared and paid, after consideration of a number of factors including results of operations, requirements for capital expenditures and working capital, future financial prospects of Extendicare, debt covenants and obligations, and any other factors deemed relevant by the Board. If our Board determines that it would be in Extendicare's best interests, it may modify the amount and frequency of dividends to be distributed to holders of Common Shares.

In the first six months of 2018, the Company declared cash dividends of $21.1 million, or $0.24 per share. The portion of dividends paid in cash this period was $18.7 million, and $2.4 million was by way of 305,253 Common Shares issued under a dividend reinvestment plan. Net cash from operating activities was $24.4 million and included payments made by the Captive for U.S. self-insured liabilities that were funded by its investments held. For further information on the sources and uses of cash between our continuing and discontinued operations, refer to the previous discussion under the heading "Liquidity and Capital Resources".

Compared to our AFFO of $31.8 million in the first six months of 2018, dividends declared of $21.1 million represented a payout ratio of approximately 67%. For further information on our AFFO, refer to the discussion under the heading "Adjusted Funds from Operations – Sources and Uses of Cash".

In the 2017 year, the Company declared cash dividends of $42.6 million, or $0.48 per share. The portion distributed in cash was $37.5 million, and $5.1 million was by way of 535,025 Common Shares issued under a dividend reinvestment plan. Compared to our AFFO of $58.5 million for 2017, dividends declared of $42.6 million represented a payout ratio of approximately 73%.

NORMAL COURSE ISSUER BID

On January 10, 2018, Extendicare received the approval of the TSX to renew its normal course issuer bid (the "Bid") to purchase for cancellation up to 8,770,000 Common Shares (approximately 10% of the public float) through the facilities of the TSX, and on alternative Canadian trading systems. The Bid commenced on January 15, 2018, and provides Extendicare with flexibility to purchase Common Shares for cancellation until January 14, 2019, or on such earlier date as the Bid is complete. Subject to the TSX's block purchase exception, on any trading day, purchases under the Bid will not exceed 39,219 Common Shares. The price that Extendicare will pay for any Common Shares purchased under the Bid will be the prevailing market price at the time of purchase and any Common Shares purchased will be cancelled. As at August 9, 2018, the Company has acquired and cancelled 703,585 Common Shares under the Bid at an average price of $8.89 per share, for a total cost of $6.3 million.

During 2017, under a normal course issuer bid that commenced on January 13, 2017 and ended on January 12, 2018, the Company purchased and cancelled 696,220 Common Shares at a weighted average price of $9.27 per share, for a total cost of $6.5 million.

Long-term Debt

CONTINUITY OF LONG-TERM DEBT

Long-term debt totalled $519.2 million as at June 30, 2018, compared with $536.1 million as at December 31, 2017, representing a decrease of $16.9 million, primarily due to scheduled debt repayments partially offset by draws on constructing loans and a change in the equity component of the convertible debentures following the refinancing this quarter. The long-term debt activity for the 2017 year included the $26.4 million refinancing of $3.6 million of mortgages on nine Alberta LTC centres with a $30.0 million term loan with the Canadian Imperial Bank of Commerce (the "CIBC Term Loan"), draws on construction loans and an increase in finance lease obligations for customized cloud-based software, partially offset by scheduled debt repayments. Extendicare and its subsidiaries are in compliance with all of their respective financial covenants as at June 30, 2018. Details of the components, terms and conditions of long-term debt are provided in *note 9* of the unaudited interim consolidated financial statements.

The following table summarizes the changes in the carrying amounts of long-term debt for the six months ended June 30, 2018, and the 2017 year.

(millions of dollars)	**Six months ended June 30, 2018**	**Year 2017**
Long-term debt at beginning of year, prior to financing costs	**541.8**	510.3
Issue of long-term debt		
2025 Debentures at face value	**126.5**	
Construction loans	**4.1**	17.3
CIBC Term Loan	**–**	26.4
Finance lease obligations	**–**	8.9
Redemption of 2019 Debentures at face value	**(126.5)**	–
Repayment of long-term debt	**(11.9)**	(22.0)
Change in equity component of convertible debentures and other	**(5.8)**	0.9
	528.2	541.8
Financing costs at end of period	**(9.0)**	(5.7)
Long-term debt at end of period	**519.2**	536.1
Less: current portion	**(62.9)**	(59.7)
	456.3	476.4

CREDIT FACILITIES

In November 2017, the Company arranged for a demand credit facility in the amount of $65.0 million (the "ParaMed Credit Facility") that is secured by the assets of our home health care business, and is available for general corporate purposes of the Company. The ParaMed Credit Facility has no financial covenants, but does contain normal and customary terms. The entire $65.0 million was available and unutilized as at June 30, 2018.

Extendicare has a demand credit facility in the amount of $47.3 million with the Royal Bank of Canada (the "RBC Credit Facility") that is secured by 13 Class C LTC centres in Ontario and is guaranteed by certain Canadian subsidiaries of Extendicare. As at June 30, 2018, Extendicare had letters of credit totalling approximately $45.4 million issued under the RBC Credit Facility, of which $38.0 million secure our defined benefit pension plan obligations and the balance were issued in connection with obligations relating to recently acquired centres and those centres under development. The letter of credit to secure the pension plan obligations renews annually in May based on an actuarial valuation. The RBC Credit Facility has no financial covenants, but does contain normal and customary terms including annual re-appraisals of the centres that could limit the maximum amount available.

LONG-TERM DEBT MATURITIES AND WEIGHTED AVERAGE INTEREST RATES

The table below presents the principal, or notional, amounts by year of maturity, of the Company's long-term debt obligations as at June 30, 2018. The Company has construction loans of $34.0 million as at June 30, 2018, which are repayable on demand by the lender and, in any event, are to be repaid in full by specified dates following completion of the projects, ranging from late 2018 to 2022. Consequently, these loans are reflected as current and due in 2018 in the following table. Permanent financing will be sought for each upon maturity.

(millions of dollars)	**2018**	**2019**	**2020**	**2021**	**2022**	**After 2022**	**Total**
Convertible debentures (at face value)	–	–	–	–	–	126.5	**126.5**
Long-term debt	49.3	13.9	58.5	13.5	55.8	132.3	**323.3**
Finance lease obligations	3.8	8.5	9.1	9.6	8.6	46.0	**85.6**
	53.1	22.4	67.6	23.1	64.4	304.8	**535.4**

Management has limited the amount of debt that may be subject to changes in interest rates, with all of the debt at fixed rates, other than the construction loans of $34.0 million. The variable-rate mortgages on the Company's retirement communities and the CIBC Term Loan, aggregating $84.3 million as at June 30, 2018, have effectively been converted to fixed rate financing with interest rate swaps over the full term. As at June 30, 2018, the interest rate swaps were valued as an asset of $3.8 million.

The following table summarizes key metrics of our consolidated long-term debt as at June 30, 2018, and December 31, 2017.

	June 30, 2018	December 31, 2017
Weighted average interest rate of long-term debt outstanding	**4.8%**	5.0%
Weighted average term to maturity of long-term debt outstanding	**7.9 yrs**	7.1 yrs
Weighted average term to maturity of long-term debt outstanding, excluding finance lease obligations	**7.7 yrs**	6.7 yrs
Trailing twelve months consolidated net interest coverage ratio(1)	**3.7 X**	3.8 X
Trailing twelve months consolidated interest coverage ratio(2)	**3.2 X**	3.3 X
Debt to Gross Book Value (GBV)		
Total assets (carrying value)	**913,797**	934,281
Accumulated depreciation on property and equipment	**222,873**	214,889
Accumulated amortization on other intangible assets	**14,258**	12,229
GBV	**1,150,928**	1,161,399
Debt (3)	**535,364**	543,446
Debt to GBV	**46.5%**	46.8%

(1) Net interest coverage is defined as Adjusted EBITDA divided by net interest (interest expense before reduction of capitalized interest, net of interest revenue).

(2) Interest coverage is defined as Adjusted EBITDA divided by interest expense before reduction of capitalized interest.

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

Future Liquidity and Capital Resources

Extendicare's consolidated cash and short-term investments on hand was $64.8 million as at June 30, 2018, compared with $128.2 million as at the beginning of the year, and excluded restricted cash of $2.6 million, and $84.9 million (US$64.7 million) of investments held by our Captive to support the accrual for U.S. self-insured liabilities of $51.3 million (US$39.1 million). With the release of reserves in the 2018 second quarter, management plans to repatriate US$7.5 million of cash from the Captive in the 2018 third quarter. In addition, the Company has $65.0 million available to draw under its ParaMed Credit Facility.

The Company has four unencumbered retirement communities that were acquired since 2015, for an aggregate cash purchase price of $94.5 million (Empire, Lynde Creek, West Park and Yorkton). In addition, construction financings in the aggregate of up to $50.5 million have been secured on two of the three retirement communities currently under construction (Douglas Crossing, Bolton and Barrie), of which $25.0 million was drawn as at June 30, 2018. As at June 30, 2018, the Company had incurred approximately $62.3 million of the estimated $111.5 million of Adjusted Development Costs for these three retirement communities.

Management is confident that cash from operating activities and future debt financings will be available and sufficient to support Extendicare's ongoing business operations, maintenance capex, debt repayment obligations, growth capex and to fund strategic acquisitions.

OTHER CONTRACTUAL OBLIGATIONS AND CONTINGENCIES

The table below provides summary information relating to the contractual obligations, other than long-term debt, as at June 30, 2018. Due to the uncertainty as to the timing of payments to be made with respect to certain obligations, the table excludes our accrual for U.S. self-insured liabilities of $51.3 million and our decommissioning provisions of $9.3 million. In addition, the table excludes our defined benefit pension plan obligations, which are described more fully below.

(millions of dollars)	2018	2019	2020	2021	2022	After 2022	Total
Operating lease obligations	1.8	2.9	1.2	0.9	0.5	0.1	**7.4**
Purchase obligations	18.7	20.5	–	–	–	–	**39.2**
	20.5	23.4	1.2	0.9	0.5	0.1	**46.6**

Defined Benefit Pension Plan Obligations

The contractual obligations table excludes our defined benefit pension plan obligations. The accrued benefit liability on our statement of financial position as at June 30, 2018 was $37.0 million (2017 – $36.6 million). We currently have defined benefit registered and supplementary plans covering certain executives, both of which have been closed to new entrants since 2000. The registered defined benefit plan was in an actuarial deficit of $2.5 million with plan assets of $5.4 million and accrued benefit obligations of $7.9 million as at June 30, 2018 (2017 – an actuarial deficit of $2.5 million with plan assets of $5.4 million and accrued benefit obligations of $7.9 million). The accrued benefit obligations of the supplementary plan were $34.5 million as at June 30, 2018 (2017 – $34.1 million). We do not set aside assets in connection with the supplementary plan and the benefit payments will be paid from cash from operations. The benefit obligations under the supplementary plan are secured by a letter of credit totalling $38.0 million as at June 30, 2018 (2017 – $39.9 million). This letter of credit renews annually in May based on an actuarial valuation of the pension obligations. The annual benefit payments under the supplementary pension plan to be funded from cash from operations over the next five years are expected to be in the range of $2.0 million to $2.2 million, and the annual contributions to the registered pension plan over the next five years are expected to be less than $0.1 million. Since the majority of our accrued benefit obligations represent our obligation under our non-registered supplementary plan, which is not required to be funded, changes in future market conditions are not expected to have a material adverse effect on our cash flow requirements with respect to our pension obligations, or on our pension expense.

Accrual for U.S. Self-insured Liabilities

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

Management regularly evaluates and semi-annually engages an independent third-party actuary to provide a report to determine the appropriateness of the carrying value of this liability. Our most recent independent actuarial review was conducted at the end of the 2018 second quarter, which confirmed the adequacy of our reserves.

As at June 30, 2018, the accrual for U.S. self-insured general and professional liabilities was $51.3 million (US$39.1 million) compared to $61.1 million (US$48.6 million) at the beginning of the year. The decline of US$9.5 million reflected claim payments of US$4.7 million, a release of reserves of $5.8 million (US$4.5 million) and an adjustment to the discount factor of US$1.0 million, partially offset by accretion of the discounted liability. Since the sale of the U.S. operations in 2015, the Company has released US$24.2 million of the Captive's reserves, and reflected the release as part of discontinued operations.

During the 2017 year, payments for self-insured liabilities were $24.2 million (US$18.6 million) and $5.7 million (US$4.4 million) in reserves were released and reflected in discontinued operations.

Most of the risks that Extendicare self-insures are long-term in nature, and accordingly, claim payments for any particular policy year occur over a long period of time. However, management estimates and allocates a current portion of the accrual for self-insured liabilities on the statement of financial position. As at June 30, 2018, management estimated that approximately $21.1 million of the accrual for self-insured general and professional liabilities will be paid within the next year. The timing of payments is not directly within management's control; therefore, estimates could change in the future.

Within our Bermuda-based captive insurance company, we hold investments sufficient to support the accrual for self-insured liabilities and to meet required statutory solvency and liquidity ratios. These invested funds are reported in other assets and totalled $84.9 million (US$64.7 million) as at June 30, 2018, compared to $86.3 million (US$68.6 million) at the beginning of the year. Since the sale of the U.S. operations in 2015, the Captive has transferred US$21.0 million of its funds previously held for investment to the Company for general corporate use, of which US$16.0 million was transferred in 2017. A further US$7.5 million is anticipated to be repatriated in the 2018 third quarter. Management believes there are sufficient invested funds held to meet estimated current claims payment obligations.

Legal Proceedings, Claims and Regulatory Actions

Extendicare and its consolidated subsidiaries are defendants in various actions and proceedings that are brought against them from time to time in connection with their operations. As previously disclosed, the Company was made aware that a statement of claim was filed against it in the Superior Court Justice of Ontario in late November 2017, which seeks an order pursuant to the *Class Proceedings Act* (Ontario) certifying the action as a class action. The statement of claim, which was served on Extendicare on April 30, 2018, alleges negligence by the Company in the operation of its long-term care centres and its provision of care to residents, and is seeking $150 million in damages. Management does not believe that the lawsuit or the damages sought have merit. Extendicare intends to vigorously defend itself against the claim and does not believe the outcome will have a material adverse impact on its business, results of operations or financial condition and believes that any potential liability would be resolved within the limits of our insurance coverage.

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

RELATED PARTY TRANSACTIONS

Tim Lukenda, Extendicare's President and Chief Executive Officer, and members of his family have a company that owns a long-term care centre and a retirement centre in Ontario, in which Mr. Lukenda has an approximate 7.1% direct and indirect ownership interest, and with which Extendicare has an ongoing relationship through the provision of management services to the LTC centre and group purchasing services to the retirement centre. Mr. Lukenda's employment contract provides a mechanism and process that effectively removes him from the decision-making process in situations where a conflict of interest may arise on any matter between the two companies.

As announced in July 2018, Mr. Lukenda will be stepping down from his position as President and CEO, and Director of the Company, by December 31, 2018 (December 31, 2018 or the earlier date, the "Effective Date"). In connection with his departure from the Company, Mr. Lukenda will receive, as soon as practicable after the Effective Date, a cash payment in the amount of $2.9 million, but will forfeit, for no consideration as of the Effective Date, all of the PSUs credited to his account under the LTIP. The terms of Mr. Lukenda's departure from the Company take into account the payments that Mr. Lukenda would have been entitled to receive upon a termination of his employment by the Company without cause or by the employee for good reason and a deduction based on the full amount of the $2.0 million cash retention bonus that was paid to Mr. Lukenda in September 2017. The Company will reflect a charge for the $2.9 million payment, offset by approximately $1.2 million in respect of the forfeiture of the PSUs, in the third quarter of 2018.

RISKS AND UNCERTAINTIES

There are certain risks inherent in an investment in securities and activities of Extendicare, which investors should carefully consider before investing in Extendicare. Risks and uncertainties are disclosed in Extendicare's 2017 Annual Information Form and in the Company's 2017 Annual Report. To the extent there have been any changes to those risk factors or uncertainties as of the date of this MD&A, they are discussed under the headings "Significant 2018 Events and Developments", "Other Significant Developments", and "Other Contractual Obligations and Contingencies".

ACCOUNTING POLICIES AND ESTIMATES

Critical Accounting Policies and Estimates

A full discussion of Extendicare'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, 2017, contained in the Company's 2017 Annual Report. The disclosures in such report have not materially changed since that report was filed, with the exception of the new accounting policies adopted as described below under the heading "New Accounting Policies Adopted", and to the extent there have been any changes in management's estimates, they are discussed under the headings "Significant 2018 Events and Developments" and "Other Significant Developments".

New Accounting Policies Adopted

The following new standards were adopted effective January 1, 2018, and have been applied in preparing the financial results for the three and six months ended June 30, 2018. These accounting standards are summarized below, and are more fully described in *note 3* of the unaudited interim consolidated financial statements.

REVENUE RECOGNITION

IFRS 15 "Revenue from Contracts with Customers" provides a single model and two approaches to recognizing revenue: at a point in time or over time. IFRS 15 also includes additional disclosure requirements for revenue accounted for under the standard. The standard applies to contracts with customers, excluding contracts within the scope of the standard on leases. Under IFRS 15, revenue is recognized when a customer obtains control of the goods or services. The Company adopted IFRS 15 using the cumulative effect method, which does not require restatement of comparative information. Adoption of the standard did not result in material changes to the timing or measurement of revenue recognition, and therefore, there was no cumulative effect adjustment recorded to accumulated deficit on January 1, 2018. However, under the new standard, accommodation revenue recognized under IAS 17 "Leases" is disclosed separately from services revenue recognized under IFRS 15 (refer to *note 21* of the unaudited interim consolidated financial statements).

FINANCIAL INSTRUMENTS

IFRS 9 "Financial Instruments" (IFRS 9) addresses the recognition, classification and measurement (including impairment) of financial assets and financial liabilities. This standard replaces IAS 39 "Financial Instruments: Recognition and Measurement".

Under IFRS 9, financial assets are classified based on the business model in which they are managed and the characteristics of their contractual cash flows. Financial assets are classified as measured at fair value through profit or loss (FVTPL), fair value through comprehensive income (FVOCI), or amortized cost. The new standard eliminates the previous categories for financial assets held to maturity, loans and receivables and available for sale. There are no changes in the measurement basis of financial assets and liabilities upon adoption of IFRS 9, and therefore, there are no differences in carrying amounts.

In addition, IFRS 9 replaces the current "incurred loss" impairment model with a new "expected credit loss" model, which requires timely recognition of expected credit losses. The Company has elected to use the simplified approach and calculates impairment loss on accounts and notes receivable as lifetime expected credit loss.

The Company adopted this standard retrospectively with no restatement of prior periods. There was no material impact on adoption of the standard with the exception of a reclassification of $4.3 million from opening accumulated other comprehensive income to opening accumulated deficit, as investments held for U.S. self-insured liabilities were classified as FVTPL under IFRS 9. These investments include equity securities as well as money market funds that do not have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding; therefore, they are classified as measured at FVTPL under IFRS 9.

Future Changes in Accounting Policies

The following new standard and interpretation, are effective for future annual periods, and have not been applied in preparing the financial results for the period ended June 30, 2018. These accounting standards are summarized below, and are more fully described in *note 4* of the unaudited interim consolidated financial statements.

LEASES

In January 2016, the IASB published IFRS 16 "Leases". The new standard requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value, using a single model, thereby eliminating the distinction between operating and finance leases. As a lessee, the Company will recognize new assets and liabilities for its operating leases. In addition, the nature and timing of expenses related to those leases will change as IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. IFRS 16 is effective for periods beginning on or after January 1, 2019, with earlier adoption permitted if IFRS 15 "Revenue from Contracts with Customers" has also been applied. The Company expects to disclose additional detailed information, including its transition method, any practical expedients elected and estimated quantitative financial effects, prior to the adoption of IFRS 16.

INCOME TAXES

On June 7, 2017, the IASB issued IFRIC Interpretation 23 "Uncertainty over Income Tax Treatments". The Interpretation provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The interpretation is applicable for annual periods beginning on or after January 1, 2019. Earlier application is permitted. The Company intends to adopt the Interpretation in its financial statements for the annual period beginning on January 1, 2019. The extent of the impact of adoption of the Interpretation has not yet been determined.

EXTENDICARE®
... helping people live better

CONSOLIDATED FINANCIAL STATEMENTS AND NOTES

Six Months Ended June 30, 2018

Dated: August 9, 2018

YEARS OF HELPING PEOPLE LIVE BETTER
SINCE 1968

Extendicare Inc.

Interim Condensed Consolidated Statements of Financial Position

(unaudited)

(in thousands of Canadian dollars)	*notes*	**June 30, 2018**	December 31, 2017
Assets			
Current assets			
Cash and short-term investments		**64,822**	128,156
Restricted cash		**2,561**	2,300
Accounts receivable		**43,321**	42,491
Income taxes recoverable		**9,759**	7,194
Other assets	*7*	**21,261**	20,634
Total current assets		**141,724**	200,775
Non-current assets			
Property and equipment	*6*	**518,632**	479,968
Goodwill and other intangible assets		**98,673**	95,901
Other assets	*7*	**139,988**	143,746
Deferred tax assets		**14,780**	13,891
Total non-current assets		**772,073**	733,506
Total assets		**913,797**	934,281
Liabilities and Equity			
Current liabilities			
Accounts payable and accrued liabilities		**129,549**	123,420
Income taxes payable		**335**	3,500
Long-term debt	*9*	**62,850**	59,664
Provisions	*8*	**28,709**	29,937
Total current liabilities		**221,443**	216,521
Non-current liabilities			
Long-term debt	*9*	**456,330**	476,404
Provisions	*8*	**55,425**	63,062
Other long-term liabilities	*10*	**35,381**	35,022
Deferred tax liabilities		**15,799**	14,316
Total non-current liabilities		**562,935**	588,804
Total liabilities		**784,378**	805,325
Share capital	*12*	**489,589**	490,881
Equity portion of convertible debentures		**7,085**	5,573
Contributed surplus		**3,309**	2,437
Accumulated deficit		**(362,024)**	(365,084)
Accumulated other comprehensive loss		**(8,540)**	(4,851)
Shareholders' equity		**129,419**	128,956
Total liabilities and equity		**913,797**	934,281

See accompanying notes to unaudited interim condensed consolidated financial statements.

Commitments and contingencies (note 18).

Subsequent event (note 22).

Extendicare Inc.

Interim Condensed Consolidated Statements of Earnings

(unaudited)

(in thousands of Canadian dollars except for per share amounts)	*notes*	**Three months ended June 30, 2018**	Three months ended June 30, 2017	**Six months ended June 30, 2018**	Six months ended June 30, 2017
CONTINUING OPERATIONS					
Revenue					
Long-term care		**155,833**	152,976	**308,638**	303,586
Retirement living		**8,242**	4,802	**15,213**	9,432
Home health care		**109,852**	110,133	**216,316**	217,927
Management, consulting and other		**5,561**	5,934	**10,745**	11,758
Total revenue	*21*	**279,488**	273,845	**550,912**	542,703
Operating expenses		**243,181**	239,978	**485,283**	477,232
Administrative costs		**7,309**	7,524	**15,027**	16,037
Lease costs		**1,668**	1,755	**3,295**	3,417
Total expenses	*13*	**252,158**	249,257	**503,605**	496,686
Earnings before depreciation, amortization, and other expense		**27,330**	24,588	**47,307**	46,017
Depreciation and amortization		**8,235**	7,911	**16,072**	15,443
Other expense	*14*	**3,373**	–	**3,553**	–
Earnings before net finance costs and income taxes		**15,722**	16,677	**27,682**	30,574
Interest expense		**7,089**	6,832	**14,170**	13,752
Accretion		**840**	709	**1,504**	1,362
Gain on foreign exchange and investments	*15*	**(405)**	(1,497)	**(210)**	(1,111)
Interest revenue		**(898)**	(1,077)	**(1,933)**	(1,906)
Fair value adjustments	*15*	**(35)**	(1,053)	**(360)**	(1,001)
Net finance costs		**6,591**	3,914	**13,171**	11,096
Earnings before income taxes		**9,131**	12,763	**14,511**	19,478
Income tax expense (recovery)					
Current		**2,886**	3,531	**3,469**	6,508
Deferred		**270**	(687)	**1,501**	(1,896)
Total income tax expense		**3,156**	2,844	**4,970**	4,612
Earnings from continuing operations		**5,975**	9,919	**9,541**	14,866
DISCONTINUED OPERATIONS					
Earnings (loss) from discontinued operations, net of income taxes	*17*	**5,852**	(32,913)	**7,117**	(32,913)
Net earnings (loss)		**11,827**	(22,994)	**16,658**	(18,047)
Basic and Diluted Earnings (Loss) per Share					
Earnings from continuing operations	*16*	**0.07**	0.11	**0.11**	0.17
Net earnings (loss)	*16*	**0.14**	(0.26)	**0.19**	(0.20)

See accompanying notes to unaudited interim condensed consolidated financial statements.

Extendicare Inc.

Interim Condensed Consolidated Statements of Comprehensive Income

(unaudited)

	Three months ended June 30,		Six months ended June 30,	
(in thousands of Canadian dollars)	**2018**	2017	**2018**	2017
Net earnings (loss)	**11,827**	(22,994)	**16,658**	(18,047)
Other comprehensive income (loss), net of income taxes				
Items that will not be reclassified to profit or loss:				
Defined benefit plan actuarial losses, net of tax recovery of $72 and $206, respectively, for the quarters of 2018 and 2017, and tax recovery of $224 and $195, respectively, for the six months of 2018 and 2017	**(200)**	(573)	**(624)**	(541)
Items that are or may be reclassified subsequently to profit or loss:				
Unrealized gain on available-for-sale securities, net of tax	**–**	503	**–**	1,747
Reclassification of realized gains on available-for-sale securities to	**–**	(1,266)	**–**	(2,677)
Other net change in foreign currency translation adjustment	**585**	(1,785)	**1,269**	(2,069)
Total items that are or may be reclassified subsequently to profit or loss	**585**	(2,548)	**1,269**	(2,999)
Other comprehensive income (loss), net of tax	**385**	(3,121)	**645**	(3,540)
Total comprehensive income (loss)	**12,212**	(26,115)	**17,303**	(21,587)

See accompanying notes to unaudited interim condensed consolidated financial statements.

Extendicare Inc.

Interim Condensed Consolidated Statements of Changes in Equity

(unaudited)

(in thousands of Canadian dollars)	Six months ended June 30, 2018		2017	
	Number of Shares	***Amount***	*Number of Shares*	*Amount*
Share Capital				
Balance at January 1	***88,523,290***	**490,881**	*88,684,485*	489,656
DRIP	***305,253***	**2,453**	*247,949*	2,474
Purchase of shares for cancellation *(note 12)*	***(703,585)***	**(3,903)**	–	–
Share-based compensation *(note 11)*	***19,918***	**158**	–	–
Balance at end of period	***88,144,876***	**489,589**	*88,932,434*	492,130
Equity Portion of Convertible Debentures				
Balance at January 1		**5,573**		5,573
Redemption of convertible debentures *(note 9)*		**(5,573)**		–
Issuance of convertible debentures *(note 9)*		**7,085**		–
Balance at end of period		**7,085**		5,573
Contributed Surplus				
Balance at January 1		**2,437**		941
Share-based compensation		**872**		685
Balance at end of period		**3,309**		1,626
Accumulated Deficit				
Balance at January 1, previously reported		**(365,084)**		(322,025)
Adoption of new standard on financial instruments *(note 3)*		**4,334**		–
Balance at January 1		**(360,750)**		(322,025)
Net earnings (loss)		**16,658**		(18,047)
Dividends declared		**(21,148)**		(21,318)
Purchase of shares for cancellation in excess of book value *(note 12)*		**(2,357)**		–
Equity portion of redeemed convertible debentures *(note 9)*		**5,573**		–
Other		**–**		(11)
Balance at end of period		**(362,024)**		(361,401)
Accumulated Other Comprehensive Income (Loss)				
Foreign currency translation differences for foreign operations				
Balance at January 1		**678**		3,775
Change in the period		**1,269**		(2,069)
Balance at end of period		**1,947**		1,706
Net change in fair value of available-for-sale financial assets, net of tax				
Balance at January 1, previously reported		**4,334**		6,391
Adoption of new standard on financial instruments *(note 3)*		**(4,334)**		–
Balance at January 1		**–**		6,391
Unrealized change in the period		**–**		1,747
Net change reclassified to profit or loss		**–**		(2,677)
Balance at end of period		**–**		5,461
Defined benefit plan actuarial losses, net of tax				
Balance at January 1		**(9,863)**		(9,552)
Change in the period		**(624)**		(541)
Balance at end of period		**(10,487)**		(10,093)
Accumulated other comprehensive loss		**(8,540)**		(2,926)
Shareholders' equity		**129,419**		135,002

See accompanying notes to unaudited interim condensed consolidated financial statements.

Extendicare Inc.

Interim Condensed Consolidated Statements of Cash Flows

(unaudited)

(in thousands of Canadian dollars)	Three months ended June 30, **2018**	2017	Six months ended June 30, **2018**	2017
Operating Activities				
Net earnings (loss)	**11,827**	(22,994)	**16,658**	(18,047)
Adjustments for:				
Depreciation and amortization	**8,235**	7,911	**16,072**	15,443
Share-based compensation	**599**	421	**1,033**	685
Deferred taxes	**270**	(7,791)	**1,228**	(9,000)
Current taxes	**2,886**	3,531	**3,742**	6,508
Net finance costs	**7,031**	6,463	**13,741**	13,207
Other expense (gains)	**(2,479)**	40,195	**(3,564)**	40,195
Gain on foreign exchange, investments and fair value adjustments	**(440)**	(2,550)	**(570)**	(2,112)
	27,929	25,186	**48,340**	46,879
Net change in operating assets and liabilities				
Accounts receivable	**(3,145)**	(2,864)	**(730)**	7,934
Other assets	**193**	(980)	**300**	1,666
Accounts payable and accrued liabilities	**(1,137)**	4,959	**4,460**	(2,341)
	23,840	26,301	**52,370**	54,138
Payments for self-insured liabilities	**(1,766)**	(9,488)	**(5,955)**	(13,884)
Interest paid	**(5,410)**	(6,737)	**(14,481)**	(15,407)
Interest received	**832**	1,068	**1,872**	1,913
Income taxes paid	**(3,515)**	(2,935)	**(9,386)**	(6,948)
Net cash from operating activities	**13,981**	8,209	**24,420**	19,812
Investing Activities				
Purchase of property, equipment and other intangible assets	**(16,028)**	(6,560)	**(22,741)**	(11,154)
Acquisitions *(note 5)*	**(33,767)**	–	**(33,767)**	–
Decrease in investments held for self-insured liabilities	**1,918**	22,354	**4,697**	25,366
Decrease in other assets	**1,152**	1,887	**2,452**	3,165
Net cash from (used in) investing activities	**(46,725)**	17,681	**(49,359)**	17,377
Financing Activities				
Issue of long-term debt, excluding line of credit	**128,119**	28,657	**130,633**	31,237
Repayment of long-term debt, excluding line of credit	**(132,862)**	(5,630)	**(138,396)**	(11,055)
Increase in restricted cash	**(131)**	(129)	**(261)**	(188)
Purchase of securities for cancellation	**–**	–	**(6,258)**	–
Dividends paid	**(9,321)**	(9,385)	**(18,709)**	(18,834)
Financing costs	**(5,714)**	(330)	**(5,714)**	(476)
Other	**(659)**	77	**(659)**	(1,446)
Net cash from (used in) financing activities	**(20,568)**	13,260	**(39,364)**	(762)
Increase (decrease) in cash and short-term investments	**(53,312)**	39,150	**(64,303)**	36,427
Cash and short-term investments at beginning of period	**118,038**	98,554	**128,156**	101,582
Foreign exchange loss (gain) on cash held in foreign currency	**96**	(756)	**969**	(1,061)
Cash and short-term investments at end of period	**64,822**	136,948	**64,822**	136,948

See accompanying notes to unaudited interim condensed consolidated financial statements.

Notes to Unaudited Interim Condensed Consolidated Financial Statements

SIX MONTHS ENDED JUNE 30, 2018 AND 2017

Notes to Unaudited Interim Condensed Consolidated Financial Statements

SIX MONTHS ENDED JUNE 30, 2018 AND 2017
(Tabular amounts in thousands of Canadian dollars, unless otherwise noted)

1. GENERAL INFORMATION AND NATURE OF THE BUSINESS

The common shares (the "Common Shares") of Extendicare Inc. ("Extendicare" or the "Company") are listed on the Toronto Stock Exchange (TSX) under the symbol "EXE". Extendicare and its predecessors have been operating since 1968, providing care and services to seniors throughout Canada. Following the sale of its U.S. business in 2015 and the repositioning of the Company as a pure-play Canadian services provider to the expanding senior care sector, management has successfully deployed the sale proceeds to expand and grow the Company's operations across the continuum of seniors' care.

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

2. BASIS OF PREPARATION

a) Statement of Compliance

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standards (IAS) 34 "Interim Financial Reporting", as issued by the International Accounting Standards Board (IASB), and were approved by the board of directors of Extendicare Inc. (the "Board") on August 9, 2018.

These interim condensed consolidated financial statements do not include all of the information required for full annual financial statements, and should be read in conjunction with Extendicare Inc.'s 2017 annual consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS). These interim condensed consolidated financial statements follow the same accounting policies and methods of application as the consolidated financial statements as at and for the year ended December 31, 2017, except for those identified in *note 3*.

b) Basis of Measurement

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

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

c) Use of Estimates and Judgement

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

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

The more subjective of such estimates are:

- valuation of purchase price allocation for acquisition (*note 5*);
- valuation of indemnification provisions (*note 8*);
- valuation of self-insured liabilities (*note 8*);
- valuation of equity portion of convertible debentures (*note 9*);
- valuation of financial assets and liabilities (*note 19(b)*);
- valuation of share-based compensation (*note 11*);

- determination of the recoverable amount of cash generating units (CGUs) subject to an impairment test; and
- accounting for tax uncertainties and the tax rates used for valuation of deferred taxes.

In addition, the assessment of contingencies (*note 18*) is subject to judgement.
The recorded amounts for such items are based on management's best available information and are subject to assumptions and judgement, which may change as time progresses; accordingly, actual results could differ from estimates.

3. NEW ACCOUNTING POLICIES ADOPTED

Effective January 1, 2018, Extendicare adopted the following new standards and amendments to standards issued by the IASB: IFRS 15 "Revenue from Contracts with Customers", and IFRS 9 "Financial Instruments" (IFRS 9), both of which are discussed below.

Revenue Recognition

IFRS 15 "Revenue from Contracts with Customers" provides a single model and two approaches to recognizing revenue: at a point in time or over time. IFRS 15 also includes additional disclosure requirements for revenue accounted for under the standard. The standard applies to contracts with customers, excluding contracts within the scope of the standard on leases.

Extendicare adopted IFRS 15 using the cumulative effect method, which does not require restatement of comparative information. Adoption of the standard did not result in material changes to the timing or measurement of revenue recognition, and therefore, there was no cumulative effect adjustment recorded to accumulated deficit on January 1, 2018. However, under the new standard, accommodation revenue recognized under IAS 17 "Leases" is disclosed separately from services revenue recognized under IFRS 15 (*note 21*).

The Company's revised revenue recognition policy is provided below.

Extendicare recognizes revenue upon the transfer of control of goods or services to a customer, in an amount that reflects the consideration expected to be received for those goods or services. The Company generates revenue primarily from the provision of services to residents, rental income, home health care services, and management and consulting services.

(a) LONG-TERM CARE

Services provided to residents include the provision of accommodation and meals, assistance with activities of daily living and continuing care. Programs and services are offered to all residents and specialty programs are offered for those with behavioural needs. Revenue from our long-term care (LTC) segment is regulated by provincial authorities and provincial programs fund a substantial portion of these fees with a co-payment for accommodation being paid by the residents. Accommodation and services are delivered as a bundle and revenue is recognized over time, typically on a monthly basis, which reflects when the services are provided. The frequency that funding is received depends on the jurisdiction in which the LTC centre operates and it varies between a monthly or more frequent basis; and payments from residents are typically due at the beginning of each month.

In some cases, Extendicare's funding is based on occupancy levels achieved or certain policy conditions being met such as spending or staffing hour requirements. In these cases, the Company estimates the amount of funding that it expects to be entitled to for the services provided.

(b) HOME HEALTH CARE

Home health care services provided include complex nursing care, occupational, physical and speech therapy, and assistance with daily activities to accommodate clients living at home. Revenue from the home health care segment is also regulated by provincial authorities. Revenue is derived from both government and private-pay clients. Performance obligations are satisfied as services are delivered and revenue is therefore recognized over time, typically as the services provided to the customer. Private-pay services provided are invoiced at the end of each month based on the services provided, and the billing frequency of government-funded services varies between monthly and bi-weekly depending on the jurisdiction in which we operate.

(c) RETIREMENT LIVING

Retirement living revenue is primarily derived from private-pay residents. Residents are charged monthly fixed fees based on the type of accommodation, level of care and services chosen by the resident, and the location of the retirement community. These fixed fees are allocated to the lease and the service components. Payments are due at the beginning of each month.

Accommodation revenue is recognized on a straight-line basis over the lease term, beginning when a resident has the right to use the retirement community. Revenue allocated to the services is recognized over time, typically on a monthly basis, as this corresponds to the period in which services are provided. Extendicare may also provide additional services to residents on an as-requested basis, at rates established by the Company based upon market conditions. Revenue for such services is recognized as the services are provided to the residents.

(d) OTHER SERVICES

Extendicare also offers management, consulting, group purchasing, accounting and administrative services to third parties. Rates are set by the contracts, and these contracts are typically accounted for as a single performance obligation because goods or services are delivered concurrently. Revenue is recognized over time, typically on a monthly basis, which reflects when the services are provided.

Financial Instruments

IFRS 9 “Financial Instruments” (IFRS 9) addresses the recognition, classification and measurement (including impairment) of financial assets and financial liabilities. This standard replaces IAS 39 “Financial Instruments: Recognition and Measurement”.

Under IFRS 9, financial assets are classified based on the business model in which they are managed and the characteristics of their contractual cash flows. Financial assets are classified as measured at fair value through profit and loss (FVTPL), fair value through other comprehensive income (FVOCI), or amortized cost; the new standard eliminates the previous categories for financial assets of held to maturity, loans and receivables and available for sale.

In addition, IFRS 9 replaces the current “incurred loss” impairment model with a new “expected credit loss” model, which requires timely recognition of expected credit losses.

The standard largely retains the existing accounting requirements for financial liabilities. However, fair value changes attributable to changes in an entity’s own credit risk are required to be presented in other comprehensive income for financial liabilities that are designated as FVTPL. IFRS 9 also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management.

The following table summarizes the classification and measurement of financial assets and liabilities upon adoption of IFRS 9. As there are no changes in the measurement basis, there are no differences in carrying amounts.

	Classification prior to January 1, 2018	Measurement prior to January 1, 2018	Classification and measurement under IFRS 9
Cash and short-term investments	Loans and receivables	Amortized cost	Amortized cost
Restricted cash	Loans and receivables	Amortized cost	Amortized cost
Amounts receivable and other assets	Loans and receivables	Amortized cost	Amortized cost
Investments held for self-insured liabilities	Available for sale	FVOCI	FVTPL
Interest rate swaps	FVTPL	FVTPL	FVTPL
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost	Amortized cost
Long-term debt	Other financial liabilities	Amortized cost	Amortized cost

The Company adopted this standard retrospectively with no restatement of prior periods. There was no material impact on adoption of the standard with the exception of a reclassification of $4.3 million from opening accumulated other comprehensive income to opening accumulated deficit, as investments held for self-insured liabilities were classified as FVTPL under IFRS 9. These investments include equity securities as well as money market funds that do not have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding; therefore, they are classified as measured at FVTPL under IFRS 9.

The Company’s revised accounting policy on financial instruments is provided below.

Financial assets and liabilities classified as measured at amortized cost are initially recognized at fair value (net of any transaction costs) and are subsequently measured at amortized cost using the effective interest method less allowance for credit losses for financial assets.

Financial assets classified as measured at FVOCI are initially recognized at fair value and transaction costs are recognized in net earnings. Subsequently, unrealized gains and losses are recognized in other comprehensive income. Upon derecognition, realized gains and losses are reclassified from other comprehensive income and are recognized in net earnings for debt instruments and remain in other comprehensive income for equity investments. Interest income, foreign exchange gains/losses and impairments from debt instruments as well as dividends from equity investments are recognized in net earnings.

Financial assets and liabilities classified as measured at FVTPL are initially recognized at fair value and transaction costs are recognized in net earnings, along with gains and losses arising from changes in fair value.

A financial asset is classified as amortized cost if it is not designated as at FVTPL, is held within a business model with the purpose of holding assets to collect contractual cash flows; and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is classified as FVOCI if is not designated as at FVTPL, is held within a business model with the purpose of holding assets to collect contractual cash flows and selling prior to maturity; and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets not classified as amortized cost or FVOCI, as described above, are measured at FVTPL, including derivative financial assets.

Financial liabilities are measured as FVTPL if they are classified as held for trading or are designated as such. Other non-derivative financial liabilities are classified as amortized cost. Derivative financial liabilities are classified as FVTPL.

The expected credit loss (ECL) impairment model applies to all financial assets except for investments in equity securities, and to contract assets, lease receivables, loan commitments and financial guarantee contracts.

Loss allowances are measured on either a 12-month ECL basis where ECLs represent possible default events within the 12 months after the reporting date, or a lifetime ECL basis where ECLs represents all possible default events over the expected life of the instrument.

The Company has elected to use the simplified approach and calculates impairment loss on accounts and notes receivable as lifetime expected credit loss. The other ECL models applied to other financial assets also require judgement, assumptions and estimations on changes in credit risks, forecasts of future economic conditions and historical information on the credit quality of the financial asset.

Impairment losses are recorded in operating expenses in the consolidated statement of earnings with the carrying amount of the financial asset reduced through the use of impairment allowance accounts.

4. FUTURE CHANGES IN ACCOUNTING POLICIES

The following new standard and interpretation are effective for future annual periods, and have not been applied in preparing the financial results for the period ended June 30, 2018.

Leases

On January 13, 2016, the IASB published IFRS 16 “Leases”. The new standard requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value, using a single model, thereby eliminating the distinction between operating and finance leases. As a lessee, the Company will recognize new assets and liabilities for its operating leases. In addition, the nature and timing of expenses related to those leases will change as IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. Lessor accounting, however, remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 supersedes IAS 17 “Leases” and related interpretations and is effective for periods beginning on or after January 1, 2019, with earlier adoption permitted if IFRS 15 “Revenue from Contracts with Customers” has also been applied. The Company does not plan to early adopt IFRS 16, and is in the process of performing its assessment of the potential impact of this standard on its consolidated financial statements. The Company expects to disclose additional detailed information, including its transition method, any practical expedients elected and estimated quantitative financial effects, prior to the adoption of IFRS 16.

Income Taxes

On June 7, 2017, the IASB issued IFRIC Interpretation 23 "Uncertainty over Income Tax Treatments". The interpretation provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The Interpretation is applicable for annual periods beginning on or after January 1, 2019. Earlier application is permitted. The Company intends to adopt the Interpretation in its financial statements for the annual period beginning on January 1, 2019. The extent of the impact of adoption of the Interpretation has not yet been determined.

5. ACQUISITIONS

On April 11, 2018, the Company completed the acquisition of the Lynde Creek Retirement Community for $33.8 million, which included an adjustment for working capital. The acquired community, located in Whitby, Ontario, consists of Lynde Creek Manor, a retirement residence offering 93 independent and assisted living suites; Lynde Creek Village, a life lease seniors community of 113 townhomes; and 3.7 acres of adjacent land for expansion. This acquisition was funded by cash on hand, and is accounted for as a business combination.

The preliminary purchase price allocation outlined below is based on management's best estimate of fair values.

	Manor *93 suites*	**Village** *113 townhomes*	**Excess Land**	**Total**
Net assets acquired:				
Property and equipment	29.2	–	2.0	31.2
Intangible assets	–	2.9	–	2.9
Trade payables and accrued liabilities	(0.3)	–	–	(0.3)
Total net assets acquired	28.9	2.9	2.0	33.8
Consideration:				
Consideration	29.2	2.9	2.0	34.1
Working capital adjustment	(0.3)	–	–	(0.3)
Cash paid	28.9	2.9	2.0	33.8

The allocation of property and equipment was based on the fair value considering the nature and age of these assets.

The fair value estimate of $2.9 million allocated to identifiable intangible assets acquired, primarily consisted of life lease contracts. The Company has estimated the fair value of life lease contracts based upon expected discounted cash flows generated from these assets; the estimated useful lives for these assets are between 10 to 15 years.

The acquired operations would have contributed revenue of $2.3 million and a net loss of $0.1 million if the acquisition had taken place on January 1, 2018. For the two and a half months of ownership ending June 30, 2018, the acquisition contributed revenue of $1.0 million and a nominal net loss.

6. PROPERTY AND EQUIPMENT

	June 30, 2018	December 31, 2017
Land and land improvements	**55,397**	51,128
Buildings	**574,296**	544,510
Furniture and equipment	**62,440**	65,088
Leasehold improvements	**2,024**	2,337
Construction in progress	**47,348**	31,794
	741,505	694,857
less: accumulated depreciation	**(222,873)**	(214,889)
	518,632	479,968

During the first six months of 2018, the Company capitalized $0.6 million of borrowing costs related to development projects under construction at an average capitalization rate of 4.8% (2017 – $0.5 million at 5.1%).

7. OTHER ASSETS

	June 30, 2018	December 31, 2017
Investments held for self-insured liabilities	**84,921**	86,296
Amounts receivable and other assets	**72,508**	74,625
Interest rate swaps	**3,820**	3,459
	161,249	164,380
less: current portion	**21,261**	20,634
	139,988	143,746

Investments Held for Self-insured Liabilities

After the sale of our U.S. business in 2015 (the "U.S. Sale Transaction") (*note 17*), as part of its continuing operations, Extendicare retained its wholly owned Bermuda-based captive insurance company, Laurier Indemnity Company, Ltd. (the "Captive"), which, along with third-party insurers, insured Extendicare's U.S. general and professional liability risks up to the date of the U.S. Sale Transaction.

Extendicare holds investments within the Captive for self-insured liabilities that are subject to insurance regulatory requirements (*note 8*).

The investment portfolio comprises U.S. dollar-denominated cash of $2.7 million (December 31, 2017 – $0.7 million) and money market funds of $70.7 million (December 31, 2017 – $75.1 million), and investment-grade corporate securities of $11.5 million (December 31, 2017 – $11.2 million). Certain of these investments in the amount of $47.3 million (US$36.1 million) (December 31, 2017 – $45.4 million or US$36.1 million), have been pledged as collateral for letters of credit issued by the banker of the Captive in favour of ceding companies. As at June 30, 2018, all investments were carried at fair value, with changes in fair value reflected in earnings.

Amounts Receivable and Other Assets

Amounts receivable and other assets include discounted amounts receivable due from the government of Ontario with respect to construction funding subsidies for long-term care centres, totalling $55.9 million (December 31, 2017 – $58.5 million) of which $5.3 million (December 31, 2017 – $5.2 million) is current. These subsidies represent funding for a portion of long-term care centre construction costs over a 20-year or 25-year period. The weighted average remaining term of this funding is 15 years.

Also included in amounts receivable and other assets is a $1.9 million receivable as at June 30, 2018 (December 31, 2017 – $2.8 million), resulting from the U.S. Sale Transaction (*note 17*), as well as prepaid expenses and deposits.

Interest Rate Swaps

The interest rate swaps include: (1) the swap contracts on a $30.0 million term loan with the Canadian Imperial Bank of Commerce (the "CIBC Term Loan") secured in May 2017, relating to nine Alberta long-term care centres, to lock in the rate at 3.27% for the full term of five years to May 2022; and (2) the swap contract on $56.3 million non-revolving credit facilities on three retirement communities, with seven-year terms, to lock in the rate at 3.11% for the full terms.

All interest rate swap contracts are measured at fair value through profit or loss, and hedge accounting has not been applied. Changes in fair value are recorded in the statements of earnings (*note 15)*. As at June 30, 2018, the interest rate swaps were valued as an asset of $3.8 million (December 31, 2017 – $3.5 million).

8. PROVISIONS

	June 30, 2018	December 31, 2017
Accrual for self-insured liabilities	**51,318**	61,135
Indemnification provisions	**23,510**	22,679
Decommissioning provisions	**9,306**	9,185
Total provisions	**84,134**	92,999
Less: current portion	**(28,709)**	(29,937)
	55,425	63,062

Accrual for Self-Insured Liabilities

The obligation to settle any U.S. self-insured general and professional liability claims relating to the period prior to the closing of the U.S. Sale Transaction, including claims incurred but yet to be reported, remains with Extendicare, which it intends to fund through the Captive. Consequently, the balance of the accrual for self-insured liabilities and the related investments held for self-insured liabilities (*note 7*) remain on the consolidated statement of financial position. However, any expense incurred or release of reserves for U.S. self-insured liabilities are presented as discontinued operations; while the Captive's costs to administer and manage the settlement of the remaining claims are reported as continuing operations within the U.S. segment.

Within the U.S. long-term care industry, operators are periodically subject to lawsuits alleging negligence, malpractice, or other related claims. The Company retains a portion of the risk within the Captive at a level that the Company believed to be adequate based upon the nature and risks of the business, historical experience and industry standards, along with the type of insurance coverage commercially available in the marketplace.

The accrual for self-insured liabilities is based on management's best estimate of the ultimate cost to resolve general and professional liability claims, including both known claims and claims that have been incurred but not yet reported by the end of the reporting period. Actual results can differ materially from the estimates made due to a number of factors including the assumptions used by management and other market forces.

As at June 30, 2018, the accrual for self-insured general and professional liabilities was $51.3 million (US$39.1 million) compared to $61.1 million (US$48.6 million) at the beginning of the year. The decline of $9.8 million represented claim payments of $6.0 million (US$4.7 million), the release of reserves of $5.8 million (US$4.5 million), reflected as other expense (income) in discontinued operations, and an adjustment of $1.3 million (US$1.0 million) for discounting resulting from a change in discount rate (*note 17*), partially offset by foreign exchange of $2.4 million, and accretion of $0.8 million (US$0.6 million).

Indemnification Provisions

As a result of the U.S. Sale Transaction (*note 17*), the Company agreed to indemnify certain obligations of the U.S. operations related to tax, a corporate integrity agreement (the "CIA"), and other items. Any revisions to these estimates are reflected as part of other expense in discontinued operations. As at June 30, 2018, the remaining provisions totalled $23.5 million (US$17.9 million) (December 31, 2017 – $22.7 million or US$18.0 million). Actual results can differ materially from the estimates made due to a number of factors including the assumptions used by management and other market forces.

Decommissioning Provisions

The decommissioning provisions relate to possible asbestos remediation of Extendicare's pre-1980 constructed centres. An estimated undiscounted cash flow amount of approximately $11 million was discounted using a rate of 1.98% over an estimated time to settle of 8 years. This represents management's best estimate and actual amounts may differ.

9. LONG-TERM DEBT

	Interest Rate	Year to Maturity	**June 30, 2018**	December 31, 2017
Convertible unsecured subordinated debentures	5.0%	2025	**119,347**	–
Convertible unsecured subordinated debentures	6.0%	2019	**–**	124,800
CMHC mortgages	2.93% - 7.7%	2018 - 2037	**119,000**	123,911
Non-CMHC mortgages	3.11% - 5.637%	2020 - 2038	**170,286**	172,844
Construction loans	BA + 2.5%	on demand	**34,001**	29,868
Finance lease obligations	2.28% - 7.19%	2018 - 2028	**85,577**	90,323
			528,211	541,746
Financing costs			**(9,031)**	(5,678)
Total debt, net of financing costs			**519,180**	536,068
Less: current portion			**62,850**	59,664
Long-term debt, net of financing costs			**456,330**	476,404

A summary of significant changes in long-term debt since December 31, 2017, is provided below.

Convertible Unsecured Subordinated Debentures

In 2012, Extendicare issued $126.5 million of aggregate principal amount of 6.00% convertible unsecured subordinated debentures due September 30, 2019, convertible at $11.25 per Common Share (the “2019 Debentures”), with interest payable semi-annually in March and September. These debentures were redeemable by the Company in whole at any time or in part from time to time, at a price equal to the principal amount thereof plus accrued and unpaid interest, on a notice of not more than 60 days and not less than 30 days. On March 26, 2018, the Company issued a notice of intention to redeem the 2019 Debentures.

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

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

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

The net proceeds from the Offering of $120.9 million , together with cash on hand, was used by the Company to finance the redemption of its 2019 Debentures on April 30, 2018. The redemption price of the 2019 Debentures was equal to the sum of the outstanding aggregate principal amount of $126.5 million and all accrued and unpaid interest thereon for a total of $127.1 million. As a result of the early redemption of the 2019 Debentures, the unaccreted liability of $1.4 million was expensed (*note 14*), and the related equity portion of $5.6 million was classified as part of accumulated deficit during the 2018 second quarter.

Credit Facilities

Extendicare has a demand credit facility in the amount of $47.3 million with the Royal Bank of Canada (the “RBC Credit Facility”) that is secured by 13 Class C long-term care centres in Ontario and is guaranteed by certain Canadian subsidiaries of Extendicare. As at June 30, 2018, Extendicare had letters of credit totalling approximately $45.4 million issued under the RBC Credit Facility, of which $38.0 million secure our defined benefit pension plan obligations and the balance were issued in connection with obligations relating to recently acquired centres and those centres under development. The unutilized portion of the credit facility was $1.9 million as at June 30, 2018. The RBC Credit Facility has no financial covenants, but does contain normal and customary terms including annual re-appraisals of the centres that could limit the maximum amount available.

In the fourth quarter of 2017, the Company arranged for a demand credit facility in the amount of $65.0 million (the “ParaMed Credit Facility”) that is secured by the assets of our home health care business, and it is available for general corporate purposes of the Company. The ParaMed Credit Facility has no financial covenants, but it does contain normal and customary terms. The entire amount of the credit facility was unutilized as at June 30, 2018.

Construction Loans

Construction financings totalling $51.4 million for three retirement development projects in Simcoe, Bolton, and Uxbridge, were secured in 2016 and provide for additional letter of credit facilities of $500,000, $750,000, and $750,000, respectively, at a rate of 2.5% if utilized. In the 2017 fourth quarter, an additional $9.0 million of construction financing was secured for the Uxbridge expansion. Loan payments are interest-only based on a floating rate of 30-day banker’s acceptance (BA) plus 2.5%, with no standby fee. The construction loans are repayable on demand by the lender and, in any event, are to be fully repaid as follows: Simcoe, in November 2018 (being 24 months from the issuance of the occupancy permit); Uxbridge, in October 2021 (being 60 months from close of the loan); and Bolton, by the earlier of April 2022 or 36 months from the issuance of the occupancy permit. All these financings have been reflected as current. Permanent financing for each of the communities will be sought upon maturity of the construction financing.

As at June 30, 2018, an aggregate of $34.0 million was drawn on the construction loans, and letters of credit totalling $0.5 million were issued under credit facilities.

Finance Lease Obligations

The finance lease obligations outstanding at June 30, 2018 represent finance leases on long-term care centres and the present value of a subscription to customized cloud-based software to be used in the home health care operations. The Company operates nine Ontario long-term care centres, which were built between 2001 and 2003, under 25-year finance lease arrangements. The software balance will be accreted through interest expense, and amortized over the contract term of five years.

Deferred Financing Costs

Deferred financing costs are deducted against long-term debt and are amortized using the effective interest rate method over the term of the debt. The net increase of $3.4 million in the first six months of 2018 related primarily to the costs associated with the issuance of the 2025 Debentures, partially offset by the write-off of the unamortized finance costs of $1.1 million upon the early redemption of the 2019 Debentures (*note 14*) and the amortization of finance costs.

Below is a summary of the deferred financing costs:

	June 30, 2018	December 31, 2017
Convertible unsecured subordinated debentures	**5,159**	1,387
CMHC mortgages	**2,225**	2,465
Non-CMHC mortgages	**1,434**	1,595
Finance lease obligations	**213**	231
Total financing costs	**9,031**	5,678
Less: current portion	**1,427**	1,463
	7,604	4,215

Interest Rates

The weighted average interest rate of all long-term debt at June 30, 2018, was approximately 4.8% (December 31, 2017 – 5.0%). At June 30, 2018, 93.6% of the long-term debt, including interest rate swaps, was at fixed rates (December 31, 2017 – 94.5%).

10. OTHER LONG-TERM LIABILITIES

	June 30, 2018	December 31, 2017
Accrued pension plan obligation	**34,416**	34,072
Other	**965**	950
	35,381	35,022

11. SHARE-BASED COMPENSATION

The Company's share-based compensation, which includes share appreciation rights (SARs), deferred share units (DSUs) and performance share units (PSUs), was an expense of $0.4 million for the 2018 second quarter (2017 – expense of $0.5 million) and $0.8 million for the six months ended June 30, 2018 (2017 – expense of $1.3 million).

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

	June 30, 2018	December 31, 2017
Accounts payable and accrued liabilities – SARs	**–**	1,146
Contributed surplus – DSUs	**1,513**	1,220
Contributed surplus – PSUs	**1,796**	1,217

Cash-settled Share Appreciation Rights Plan

Prior to the implementation of a new long-term incentive plan in 2016, SARs were granted at the discretion of the Board to directors and eligible employees of Extendicare. No further awards will be granted under the SARs plan, and as of June 30, 2018, all SARs have vested or been forfeited.

A summary of the Company's SARs activity is as follows:

	Six months ended June 30, 2018		Twelve months ended December 31, 2017	
	Share Appreciation Rights	**Weighted Average Vesting Price**	Share Appreciation Rights	Weighted Average Vesting Price
Outstanding, beginning of period	**372,000**	**$7.14**	597,000	$7.05
Vested	**(354,000)**	**7.11**	(216,000)	6.88
Forfeited	**(18,000)**	**7.69**	(9,000)	7.69
Outstanding, end of period	**–**		372,000	$7.14
Average remaining contractual life	**–**		0.2 years	

The SARs were fair valued using the Black-Scholes model based on the following inputs:

	Six months ended June 30, 2018	Twelve months ended December 31, 2017
Share price	–	$9.11
Volatility	–	14.00%
Risk-free interest rate	–	1.00% – 1.21%
Strike price	–	$6.55 – $7.69
Expected remaining life	–	0.1 years – 0.4 years

Equity-settled Long-term Incentive Plan

The Board implemented a new long-term incentive plan (the "LTIP") in 2016 to provide for a new share-based component of executive and director compensation, which is designed to encourage a greater alignment of the interests of our executives and directors with our shareholders, in the form of PSUs for our employees and DSUs for our non-employee directors. PSUs and DSUs granted under the LTIP will not carry any voting rights. DSUs vest immediately upon grant and PSUs vest three years from the date of grant. During the six months ended June 30, 2018, the Company settled 14,887 DSUs and 5,032 PSUs, resulting in the issuance from treasury of 19,918 Common Shares. An aggregate of 4,387,974 Common Shares are reserved and available for issuance pursuant to the LTIP.

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

	Deferred Share Units		**Performance Share Units**	
	Six months ended June 30, 2018	Twelve months ended December 31, 2017	**Six months ended June 30, 2018**	Twelve months ended December 31, 2017
Units outstanding, beginning of period	**134,369**	61,124	**342,944**	173,550
Granted	**52,540**	72,742	**192,116**	173,329
Reinvested dividend equivalents	**4,186**	4,137	**12,528**	10,616
Forfeited	**–**	–	**(14,426)**	(14,551)
Settled	**(14,886)**	(3,634)	**(5,032)**	–
Units outstanding, end of period	**176,209**	134,369	**528,130**	342,944
Weighted average fair value of units granted during the period at grant date	**$7.75**	$9.68	**$9.33**	$11.63

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

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

	Six months ended June 30, 2018	Twelve months ended December 31, 2017	
Grant date	**March 15, 2018**	March 15, 2017	May 25, 2017
Vesting date	**March 15, 2021**	March 15, 2020	May 25, 2020
PSUs granted	**192,116**	160,689	12,640
Fair value of AFFO component	**$4.36**	$5.24	$5.11
Fair value of TSR component	**4.97**	6.42	6.12
Grant date fair value	**$9.33**	$11.66	$11.23
Expected volatility of Extendicare's Common Shares	**23.66%**	23.09%	24.90%
Expected volatility of the Index	**12.20%**	13.41%	13.60%
Risk-free rate	**1.84%**	0.92%	0.75%
Dividend yield	**nil**	nil	nil

12. SHARE CAPITAL

Normal Course Issuer Bid

During 2017, under a normal course issuer bid that commenced on January 13, 2017 and ended on January 12, 2018, the Company purchased and cancelled 696,220 Common Shares at a weighted average price of $9.27 per share, for a total cost of $6.5 million.

On January 10, 2018, Extendicare received the approval of the TSX to renew its normal course issuer bid (the "Bid") to purchase for cancellation up to 8,770,000 Common Shares (approximately 10% of the public float) through the facilities of the TSX, and on alternative Canadian trading platforms. The Bid commenced on January 15, 2018, and provides Extendicare with flexibility to purchase Common Shares for cancellation until January 14, 2019, or on such earlier date as the Bid is complete. Subject to the TSX's block purchase exception, on any trading day, purchases under the Bid will not exceed 39,219 Common Shares. The price that Extendicare will pay for any Common Shares purchased under the Bid will be the prevailing market price at the time of purchase and any Common Shares purchased will be cancelled. As at August 9, 2018, the Company has acquired and cancelled 703,585 Common Shares under the Bid at an average price of $8.89 per share, for a total cost of $6.3 million.

13. EXPENSES BY NATURE

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	**2018**	2017
Employee wages and benefits	**214,473**	212,997	**428,682**	423,284
Food, drugs, supplies and other variable costs	**12,641**	11,775	**24,458**	23,068
Property based and other costs	**23,376**	22,730	**47,170**	46,917
Total operating expenses and administrative costs	**250,490**	247,502	**500,310**	493,269
Lease costs	**1,668**	1,755	**3,295**	3,417
Total expenses	**252,158**	249,257	**503,605**	496,686

14. OTHER EXPENSE

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	**2018**	2017
Acquisition costs	**862**	–	**1,042**	–
Loss on early redemption of convertible debt	**2,511**	–	**2,511**	–
Other expense	**3,373**	–	**3,553**	–

In April 2018, the Company acquired the Lynde Creek Retirement Community (*note 5*), and incurred costs of $1.0 million, most of which was incurred during the 2018 second quarter.

Upon the early redemption of the 2019 Debentures on April 30, 2018 (*note 9*), the unaccreted liability of $1.4 million and the associated unamortized finance costs of $1.1 million were expensed.

15. FOREIGN EXCHANGE AND INVESTMENT GAIN AND FAIR VALUE ADJUSTMENTS

Gain on Foreign Exchange and Investments

Gains on foreign exchange and investments was $0.4 million for the 2018 second quarter (2017 – $0.2 million) and $1.5 million for the six months ended June 30, 2018 (2017 – $0.8 million). These include: gain (loss) related to deferred consideration and other balances in connection with the U.S. Sale Transaction that are denominated in U.S. dollars (*note 17*); gain (loss) on fair value adjustments on investments held for self-insured liabilities (*note 3*); and foreign exchange gain recognized upon repatriation of funds from the Captive.

Fair Value Adjustments

Fair value adjustments represent interest rate swap contracts to lock in the interest rates for certain mortgages. The fair value of these contracts as at June 30, 2018, resulted in a nominal gain for the 2018 second quarter (2017 – $1.1 million) and $0.4 million for the six months ended June 30, 2018 (2017 – $1.0 million) (*note 7*).

16. EARNINGS PER SHARE

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

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

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	**2018**	2017
Numerator for Basic and Diluted Earnings (Loss) per Share				
Earnings (loss) from continuing operations				
Net earnings (loss) for basic earnings per share	**11,827**	(22,994)	**16,658**	(18,047)
Less: earnings (loss) from discontinued operations, net of tax	**5,852**	(32,913)	**7,117**	(32,913)
Earnings from continuing operations for basic earnings per share	**5,975**	9,919	**9,541**	14,866
Add: after-tax interest on convertible debt	**1,601**	1,812	**3,422**	3,576
Earnings from continuing operations for diluted earnings per	**7,576**	11,731	**12,963**	18,442
Net earnings (loss)				
Net earnings (loss) for basic earnings per share	**11,827**	(22,994)	**16,658**	(18,047)
Add: after-tax interest on convertible debt	**1,601**	1,812	**3,422**	3,576
Net earnings (loss) for diluted earnings per share	**13,428**	(21,182)	**20,080**	(14,471)
Denominator for Basic and Diluted Earnings per Share				
Actual weighted average number of shares	**88,051,546**	88,866,302	**88,146,777**	88,806,202
Vested equity-settled compensation	**156,308**	72,108	**145,982**	66,882
Weighted average number of shares for basic earnings per share	**88,207,854**	88,938,410	**88,292,759**	88,873,084
Shares issued if all convertible debt was converted	**10,326,531**	11,244,444	**10,326,531**	11,244,444
Dilutive effect of equity-settled compensation	**60,464**	60,998	**60,464**	60,998
Total for diluted earnings per share	**98,594,849**	100,243,852	**98,679,754**	100,178,526
Basic and Diluted Earnings (Loss) per Share *(in dollars)*				
Earnings from continuing operations	**0.07**	0.11	**0.11**	0.17
Gain (loss) from discontinued operations	**0.07**	(0.37)	**0.08**	(0.37)
Net earnings (loss)	**0.14**	(0.26)	**0.19**	(0.20)

17. DISCONTINUED OPERATIONS

U.S. Sale Transaction

In connection with the U.S. Sale Transaction, the Company agreed to indemnify certain obligations of the U.S. operations related to tax, a CIA, and other items. In connection with these items, as at June 30, 2018, the Company had remaining provisions totalling $23.5 million (US$17.9 million) (*note 8*), and a receivable of $1.9 million (US$1.4 million) (*note 7*) (December 31, 2017 – provisions of $22.7 million and receivable of $2.8 million). There have been no changes to the estimates of indemnification provisions and receivables for the first six months of 2018. The change in the three and six months ended June 30, 2017, included a $5.1 million charge related to the increase of estimated costs in connection with the CIA. In addition, the proceeds from the U.S. Sale Transaction included an element of deferred consideration; the remaining balance of $37.5 million at June 30, 2017, was written off as a charge in the quarter. Earnings (loss) from discontinued operations, in 2018 also includes the release of accrual for self-insured liabilities of $5.8 million

(US$4.5 million) in the second quarter and an adjustment to the discount rate applied resulted in a $1.3 million (US$1.0 million) decrease in the accrual for self-insured liabilities in the first quarter (*note 8*).

In October 2014, EHSI completed and executed a settlement agreement with the U.S. Department of Justice (DOJ), the Office of the Inspector General (OIG) of the U.S. Department of Health and Human Services and multiple states. As is standard practice in settlements of OIG and DOJ investigations, EHSI entered into the CIA, with the OIG for a five-year period effective October 3, 2014. Under the terms of the U.S. Sale Transaction, Extendicare has agreed to share in the costs incurred in order to implement and comply with the requirements of the CIA. Though the actual costs for the Purchaser to comply with the CIA are difficult to estimate, the Company has included a provision for such costs in its provision for indemnification obligations (*note 8*).

18. COMMITMENTS AND CONTINGENCIES

Property and Equipment Commitments

Extendicare has outstanding commitments of $39.2 million at June 30, 2018, in connection with private-pay retirement communities under development in Ontario, which will be substantially financed with a combination of construction financing and cash on hand. These are expected to be incurred over the next two years.

Legal Proceedings and Regulatory Actions

Extendicare and its consolidated subsidiaries are defendants in various actions and proceedings that are brought against them from time to time in connection with their operations. As previously disclosed, the Company was made aware that a statement of claim was filed against it in the Superior Court Justice of Ontario in late November 2017, which seeks an order pursuant to the *Class Proceedings Act* (Ontario) certifying the action as a class action. The statement of claim, which was served on Extendicare on April 30, 2018, alleges negligence by the Company in the operation of its long-term care centres and its provision of care to residents, and is seeking $150 million in damages. Management does not believe that the lawsuit or the damages sought have merit. Extendicare intends to vigorously defend itself against the claim and does not believe the outcome will have a material adverse impact on its business, results of operations or financial condition and believes that any potential liability would be resolved within the limits of our insurance coverage.

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

19. FINANCIAL RISK MANAGEMENT

(a) Management of Risks

LIQUIDITY RISK

Liquidity risk is the risk that the Company will encounter difficulty in meeting its contractual obligations. We manage our liquidity risk through the use of budgets and forecasts. Cash requirements are monitored regularly based on actual financial results and actual cash flows to ensure that there are sufficient resources to meet operational requirements. We ensure that there are sufficient funds for declared and payable distributions and any other future commitments at any point in time. In addition, since there is a risk that current borrowings and long-term debt may not be refinanced or may not be refinanced on as favourable terms or with interest rates as favourable as those of the existing debt, we attempt to appropriately structure the timing of contractual long-term debt renewal obligations and exposures. In April 2018, the Company successfully refinanced the 2019 Debentures by issuing a new series of debentures which mature in 2025 (*note 9*).

CURRENCY RISK

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

As a result of the U.S. Sale Transaction, our exposure to foreign currency risk has been significantly reduced. The following table outlines the net asset exposure to both the U.S. continuing operations and other items retained from the U.S. Sale Transaction as at June 30, 2018 (*note 17*).

	June 30, 2018
Assets	
Current assets	**13,295**
Investments held for self-insured liabilities	**64,663**
Liabilities	
Current liabilities	**17,545**
Indemnification provisions	**17,900**
Non-current liabilities	**23,022**
Net asset exposure	**19,491**

INTEREST RATE RISK

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

To mitigate interest rate risk, the Company's long-term care debt portfolio includes fixed-rate debt and variable-rate debt with interest rate swaps in place. At June 30, 2018, construction loans of $34.0 million are variable-rate debt, which do not have interest rate swaps in place. The Company's credit facility, and future borrowings, may be at variable rates which would expose the Company to the risk of interest rate volatility (*note 9*).

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

Below is the interest rate profile of our interest-bearing financial instruments, which reflects the impact of the interest rate swaps (*note 7*):

	Carrying Amount	
	June 30, 2018	December 31, 2017
Fixed-rate instruments:		
Long-term debt [(1)]	**494,210**	511,878
Total liability in fixed-rate instruments	**494,210**	511,878
Variable-rate instruments:		
Long-term debt [(1)]	**34,001**	29,868
	34,001	29,868

[(1)] Includes current portion and excludes netting of financing costs.

Fair Value Sensitivity Analysis for Variable-rate Instruments

All long-term debt with variable rates are classified as other financial liabilities, which are measured at amortized cost using the effective interest method of amortization; therefore, changes in interest rates would not affect OCI with respect to variable-rate debt. As at June 30, 2018, long-term debt with variable rates represented 6.4% of total debt. The value of the interest rate swaps is subject to fluctuations in interest rates, changes in fair value of these swaps are recognized in net earnings (*notes 7 and 15*).

Cash Flow Sensitivity Analysis for Variable-rate Instruments

An increase of 100 basis points in interest rates would have decreased net earnings by $0.1 million and a decrease of 100 basis points in interest rates would have increased net earnings by $0.1 million. This analysis assumes that all other variables, in particular foreign currency rates, remains constant, and excludes variable interest rate debt that is locked in through interest rate swaps.

OTHER RISKS

Other aspects of Extendicare's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements as at and for the year ended December 31, 2017.

(b) Fair values of Financial Instruments

As at June 30, 2018:	Amortized Cost	Fair Value through Profit and Loss	Total Carrying Amount	Fair Value
Financial assets:				
Cash and short-term investments	**64,822**	**–**	**64,822**	**64,834**
Restricted cash	**2,561**	**–**	**2,561**	**2,561**
Invested assets [1]	**442**	**–**	**442**	**442**
Accounts receivable	**43,321**	**–**	**43,321**	**43,321**
Interest rate swaps	**–**	**3,820**	**3,820**	**3,820**
Amounts receivable and other assets [2] [3]	**55,942**	**–**	**55,942**	**58,785**
Investments held for self-insured liabilities	**2,729**	**82,192**	**84,921**	**84,921**
	169,817	**86,012**	**255,829**	**258,684**
Financial liabilities:				
Accounts payable	**2,254**	**–**	**2,254**	**2,254**
Long-term debt excluding convertible debentures [3] [4]	**408,864**	**–**	**408,864**	**419,650**
Convertible debentures	**119,347**	**–**	**119,347**	**128,398**
	530,465	**–**	**530,465**	**550,302**

As at December 31, 2017:	Loans and Receivables	Available for Sale	Fair Value through Profit and Loss	Other Financial Liabilities	Total Carrying Amount	Fair Value
Financial assets:						
Cash and short-term investments	128,156	–	–	–	128,156	128,166
Restricted cash	2,300	–	–	–	2,300	2,300
Invested assets [1]	442	–	–	–	442	442
Accounts receivable	42,491	–	–	–	42,491	42,491
Interest rate swaps	–	–	3,459	–	3,459	3,459
Amounts receivable and other assets [2] [3]	58,541	–	–	–	58,541	62,300
Investments held for self-insured liabilities	–	86,296	–	–	86,296	86,296
	231,930	86,296	3,459	–	321,685	325,454
Financial liabilities:						
Accounts payable	–	–	–	4,272	4,272	4,272
Long-term debt excluding convertible debentures [3] [4]	–	–	–	416,946	416,946	432,259
Convertible debentures	–	–	–	124,800	124,800	129,650
	–	–	–	546,018	546,018	566,181

[1] Included in other assets.
[2] Includes primarily amounts receivable from government.
[3] Includes current portion.
[4] Excludes netting of financing costs.

FAIR VALUE HIERARCHY

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

The Company uses interest rate swap contracts to effectively fix the interest rate on certain mortgages. As hedge accounting is not applied, the contracts are carried at fair value and reported as assets or liabilities depending on the fair value on the reporting date, with the change in fair value recognized in net earnings. The fair value of the interest rate swap contracts are calculated through discounting future expected cash flows using the BA-based swap curve. Since the BA-based swap curve is an observable input, these financial instruments are considered Level 2.

The fair values of financial instruments presented above, where carrying value is not a reasonable approximation of fair value, are as follows:

	Level 1	Level 2	Level 3	Total
As at June 30, 2018:				
Investments held for self-insured liabilities	**84,921**	**–**	**–**	**84,921**
Amounts receivable and other assets	**–**	**58,785**	**–**	**58,785**
Interest rate swaps	**–**	**3,820**	**–**	**3,820**
Long-term debt excluding convertible debentures	**–**	**419,650**	**–**	**419,650**
Convertible debentures	**128,398**	**–**	**–**	**128,398**
As at December 31, 2017:				
Investments held for self-insured liabilities	86,296	–	–	86,296
Amounts receivable and other assets	–	62,300	–	62,300
Interest rate swaps	–	3,459	–	3,459
Long-term debt excluding convertible debentures	–	432,259	–	432,259
Convertible debentures	129,650	–	–	129,650

20. RELATED PARTY TRANSACTIONS

Transactions with Key Management Personnel

Tim Lukenda, Extendicare's President and Chief Executive Officer, and members of his family have a company that owns a long-term care centre and a retirement centre in Ontario, in which Mr. Lukenda has an approximate 7.1% direct and indirect ownership interest, and with which Extendicare has an ongoing relationship through the provision of management services to the long-term care centre and group purchasing services to the retirement centre. Mr. Lukenda's employment contract provides a mechanism and process that effectively removes him from the decision-making process in situations where a conflict of interest may arise on any matter between the two companies.

21. SEGMENTED INFORMATION

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

The long-term care segment represents the 58 long-term care centres that the Company owns and operates in Canada. The retirement living segment includes seven acquired retirement communities, and two communities that were newly constructed and opened in the fourth quarters of 2016 and 2017. The retirement communities provide services to private-pay residents at rates set by Extendicare based on the services provided and market conditions. Through our wholly owned subsidiary ParaMed Inc. (ParaMed), ParaMed's home health care operations provide complex nursing care, occupational, physical and speech therapy, and assistance with daily activities to accommodate those living at home.

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

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

Intersegment adjustments in the following tables reflect the reversal of intercompany amounts that are eliminated prior to the preparation of the Company's consolidated financial statements.

	Three month ended June 30, 2018							
(in thousands of Canadian dollars)	Long-term Care	Retirement Living	Home Health Care	Other Canadian Operations	Corporate Canada	Total Canada	Total U.S.	Total
CONTINUING OPERATIONS								
Revenue								
Long-term care	**155,833**	**–**	**–**	**–**	**–**	**155,833**	**–**	**155,833**
Retirement living	**–**	**8,242**	**–**	**–**	**–**	**8,242**	**–**	**8,242**
Home health care	**–**	**–**	**109,852**	**–**	**–**	**109,852**	**–**	**109,852**
Management, consulting and other	**–**	**–**	**–**	**5,510**	**–**	**5,510**	**51**	**5,561**
Total revenue	**155,833**	**8,242**	**109,852**	**5,510**	**–**	**279,437**	**51**	**279,488**
Operating expenses	**137,716**	**5,896**	**97,287**	**2,282**	**–**	**243,181**	**–**	**243,181**
Administrative costs	**–**	**–**	**–**	**–**	**7,036**	**7,036**	**273**	**7,309**
Lease costs	**–**	**–**	**1,160**	**–**	**508**	**1,668**	**–**	**1,668**
Total expenses	**137,716**	**5,896**	**98,447**	**2,282**	**7,544**	**251,885**	**273**	**252,158**
Earnings (loss) before depreciation, amortization, and other expense	**18,117**	**2,346**	**11,405**	**3,228**	**(7,544)**	**27,552**	**(222)**	**27,330**
Depreciation and amortization	**–**	**–**	**–**	**–**	**8,235**	**8,235**	**–**	**8,235**
Other expense	**–**	**–**	**–**	**–**	**3,373**	**3,373**	**–**	**3,373**
Earnings (loss) before net finance costs and income taxes	**18,117**	**2,346**	**11,405**	**3,228**	**(19,152)**	**15,944**	**(222)**	**15,722**
Interest expense	**–**	**–**	**–**	**–**	**7,089**	**7,089**	**–**	**7,089**
Accretion	**–**	**–**	**–**	**–**	**367**	**367**	**473**	**840**
Gain on foreign exchange and investments	**–**	**–**	**–**	**–**	**(30)**	**(30)**	**(375)**	**(405)**
Interest revenue	**–**	**–**	**–**	**–**	**(898)**	**(898)**	**–**	**(898)**
Fair value adjustments	**–**	**–**	**–**	**–**	**(35)**	**(35)**	**–**	**(35)**
Net finance costs	**–**	**–**	**–**	**–**	**6,493**	**6,493**	**98**	**6,591**
Earnings (loss) before income taxes	**18,117**	**2,346**	**11,405**	**3,228**	**(25,645)**	**9,451**	**(320)**	**9,131**
Income tax expense								
Current	**–**	**–**	**–**	**–**	**2,886**	**2,886**	**–**	**2,886**
Deferred	**–**	**–**	**–**	**–**	**270**	**270**	**–**	**270**
Total income tax expense	**–**	**–**	**–**	**–**	**3,156**	**3,156**	**–**	**3,156**
Earnings (loss) from continuing operations	**18,117**	**2,346**	**11,405**	**3,228**	**(28,801)**	**6,295**	**(320)**	**5,975**
DISCONTINUED OPERATIONS								
Earnings from discontinued operations, net of income taxes	**–**	**–**	**–**	**–**	**–**	**–**	**5,852**	**5,852**
Net earnings (loss)	**18,117**	**2,346**	**11,405**	**3,228**	**(28,801)**	**6,295**	**5,532**	**11,827**

Retirement living includes accommodation revenue of approximately $3.0 million and services revenue of approximately $5.2 million for the second quarter of 2018.

	Three month ended June 30, 2017							
(in thousands of Canadian dollars)	Long-term Care	Retirement Living	Home Health Care	Other Canadian Operations	Corporate Canada	Total Canada	Total U.S.	Total
CONTINUING OPERATIONS								
Revenue								
Long-term care	152,976	–	–	–	–	152,976	–	152,976
Retirement living	–	4,802	–	–	–	4,802	–	4,802
Home health care	–	–	110,133	–	–	110,133	–	110,133
Management, consulting and other	–	–	–	4,624	5	4,629	1,305	5,934
Total revenue	152,976	4,802	110,133	4,624	5	272,540	1,305	273,845
Operating expenses	134,501	4,385	98,997	2,095	–	239,978	–	239,978
Administrative costs	–	–	–	–	7,250	7,250	274	7,524
Lease costs	–	–	1,269	–	486	1,755	–	1,755
Total expenses	134,501	4,385	100,266	2,095	7,736	248,983	274	249,257
Earnings (loss) before depreciation and amortization	18,475	417	9,867	2,529	(7,731)	23,557	1,031	24,588
Depreciation and amortization	–	–	–	–	7,911	7,911	–	7,911
Earnings (loss) before net finance costs and income taxes	18,475	417	9,867	2,529	(15,642)	15,646	1,031	16,677
Interest expense	–	–	–	–	6,832	6,832	–	6,832
Accretion	–	–	–	–	360	360	349	709
Loss (gain) on foreign exchange and investments	–	–	–	–	250	250	(1,747)	(1,497)
Interest revenue	–	–	–	–	(870)	(870)	(207)	(1,077)
Fair value adjustments	–	–	–	–	(1,053)	(1,053)	–	(1,053)
Net finance costs (income)	–	–	–	–	5,519	5,519	(1,605)	3,914
Earnings (loss) before income taxes	18,475	417	9,867	2,529	(21,161)	10,127	2,636	12,763
Income tax expense (recovery)								
Current	–	–	–	–	3,531	3,531	–	3,531
Deferred	–	–	–	–	(874)	(874)	187	(687)
Total income tax expense	–	–	–	–	2,657	2,657	187	2,844
Earnings (loss) from continuing operations	18,475	417	9,867	2,529	(23,818)	7,470	2,449	9,919
DISCONTINUED OPERATIONS								
Loss from discontinued operations, net of income taxes	–	–	–	–	–	–	(32,913)	(32,913)
Net earnings (loss)	18,475	417	9,867	2,529	(23,818)	7,470	(30,464)	(22,994)

(in thousands of Canadian dollars)	Long-term Care	Retirement Living	Home Health Care	Other Canadian Operations	Corporate Canada	Total Canada	Total U.S.	Total
								Six months ended June 30, 2018
CONTINUING OPERATIONS								
Revenue								
Long-term care	**308,638**	**–**	**–**	**–**	**–**	**308,638**	**–**	**308,638**
Retirement living	**–**	**15,213**	**–**	**–**	**–**	**15,213**	**–**	**15,213**
Home health care	**–**	**–**	**216,316**	**–**	**–**	**216,316**	**–**	**216,316**
Management, consulting and other	**–**	**–**	**–**	**10,652**	**3**	**10,655**	**90**	**10,745**
Total revenue	**308,638**	**15,213**	**216,316**	**10,652**	**3**	**550,822**	**90**	**550,912**
Operating expenses	**274,560**	**11,235**	**195,122**	**4,366**	**–**	**485,283**	**–**	**485,283**
Administrative costs	**–**	**–**	**–**	**–**	**14,471**	**14,471**	**556**	**15,027**
Lease costs	**–**	**–**	**2,286**	**–**	**1,009**	**3,295**	**–**	**3,295**
Total expenses	**274,560**	**11,235**	**197,408**	**4,366**	**15,480**	**503,049**	**556**	**503,605**
Earnings (loss) before depreciation, amortization, and other expense	**34,078**	**3,978**	**18,908**	**6,286**	**(15,477)**	**47,773**	**(466)**	**47,307**
Depreciation and amortization	**–**	**–**	**–**	**–**	**16,072**	**16,072**	**–**	**16,072**
Other expense	**–**	**–**	**–**	**–**	**3,553**	**3,553**	**–**	**3,553**
Earnings (loss) before net finance costs and income taxes	**34,078**	**3,978**	**18,908**	**6,286**	**(35,102)**	**28,148**	**(466)**	**27,682**
Interest expense	**–**	**–**	**–**	**–**	**14,170**	**14,170**	**–**	**14,170**
Accretion	**–**	**–**	**–**	**–**	**696**	**696**	**808**	**1,504**
Loss (gain) on foreign exchange and investments	**–**	**–**	**–**	**–**	**(584)**	**(584)**	**374**	**(210)**
Interest revenue	**–**	**–**	**–**	**–**	**(1,933)**	**(1,933)**	**–**	**(1,933)**
Fair value adjustments	**–**	**–**	**–**	**–**	**(360)**	**(360)**	**–**	**(360)**
Net finance costs	**–**	**–**	**–**	**–**	**11,989**	**11,989**	**1,182**	**13,171**
Earnings (loss) before income taxes	**34,078**	**3,978**	**18,908**	**6,286**	**(47,091)**	**16,159**	**(1,648)**	**14,511**
Income tax expense								
Current	**–**	**–**	**–**	**–**	**3,469**	**3,469**	**–**	**3,469**
Deferred	**–**	**–**	**–**	**–**	**1,501**	**1,501**	**–**	**1,501**
Total income tax expense	**–**	**–**	**–**	**–**	**4,970**	**4,970**	**–**	**4,970**
Earnings (loss) from continuing operations	**34,078**	**3,978**	**18,908**	**6,286**	**(52,061)**	**11,189**	**(1,648)**	**9,541**
DISCONTINUED OPERATIONS								
Earnings from discontinued operations, net of income taxes	**–**	**–**	**–**	**–**	**–**	**–**	**7,117**	**7,117**
Net earnings (loss)	**34,078**	**3,978**	**18,908**	**6,286**	**(52,061)**	**11,189**	**5,469**	**16,658**

Retirement living includes accommodation revenue of approximately $5.9 million and services revenue of approximately $9.3 million for the six months ended June 30, 2018.

	Six months ended June 30, 2017							
(in thousands of Canadian dollars)	Long-term Care	Retirement Living	Home Health Care	Other Canadian Operations	Corporate Canada	Total Canada	Total U.S.	Total
CONTINUING OPERATIONS								
Revenue								
Long-term care	303,586	–	–	–	–	303,586	–	303,586
Retirement living	–	9,432	–	–	–	9,432	–	9,432
Home health care	–	–	217,927	–	–	217,927	–	217,927
Management, consulting and other	–	–	–	8,949	9	8,958	2,800	11,758
Total revenue	303,586	9,432	217,927	8,949	9	539,903	2,800	542,703
Operating expenses	268,179	8,746	196,133	4,174	–	477,232	–	477,232
Administrative costs	–	–	–	–	15,240	15,240	797	16,037
Lease costs	–	–	2,454	–	963	3,417	–	3,417
Total expenses	268,179	8,746	198,587	4,174	16,203	495,889	797	496,686
Earnings (loss) before depreciation and amortization	35,407	686	19,340	4,775	(16,194)	44,014	2,003	46,017
Depreciation and amortization	–	–	–	–	15,443	15,443	–	15,443
Earnings (loss) before net finance costs and income taxes	35,407	686	19,340	4,775	(31,637)	28,571	2,003	30,574
Interest expense	–	–	–	–	13,752	13,752	–	13,752
Accretion	–	–	–	–	670	670	692	1,362
Loss (gain) on foreign exchange and investments	–	–	–	–	318	318	(1,429)	(1,111)
Interest revenue	–	–	–	–	(1,699)	(1,699)	(207)	(1,906)
Fair value adjustments	–	–	–	–	(1,001)	(1,001)	–	(1,001)
Net finance costs (income)	–	–	–	–	12,040	12,040	(944)	11,096
Earnings (loss) before income taxes	35,407	686	19,340	4,775	(43,677)	16,531	2,947	19,478
Income tax expense (recovery)								
Current	–	–	–	–	6,508	6,508	–	6,508
Deferred	–	–	–	–	(1,998)	(1,998)	102	(1,896)
Total income tax expense	–	–	–	–	4,510	4,510	102	4,612
Earnings (loss) from continuing operations	35,407	686	19,340	4,775	(48,187)	12,021	2,845	14,866
DISCONTINUED OPERATIONS								
Loss from discontinued operations, net of income taxes	–	–	–	–	–	–	(32,913)	(32,913)
Net earnings (loss)	35,407	686	19,340	4,775	(48,187)	12,021	(30,068)	(18,047)

22. SUBSEQUENT EVENT

As announced in July 2018, Mr. Lukenda will be stepping down from his position as President and CEO, and Director of the Company, by December 31, 2018 (December 31, 2018 or the earlier date, the “Effective Date”). In connection with his departure from the Company, Mr. Lukenda will receive, as soon as practicable after the Effective Date, a cash payment in the amount of $2.9 million, but will forfeit, for no consideration as of the Effective Date, all of the PSUs credited to his account under the LTIP. The Company will reflect a charge for the $2.9 million payment, offset by approximately $1.2 million in respect of the forfeiture of the PSUs, in the third quarter of 2018.

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