EXTENDICARE®
... helping people live better

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AND NOTES

Q2 2020

Extendicare Inc.
Dated: August 13, 2020

Extendicare Inc.
Interim Condensed Consolidated Financial Statements

Three and six months ended June 30, 2020 and 2019

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

(in thousands of Canadian dollars)	*notes*	**June 30, 2020**	**December 31, 2019**
Assets			
Current assets			
Cash and cash equivalents		**121,969**	94,457
Restricted cash	*4, 14*	**16,842**	2,441
Accounts receivable		**53,018**	50,382
Income taxes recoverable		**17,839**	15,958
Other assets	*4*	**34,381**	20,661
Total current assets		**244,049**	183,899
Non-current assets			
Property and equipment	*3*	**522,369**	530,527
Goodwill and other intangible assets		**87,194**	89,874
Other assets	*4*	**39,921**	71,752
Deferred tax assets		**15,063**	12,748
Total non-current assets		**664,547**	704,901
Total assets		**908,596**	888,800
Liabilities and Equity			
Current liabilities			
Accounts payable and accrued liabilities		**165,459**	136,922
Income taxes payable		**1,227**	1,606
Long-term debt	*6*	**68,975**	133,771
Provisions	*5*	**—**	3,572
Total current liabilities		**235,661**	275,871
Non-current liabilities			
Long-term debt	*6*	**508,355**	422,535
Provisions	*5*	**17,298**	25,541
Other long-term liabilities	*7*	**39,076**	35,187
Deferred tax liabilities		**12,614**	14,252
Total non-current liabilities		**577,343**	497,515
Total liabilities		**813,004**	773,386
Share capital	*9*	**500,577**	498,116
Equity portion of convertible debentures		**7,085**	7,085
Contributed surplus		**3,410**	3,675
Accumulated deficit		**(401,416)**	(382,189)
Accumulated other comprehensive loss		**(14,064)**	(11,273)
Shareholders' equity		**95,592**	115,414
Total liabilities and equity		**908,596**	888,800

See accompanying notes to unaudited interim condensed consolidated financial statements.
Commitments and contingencies (Note 15).
Subsequent event (Note 17)

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, 2020	Three months ended June 30, 2019 (1)	Six months ended June 30, 2020	Six months ended June 30, 2019 (1)
CONTINUING OPERATIONS					
Revenue	*18*	**281,947**	284,053	**553,765**	558,322
Operating expenses		**262,013**	248,733	**503,448**	492,616
Administrative costs		**11,767**	10,168	**22,019**	20,780
Total expenses	*10*	**273,780**	258,901	**525,467**	513,396
Earnings before depreciation, amortization, and other expense		**8,167**	25,152	**28,298**	44,926
Depreciation and amortization		**9,685**	9,705	**19,538**	19,132
Other expense	*11*	**2,780**	975	**2,780**	2,404
Earnings (loss) before net finance costs and income taxes		**(4,298)**	14,472	**5,980**	23,390
Interest expense		**7,187**	7,030	**14,228**	13,912
Interest revenue		**(620)**	(901)	**(1,550)**	(1,765)
Accretion		**307**	293	**611**	595
Foreign exchange and fair value adjustments	*12*	**735**	881	**2,995**	2,710
Net finance costs		**7,609**	7,303	**16,284**	15,452
Earnings (loss) before income taxes		**(11,907)**	7,169	**(10,304)**	7,938
Income tax expense (recovery)					
Current		**(1,848)**	3,029	**225**	4,553
Deferred		**(1,170)**	(826)	**(2,877)**	(1,594)
Total income tax expense (recovery)		**(3,018)**	2,203	**(2,652)**	2,959
Earnings (loss) from continuing operations		**(8,889)**	4,966	**(7,652)**	4,979
DISCONTINUED OPERATIONS					
Earnings from discontinued operations, net of income taxes	*14*	**5,230**	3,359	**9,899**	6,304
Net earnings (loss)		**(3,659)**	8,325	**2,247**	11,283
Basic and Diluted Earnings (Loss) per Share					
Earnings (loss) from continuing operations	*13*	**$(0.10)**	$0.06	**$(0.09)**	$0.06
Net earnings (loss)	*13*	**$(0.04)**	$0.10	**$0.03**	$0.13

See accompanying notes to unaudited interim condensed consolidated financial statements.

[(1)] *Comparative figures have been re-presented to reflect discontinued operations (Notes 2, 14)*

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)	**2020**	**2019**	**2020**	**2019**
Net earnings (loss)	**(3,659)**	8,325	**2,247**	11,283
Other comprehensive income (loss), net of taxes				
Items that will not be reclassified to profit or loss:				
Defined benefit plan actuarial losses	**(3,227)**	(786)	**(4,006)**	(2,525)
Tax recovery on defined benefit plan actuarial losses	**855**	208	**1,062**	669
Defined benefit plan actuarial losses, net of taxes	**(2,372)**	(578)	**(2,944)**	(1,856)
Items that are or may be reclassified subsequently to profit or loss:				
Net change in foreign currency translation adjustment	**(454)**	(996)	**153**	(1,622)
Other comprehensive loss, net of taxes	**(2,826)**	(1,574)	**(2,791)**	(3,478)
Total comprehensive income (loss)	**(6,485)**	6,751	**(544)**	7,805

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, except for number of shares)	***notes***	***Number of shares***	**Share capital**	**Equity portion of convertible debentures**	**Contributed surplus**	**Accumulated deficit**	**Accumulated other comprehensive loss**	**Shareholders' equity**
Balance at January 1, 2020		***89,232,512***	**498,116**	**7,085**	**3,675**	**(382,189)**	**(11,273)**	**115,414**
DRIP		***231,813***	**1,705**	**—**	**—**	**—**	**—**	**1,705**
Share-based compensation	***8***	***74,760***	**756**	**—**	**(265)**	**—**	**—**	**491**
Net earnings		**—**	**—**	**—**	**—**	**2,247**	**—**	**2,247**
Dividends declared		**—**	**—**	**—**	**—**	**(21,474)**	**—**	**(21,474)**
Other comprehensive loss		**—**	**—**	**—**	**—**	**—**	**(2,791)**	**(2,791)**
Balance at June 30, 2020		**89,539,085**	**500,577**	**7,085**	**3,410**	**(401,416)**	**(14,064)**	**95,592**

(in thousands of Canadian dollars, except for number of shares)	***notes***	***Number of shares***	**Share capital**	**Equity portion of convertible debentures**	**Contributed surplus**	**Accumulated deficit**	**Accumulated other comprehensive loss**	**Shareholders' equity**
Balance at January 1, 2019		*88,489,984*	492,064	7,085	2,706	(368,147)	(7,717)	125,991
DRIP		*358,775*	2,619	—	—	—	—	2,619
Share-based compensation	*8*	*14,909*	302	—	222	—	—	524
Net earnings		—	—	—	—	11,283	—	11,283
Dividends declared		—	—	—	—	(21,290)	—	(21,290)
Other comprehensive loss		—	—	—	—	—	(3,478)	(3,478)
Balance at June 30, 2019		88,863,668	494,985	7,085	2,928	(378,154)	(11,195)	115,649

See accompanying notes to unaudited interim condensed consolidated financial statements.

Extendicare Inc.

Interim Condensed Consolidated Statements of Cash Flows

(Unaudited)

		Three months ended June 30,		Six months ended June 30,	
(in thousands of Canadian dollars)	*notes*	**2020**	**2019**	**2020**	**2019**
Operating Activities					
Net earnings (loss)		**(3,659)**	8,325	**2,247**	11,283
Adjustments for:					
Depreciation and amortization	*3*	**9,685**	9,705	**19,538**	19,132
Share-based compensation	*8*	**317**	306	**491**	524
Deferred taxes		**(1,180)**	(747)	**(2,887)**	(1,572)
Current taxes		**(1,838)**	2,950	**235**	4,531
Net finance costs		**6,874**	6,657	**13,289**	13,211
Other income	*14*	**(2,722)**	(1,496)	**(6,757)**	(1,968)
Foreign exchange and fair value adjustments	*12*	**396**	(421)	**1,791**	(92)
		7,873	25,279	**27,947**	45,049
Net change in operating assets and liabilities					
Accounts receivable		**(16,733)**	(3,863)	**(2,636)**	2,100
Other assets	*4*	**(13,999)**	(456)	**(13,815)**	528
Accounts payable and accrued liabilities		**33,520**	(8,150)	**24,527**	(6,365)
		10,661	12,810	**36,023**	41,312
Interest paid		**(8,500)**	(8,319)	**(13,539)**	(13,267)
Interest received		**619**	901	**1,550**	1,768
Income taxes received (paid)		**412**	(2,642)	**(1,994)**	(5,657)
Payments of self-insured liabilities		**(1,584)**	(3,430)	**(1,623)**	(12,324)
Net cash from (used in) operating activities		**1,608**	(680)	**20,417**	11,832
Investing Activities					
Purchase of property, equipment and other intangible assets	*3*	**(4,503)**	(9,388)	**(9,929)**	(15,426)
Decrease in investments held for self-insured liabilities	*4*	**5,870**	16,944	**15,518**	26,210
Decrease in other assets	*4*	**1,449**	1,374	**2,898**	2,744
Net cash from investing activities		**2,816**	8,930	**8,487**	13,528
Financing Activities					
Issuance of long-term debt	*6*	**59,685**	22,596	**62,362**	27,779
Repayment of long-term debt	*6*	**(33,936)**	(6,299)	**(40,561)**	(14,040)
Increase in restricted cash	*4*	**(130)**	(132)	**(334)**	(285)
Dividends paid		**(10,485)**	(9,301)	**(19,769)**	(18,656)
Financing costs		**(3,709)**	(991)	**(3,763)**	(991)
Net cash from (used in) financing activities		**11,425**	5,873	**(2,065)**	(6,193)
Increase in cash and cash equivalents		**15,849**	14,123	**26,839**	19,167
Cash and cash equivalents at beginning of period		**105,829**	70,500	**94,457**	65,893
Foreign exchange gain (loss) on cash held in foreign currency		**291**	(217)	**673**	(654)
Cash and cash equivalents at end of period		**121,969**	84,406	**121,969**	84,406

See accompanying notes to unaudited interim condensed consolidated financial statements.

1. GENERAL INFORMATION AND NATURE OF THE BUSINESS

The common shares (the "Common Shares") of Extendicare Inc. ("Extendicare" or the "Company") are listed on the Toronto Stock Exchange (TSX) under the symbol "EXE". The Company and its predecessors have been operating since 1968, providing care and services to seniors throughout Canada. The Company is a leading provider of care and services for seniors across Canada, operating under the Extendicare, Esprit Lifestyle, ParaMed, Extendicare Assist and SGP Partner Network brands and is committed to delivering quality care throughout the health continuum to meet the needs of a growing seniors population. The registered office of the Company is located at 3000 Steeles Avenue East, Suite 700, Markham, Ontario, Canada, L3R 9W2.

2. BASIS OF PREPARATION

a) Statement of Compliance

The interim condensed consolidated financial statements (the "consolidated financial statements") have been prepared in accordance with International Financial Reporting Standards (IFRS) IAS 34 "Interim Financial Reporting" as issued by the International Accounting Standards Board (IASB), and were approved by the board of directors of the Company on August 13, 2020.

The consolidated financial statements do not include all of the information required for full annual consolidated financial statements, and should be read in conjunction with the Company's 2019 annual audited consolidated financial statements. These consolidated financial statements follow the same accounting policies and methods of application as the consolidated financial statements for the year-ended December 31, 2019, except for those identified below. Certain comparative information has been reclassified to conform to the current year presentation.

b) Basis of Measurement

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

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

c) Use of Estimates and Judgement

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

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

In March 2020, a global pandemic was declared related to a new strain of coronavirus (COVID-19). In response, the federal and provincial governments and public health officials initiated a number of measures to mitigate against the severity and spread of the virus. The federal and provincial governments have announced various programs and financial assistance to address the increased costs and other challenges and we continue to assess the extent to which they may impact our results. Any estimate of the length and severity of these impacts is therefore subject to significant uncertainty, and accordingly estimates of the extent to which COVID-19 may materially and adversely affect the Company's operations, financial results and condition in future periods are also subject to significant uncertainty. The areas of estimation and judgement uncertainty for the Company which may be impacted by the uncertainty of COVID-19 include estimates used to determine the recoverable amounts for long-lived assets and goodwill subject to an impairment test which rely on the outlook for future financial performance of the cash generating unit (CGU) and estimates regarding deferred income taxes and valuation allowances.

The more subjective of such estimates are:

- determination of the recoverable amount of CGUs subject to an impairment test;
- accounting for tax uncertainties and valuation of deferred taxes;
- determination of the amount and timing of proposed government funding enhancements to address the increased costs of operations as a result of COVID-19;

- determination of the lease term for leases that include renewal options and the appropriate discount rate used to recognize lease liability;
- valuation of financial assets and liabilities; and
- valuation of share-based compensation.

In addition, the assessment of contingencies (*Note 15*) and provisions are subject to judgement. The recorded amounts for such items are based on management's best available information and are subject to assumptions and judgement, which may change as time progresses; accordingly, actual results could differ from estimates.

d) Accounting Standards Adopted during the Period

Beginning on January 1, 2020, the Company adopted certain IFRS and amendments. As required by IAS 34 Interim Financial Reporting and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, the nature and the effect of these changes are disclosed below:

Definition of a Business

Beginning on January 1, 2020, the Company adopted the IASB amendment regarding the definition of a business under IFRS 3 Business Combinations. This amendment narrowed and clarified the definition of a business, as well as permitted a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business. The adoption of the amendment to IFRS 3 did not have a material impact on the consolidated financial statements.

3. PROPERTY AND EQUIPMENT

	Land & Land Improvements	Buildings	Furniture & Equipment	Leasehold Improvements	Construction in Progress (CIP)	Total
Cost or Deemed Cost						
January 1, 2019	58,280	587,161	63,047	1,927	30,851	741,266
Recognition of right-of-use assets on initial application of IFRS 16	—	5,780	—	—	—	5,780
Adjusted January 1, 2019	58,280	592,941	63,047	1,927	30,851	747,046
Additions	247	13,763	6,147	406	21,666	42,229
Write-off of fully depreciated assets	(197)	(906)	(5,213)	(1,029)	—	(7,345)
Transfer from CIP	3,080	33,746	2,543	—	(39,369)	—
December 31, 2019	61,410	639,544	66,524	1,304	13,148	781,930
January 1, 2020	**61,410**	**639,544**	**66,524**	**1,304**	**13,148**	**781,930**
Additions	**31**	**2,708**	**2,250**	**32**	**5,702**	**10,723**
Write-off of fully depreciated assets	**(14)**	**(6,665)**	**(1,628)**	**(834)**	**—**	**(9,141)**
Impairment (*Note 11*)	**—**	**(2,780)**	**—**	**—**	**—**	**(2,780)**
Transfer from CIP	**128**	**253**	**380**	**—**	**(761)**	**—**
June 30, 2020	**61,555**	**633,060**	**67,526**	**502**	**18,089**	**780,732**

	Land & Land Improvements	Buildings	Furniture & Equipment	Leasehold Improvements	Construction in Progress (CIP)	Total
Accumulated Depreciation						
January 1, 2019	4,580	191,780	28,251	1,806	—	226,417
Recognition of right-of-use assets on initial application of IFRS 16	—	—	—	—	—	—
Adjusted January 1, 2019	4,580	191,780	28,251	1,806	—	226,417
Additions	647	24,775	6,474	435	—	32,331
Write-off of fully depreciated	(197)	(906)	(5,213)	(1,029)	—	(7,345)
December 31, 2019	5,030	215,649	29,512	1,212	—	251,403
January 1, 2020	**5,030**	**215,649**	**29,512**	**1,212**	**—**	**251,403**
Additions	**335**	**12,154**	**3,564**	**48**	**—**	**16,101**
Write-off of fully depreciated assets	**(14)**	**(6,665)**	**(1,628)**	**(834)**	**—**	**(9,141)**
June 30, 2020	**5,351**	**221,138**	**31,448**	**426**	**—**	**258,363**
Carrying amounts						
At December 31, 2019	56,380	423,895	37,012	92	13,148	530,527
At June 30, 2020	**56,204**	**411,922**	**36,078**	**76**	**18,089**	**522,369**

The right-of-use assets included in buildings were $99.3 million (December 31, 2019 – $97.8 million) with accumulated depreciation of $41.7 million (December 31, 2019 – $37.1 million).

New and renewed leases have been recognized as right-of-use asset within Buildings of $0.1 million during the three months ended June 30, 2020 and $1.5 million during the six months ended June 30, 2020 (three and six months ended June 30, 2019 – $10.3 million).

No borrowing costs were capitalized related to development projects under construction during the three and six months ended June 30, 2020 (three months ended June 30, 2019 – $0.2 million and six months ended June 30, 2019 – $0.5 million at an average capitalization rate of 4.5%).

4. OTHER ASSETS

	June 30, 2020	December 31, 2019
Amounts receivable and other assets	**74,302**	63,371
Investments held for self-insured liabilities	**—**	27,562
Interest rate swaps	**—**	1,480
	74,302	92,413
less: current portion	**(34,381)**	(20,661)
	39,921	71,752

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 homes, totalling $45.0 million (December 31, 2019 – $47.9 million) of which $5.7 million (December 31, 2019 – $5.8 million) is current. These subsidies represent funding for a portion of long-term care home construction costs over a 20-year or 25-year period. The weighted average remaining term of this funding is 14 years.

Amounts receivable and other assets also include inventory of $19.4 million (December 31, 2019 - $6.8 million), which includes pandemic supplies inventory of $12.7 million (December 31, 2019 - nil). In addition, there is a $1.3 million receivable as at June 30, 2020 (December 31, 2019 – $1.3 million), resulting from the U.S. Sale Transaction. The remaining balance of $8.6 million primarily relates to prepaid expenses and deposits (December 31, 2019 – $7.4 million).

Investments Held for Self-insured Liabilities

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

The Company held U.S. dollar-denominated investments within the Captive for settlements of the self-insured liabilities that are subject to insurance regulatory requirements.

As at June 30, 2020, the investments previously held for self-insured liabilities have been reclassified to restricted cash pending the completion of the regulatory approval of the deregistration of the Captive, following which the restricted cash will be released to the Company (*Note 14*).

As at December 31, 2019, the investment portfolio comprised cash of $6.3 million and money market funds of $21.2 million. Certain of these investments in the amount of $1.6 million (December 31, 2019 – $2.7 million), have been pledged as collateral for letters of credit issued by the banker of the Captive in favour of ceding companies. All investments were carried at fair value, with changes in fair value reflected in net earnings.

Interest Rate Swaps

The interest rate swaps include swap contracts relating to mortgages, with notional amount totalling $89.6 million (December 31, 2019 – $82.1 million), to lock in the rates between 3.11% and 5.04% for the full term of the loans being three to ten years (*Note 6*).

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 16)*. As at June 30, 2020, the interest rate swaps were valued as a liability of $2.9 million (December 31, 2019 – $0.8 million net asset, including a liability of $0.7 million) (*Note 7*).

5. PROVISIONS

	Accrual for Self-insured	Indemnification Provisions	Decommissioning Provisions	Total
January 1, 2019	37,138	13,713	9,365	60,216
Provisions released	(11,579)	—	—	(11,579)
Provisions used	(12,769)	(5,757)	(34)	(18,560)
Accretion	648	—	195	843
Effect of movements in exchange rates	(1,277)	(530)	—	(1,807)
December 31, 2019	12,161	7,426	9,526	29,113
Less: current portion	(3,572)	—	—	(3,572)
	8,589	7,426	9,526	25,541
January 1, 2020	**12,161**	**7,426**	**9,526**	**29,113**
Provisions released	**(9,537)**	**—**	**—**	**(9,537)**
Provisions used	**(3,246)**	**(61)**	**(3)**	**(3,310)**
Accretion	**—**	**—**	**97**	**97**
Effect of movements in exchange rates	**622**	**313**	**—**	**935**
June 30, 2020	**—**	**7,678**	**9,620**	**17,298**

Accrual for Self-Insured Liabilities

The obligation to settle U.S. self-insured general and professional liability claims relating to the period prior to the closing of the U.S. Sale Transaction, including claims incurred but yet to be reported, remained with the Company, and was funded through the Captive.

As at June 30, 2020, the accrual for self-insured general and professional liabilities was reduced to $nil and any expense incurred or release of reserves for U.S. self-insured liabilities are presented as discontinued operations (*Note 14*).

Indemnification Provisions

As a result of the U.S. Sale Transaction, the Company agreed to indemnify certain obligations of the U.S. operations related to tax, a corporate integrity agreement (the "CIA"), and other items. Any revisions to these estimates are reflected as part of other expense in discontinued operations (*Note 14*). As at June 30, 2020, the remaining provisions totaled $7.7 million (US $5.7 million) (December 31, 2019 – $7.4 million or US$5.7 million).

Decommissioning Provisions

The decommissioning provisions relate to possible asbestos remediation of the Company's pre-1980 constructed homes. An estimated undiscounted cash flow amount of approximately $10.7 million (December 31, 2019 – $10.7 million) was discounted using a rate of 1.64% (December 31, 2019 – 1.64%) over an estimated time to settle of 6 years. This represents management's best estimate and actual amounts may differ.

6. LONG-TERM DEBT

	Interest Rate	Year of Maturity	June 30, 2020	December 31, 2019
Convertible unsecured subordinated debentures	5.00 %	2025	**121,145**	120,675
CMHC mortgages, fixed rate	2.19% - 7.70%	2022 - 2037	**147,753**	128,878
CMHC mortgages, variable rate	Variable	2025	**23,217**	—
Non-CMHC mortgages	3.11% - 5.64%	2022 - 2038	**170,446**	164,349
Construction loans	Variable	on demand	**43,113**	64,601
Lease liabilities	0.92% - 7.06%	2020 - 2034	**82,858**	86,208
			588,532	564,711
Deferred financing costs			**(11,202)**	(8,405)
Total debt, net of deferred financing costs			**577,330**	556,306
Less: current portion			**(68,975)**	(133,771)
Long-term debt, net of deferred financing costs			**508,355**	422,535

Convertible Unsecured Subordinated Debentures

In April 2018, the Company issued $126.5 million aggregate principal amount of 5.00% convertible unsecured subordinated debentures due April 30, 2025 (the "2025 Debentures"), with a conversion price of $12.25 per Common Share (the "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.

CMHC Mortgages

The Company has various mortgages insured through the Canada Mortgage and Housing Corporation (CMHC) program. The CMHC mortgages are secured by several Canadian financial institutions at rates ranging from 2.19% to 7.70% with maturity dates through to 2037.

In June 2020, the Company renewed a CMHC-insured mortgage of $23.2 million, inclusive of fees, on a long-term care home. The renewed mortgage matures in July 2025, with a variable rate based on the lenders cost of funds plus 225 basis points.

In April 2020, the Company secured a CMHC-insured mortgage of $47.8 million, inclusive of fees, on a retirement community. The mortgage matures in June 2030 with a fixed rate of 2.19% per annum. The previously existing construction loan of $25.8 million was repaid in full on closing.

In October 2019, the Company secured a CMHC-insured mortgage of $9.3 million, inclusive of fees, on a retirement community. The new mortgage matures in September 2029, with a fixed rate of 2.49% per annum.

In April 2019, the Company secured a CMHC-insured mortgage of $16.0 million, inclusive of fees, on a retirement community. The new mortgage matures in September 2029, with a fixed rate of 2.81% per annum.

Non-CMHC Mortgages

The Company has a number of conventional mortgages on certain long-term care homes, at rates ranging from 3.11% to 5.64%. Some of these mortgages have a requirement to maintain a minimum debt service coverage ratio.

In May 2020, the Company secured mortgages of $10.3 million, inclusive of fees, on two retirement communities that mature in May 2023 and the Company entered into interest rate swap contracts to lock in the interest rate on each of these mortgages at 3.55% per annum.

In March, 2020, the Company extended maturing mortgages of $21.7 million on certain long-term care homes. These extended mortgages mature in April 2025 with a fixed rate of 3.49% per annum.

Construction Loans

Construction loans of $48.0 million are available for two retirement home communities and provide for additional letter of credit facilities of $0.8 million and $1.0 million respectively, at rates ranging from 2.25% to 2.50% if utilized. Construction loans are interest-only based on 30-day banker’s acceptance (BA) plus 2.25% to 2.50%, with no standby fee.

The construction loans are payable on demand and, in any event, are to be fully repaid by the earlier of achieving stabilized occupancy as defined by the agreements or 2023.

All construction loans have been reflected as current.

As at June 30, 2020, an aggregate of $43.1 million was drawn on the construction loans (December 31, 2019 – $64.6 million), leaving $4.9 million available (December 31, 2019 – $13.1 million); in addition, as at June 30, 2020, letters of credit totalling $1.0 million were issued under credit facilities (December 31, 2019 – $1.3 million), leaving $0.7 million available (December 31, 2019 – $1.3 million).

Lease Liabilities

Lease liabilities as at June 30, 2020 include leases on long-term care homes and the liability related to office leases. The Company operates nine Ontario long-term care homes, which were built between 2001 and 2003, under 25-year lease arrangements. The liability associated with the office leases will be amortized over the remaining lease terms ranging up to 15 years.

During the three months ended June 30, 2020, the Company has recognized new and renewed lease liabilities of $0.1 million and the six months ended June 30, 2020 of $1.5 million (three months ended June 30, 2019 of $10.3 million and six months ended June 30, 2019 of $10.3 million).

Credit Facilities

The Company has two demand credit facilities totalling $112.3 million. One is secured by 13 Class C long-term care homes in Ontario and the other is secured by the assets of the home health care business. Neither of these facilities has financial covenants but do contain normal and customary terms. As at June 30, 2020, $35.6 million of the facilities secure the Company’s defined benefit pension plan obligations (December 31, 2019 – $38.1 million), $4.7 million was used in connection with obligations relating to long-term care homes and retirement communities (December 31, 2019 – $5.5 million), leaving $71.9 million unutilized (December 31, 2019 – $68.7 million).

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.

Principal Repayments

	Debt Principal	Lease Liabilities	Total
2020 remaining	52,197	7,561	59,758
2021	19,056	16,540	35,596
2022	62,957	14,299	77,256
2023	58,356	13,729	72,085
2024	9,373	13,464	22,837
2025 and thereafter	309,090	39,315	348,405
Total debt principal and lease liability repayments	511,029	104,908	615,937
Unamortized accretion of 2025 convertible debentures	(5,355)	—	(5,355)
Interest on lease liabilities	—	(22,050)	(22,050)
	505,674	82,858	588,532

Long-term Debt Continuity

	Amount
January 1, 2019	528,970
Initial recognition of lease liabilities upon transition to IFRS 16	5,780
Issuance of long-term debt	45,987
New lease liabilities	10,316
Accretion and other	900
Repayments	(35,658)
Addition - deferred financing costs	(1,628)
Amortization of deferred financing costs and other	1,639
December 31, 2019	556,306
January 1, 2020	**556,306**
Issuance of long-term debt	**62,362**
New lease liabilities	**1,554**
Accretion and other	**466**
Repayments	**(40,561)**
Addition - deferred financing costs	**(3,763)**
Amortization of deferred financing costs and other	**966**
June 30, 2020	**577,330**

Interest Rates

The weighted average interest rate of all long-term debt as at June 30, 2020, was approximately 4.4% (December 31, 2019 – 4.7%). As at June 30, 2020, 88.7% of the long-term debt, including interest rate swaps, was at fixed rates (December 31, 2019 – 88.6%).

Financial Covenants

The Company is subject to debt service coverage covenants on certain of its loans. The Company was in compliance with all of these covenants as at June 30, 2020.

7. OTHER LONG-TERM LIABILITIES

	June 30, 2020	December 31, 2019
Accrued pension plan obligation	**33,617**	32,609
Interest rate swaps (*Note 4*)	**2,869**	702
Other	**2,590**	1,876
	39,076	35,187

8. SHARE-BASED COMPENSATION

Equity-settled Long-term Incentive Plan

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

PSUs and DSUs granted under the LTIP do not carry any voting rights. DSUs vest immediately upon grant and PSUs vest three years from the date of grant. During the three months ended June 30, 2020, the Company settled DSUs and PSUs totalling 34,554, of which 5,922 were settled in cash to cover withholding taxes payable and 28,632 were settled with Common Shares issued from treasury. During the six months ended June 30, 2020, the Company settled PSUs and DSUs totalling 104,387, of which 29,627 were settled in cash to cover withholding taxes payable ($0.2 million) and 74,760 were settled with Common Shares issued from treasury.

The Company's DSUs and PSUs were an expense of $0.4 million for three months ended June 30, 2020 (three months ended June 30, 2019 – $0.3 million) and $0.7 million for the six months ended June 30, 2020 (six months ended June 30, 2019 - $0.5 million).

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

	June 30, 2020	December 31, 2019
Contributed surplus – DSUs	**2,290**	2,594
Contributed surplus – PSUs	**1,120**	1,081
	3,410	3,675

As at June 30, 2020, an aggregate of 4,264,152 Common Shares are reserved and available for issuance pursuant to the LTIP.

DSU and PSU activity is as follows:

	Deferred Share Units		Performance Share Units	
	Six months ended June 30, 2020	Twelve months ended December 31, 2019	Six months ended June 30, 2020	Twelve months ended December 31, 2019
Units outstanding, beginning of period	**337,029**	239,725	**399,521**	188,909
Granted	**52,172**	82,384	**323,168**	292,581
Reinvested dividend equivalents	**11,000**	14,920	**21,029**	17,889
Forfeited	**—**	—	**(62,207)**	(38,573)
Settled	**(79,155)**	—	**(25,232)**	(61,285)
Units outstanding, end of period	**321,046**	337,029	**656,279**	399,521
Weighted average fair value of units granted during the period at grant date	**$5.63**	$8.26	**$7.44**	$9.62

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

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

	Six months ended June 30, 2020	**Twelve months ended December 31, 2019**
Grant date	**March 10, 2020**	May 31, 2019
Vesting date	**March 10, 2023**	May 31, 2022
PSUs granted	**323,168**	292,581
Fair value of AFFO component	**$3.64**	$4.04
Fair value of TSR component	**$3.80**	$5.58
Grant date fair value	**$7.44**	$9.62
Expected volatility of the Company's Common Shares	**19.79 %**	20.49 %
Expected volatility of the Index	**11.05 %**	9.42 %
Risk-free rate	**0.55 %**	1.40 %
Dividend yield	**nil**	nil

9. SHARE CAPITAL

Common Shares

Each Common Share is transferable and represents an equal and undivided beneficial interest in the assets of the Company. Each Common Share entitles the holder to one vote at all meetings of shareholders of the Company. Shareholders are entitled to receive dividends from the Company if, as and when declared by the Board. During the three months ended June 30, 2020 and 2019, the Company declared cash dividends of $0.12 per share. During the six months ended June 30, 2020 and 2019, the Company declared cash dividends of $0.24 per share.

Dividend Reinvestment Plan

The Company has a Dividend Reinvestment Plan (DRIP) pursuant to which shareholders who are Canadian residents may elect to reinvest their cash distributions in additional Common Shares. On March 19, 2020, the Company suspended its DRIP in respect of any future declared dividends until further notice. Accordingly, the dividend paid on April 15, 2020 to shareholders of record on March 31, 2020 was the last dividend payment eligible for reinvestment by participating shareholders under the DRIP. Subsequent dividends will be paid only in cash.

During the three months ended June 30, 2020, the Company issued 44,155 Common Shares at a value of $0.3 million in connection with DRIP (three months ended June 30, 2019 - 175,013 Common shares at a value of $1.3 million). During the six months ended June 30, 2020, the Company issued 231,813 Common Shares at a value of $1.7 million (six months ended June 30, 2019 – 358,775 Common Shares at a value of $2.6 million).

Normal Course Issuer Bid (NCIB)

In January 2020, the Company received approval from the TSX to renew its NCIB to purchase for cancellation up to 8,000,000 Common Shares (representing approximately 10% of its public float) through the facilities of the TSX, and through alternative Canadian trading systems, in accordance with TSX rules. The NCIB commenced on January 15, 2020, and provides the Company with flexibility to purchase Common Shares for cancellation until January 14, 2021, or on such earlier date as the NCIB is complete. The actual number of Common Shares purchased under the NCIB and the timing of any such purchases will be at the Company's discretion. Subject to the TSX's block purchase exception, on any trading day, purchases under the NCIB will not exceed 42,703 Common Shares.

During the six months ended June 30, 2020, the Company did not purchase any Common Shares under the NCIB.

10. EXPENSES BY NATURE

	Three months ended June 30,		Six months ended June 30,	
	2020	**2019 (1)**	**2020**	**2019 (1)**
Employee wages and benefits	**228,934**	219,688	**441,515**	434,943
Food, drugs, supplies and other variable costs	**19,639**	13,360	**33,108**	25,629
Property based and leases	**12,084**	11,184	**24,593**	23,729
Other	**13,123**	14,669	**26,251**	29,095
Total operating expenses and administrative costs	**273,780**	258,901	**525,467**	513,396

(1) *Comparative figures have been re-presented to reflect discontinued operations (Notes 2, 14)*

11. OTHER EXPENSE

	Three months ended June 30,		Six months ended June 30,	
	2020	**2019**	**2020**	**2019**
Impairment	**2,780**	—	**2,780**	—
Other costs	**—**	975	**—**	975
Termination of B.C. market home health care contracts	**—**	—	**—**	1,429
	2,780	975	**2,780**	2,404

Impairment

In the second quarter of 2020, the Company recorded a pre-tax impairment charge of $2.8 million ($2.0 million after tax), in respect of certain of its retirement communities in Saskatchewan.

Other Costs

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

Termination of B.C. Market Home Health Care Contracts

In the first quarter of 2019, the Company was informed by the health authorities in British Columbia with whom it had contracts, that such contracts would not be renewed in March 2020. Accordingly, the Company ceased its home health care operations in British Columbia during the first quarter of 2020. The Company recognized a $1.4 million provision in the first quarter of 2019 for costs to be incurred in connection with the contract expiration.

12. FOREIGN EXCHANGE AND FAIR VALUE ADJUSTMENTS

Gain on Foreign Exchange and Investments

Foreign exchange gains/losses related to deferred consideration and other balances denominated in U.S. dollars for the three months ended June 30, 2020 is a loss of $0.3 million (three months ended June 30, 2019 – loss of $0.1 million) (*Note 14*), and for the six months ended June 30, 2020 is a gain of $0.7 million (six months ended June 30, 2019 - loss of $0.6 million).

Fair Value Adjustments

Fair value adjustments relate to interest rate swap contracts on certain mortgages are a loss of $0.5 million for the three months ended June 30, 2020 (three months ended June 30, 2019 – loss of $0.7 million), and are a loss of $3.7 million for the six months ended June 30, 2020 (six months ended June 30, 2019 - loss of $2.0 million) (*Notes 4, 7*).

13. EARNINGS PER SHARE

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

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

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

	Three months ended June 30,		Six months ended June 30,	
	2020	**2019** [1]	**2020**	**2019** [1]
Numerator for Basic and Diluted Earnings per Share				
Earnings (loss) from continuing operations				
Net earnings for basic earnings (loss) per share	**(3,659)**	8,325	**2,247**	11,283
Less: earnings from discontinued operations, net of tax	**(5,230)**	(3,359)	**(9,899)**	(6,304)
Earnings (loss) from continuing operations for basic earnings per share	**(8,889)**	4,966	**(7,652)**	4,979
Add: after-tax interest on convertible debt	**1,541**	1,527	**3,078**	3,051
Earnings (loss) from continuing operations for diluted earnings per share	**(7,348)**	6,493	**(4,574)**	8,030
Net earnings (loss)				
Net earnings (loss) for basic earnings per share	**(3,659)**	8,325	**2,247**	11,283
Add: after-tax interest on convertible debt	**1,541**	1,527	**3,078**	3,051
Net earnings (loss) for diluted earnings per share	**(2,118)**	9,852	**5,325**	14,334
Denominator for Basic and Diluted Earnings per Share				
Actual weighted average number of shares	**89,509,112**	88,772,174	**89,430,542**	88,678,144
DSUs	**316,659**	266,919	**304,168**	254,531
Weighted average number of shares for basic earnings per share	**89,825,771**	89,039,093	**89,734,710**	88,932,675
Shares issued if all convertible debt was converted	**10,326,531**	10,326,531	**10,326,531**	10,326,531
PSUs	**24,279**	49,869	**33,799**	53,174
Total for diluted earnings per share	**100,176,581**	99,415,493	**100,095,040**	99,312,380
Basic and Diluted Earnings per Share *(in dollars)*				
Earnings (loss) from continuing operations	**$(0.10)**	$0.06	**$(0.09)**	$0.06
Earnings from discontinued operations	**$0.06**	$0.04	**$0.12**	$0.07
Net earnings (loss)	**$(0.04)**	$0.10	**$0.03**	$0.13

[1] *Comparative figures have been re-presented to reflect discontinued operations (Notes 2, 14)*

14. DISCONTINUED OPERATIONS

After the U.S. Sale Transaction, the Company retained the Captive, which, along with third-party insurers, insured the Company's U.S. general and professional liability risks up to the date of the U.S. Sale Transaction, and was reported as the U.S. segment.

On June 23, 2020, the Board of Directors of the Captive approved a wind up plan to deregister the Captive with the Bermuda Monetary Authority and subsequently dissolve the Captive, ceasing the operations of the U.S. segment. Concurrently, the Company entered into a termination agreement with the Captive to assume the remaining obligations and certain liabilities of the Captive effective June 30, 2020.

As a result, the remaining portion of the U.S. segment has been classified as a discontinued operation. Accordingly, the comparative interim condensed consolidated statement of earnings has been re-presented.

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

	Three months ended June 30,		Six months ended June 30,	
	2020	**2019**	**2020**	**2019**
Earnings from Discontinued Operations				
Administrative costs	**611**	179	**842**	401
Other income	**(5,502)**	(2,471)	**(9,537)**	(4,372)
Earnings before net finance costs	**4,891**	**2,292**	**8,695**	**3,971**
Interest expense	**—**	235	**—**	469
Foreign exchange and fair value adjustments	**(339)**	(1,302)	**(1,204)**	(2,802)
Earnings from discontinued operations	**5,230**	3,359	**9,899**	6,304

Earnings from discontinued operations includes the release of the accrual for self-insured liabilities of $5.5 million for the three months ended June 30, 2020 (three months ended June 30, 2019 – $2.5 million) and $9.5 million for the six months ended June 30, 2020 (six months ended June 30, 2019 – $4.4 million), foreign exchange and fair value gain of $0.3 million for the three months ended June 30, 2020 (three months ended June 30, 2019 – $1.3 million) and $ 1.2 million for the six months ended June 30, 2020 (six months ended June 30, 2019 – $ 2.8 million), net of administrative costs and interest expense.

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

	Three months ended June 30,		Six months ended June 30,	
	2020	**2019**	**2020**	**2019**
Cash Flows from Discontinued Operations				
Net cash used in operating activities	**(5,858)**	(3,511)	**(5,616)**	(12,777)
Net cash from investing activities	**5,858**	3,511	**5,616**	12,777
Effect on cash flows	**—**	—	**—**	—

The assets and liabilities of the discontinued operation as at June 30, 2020 and December 31, 2019 are as follows:

	June 30, 2020	**December 31, 2019**
Assets		
Restricted cash	**14,067**	—
Other assets	**—**	27,562
Total assets	**14,067**	27,562
Liabilities		
Accounts payable and accrued liabilities	**—**	1,565
Provisions	**—**	12,160
Total liabilities	**—**	13,725
Net assets directly associated with discontinued operations	**14,067**	13,837

15. COMMITMENTS AND CONTINGENCIES

Legal Proceedings and Regulatory Actions

In the ordinary course of business, the Company is involved in and potentially subject to legal proceedings brought against it from time to time in connection with its operations. The COVID-19 pandemic has increased the risk that litigation or other legal proceedings, regardless of merit, will be commenced against the Company. The potential outcome of legal proceedings and claims is uncertain and could have a materially adverse impact on the Company's business, results of operations and financial condition.

On June 30, 2020, the Company was served with an amended statement of claim adding the Company to a statement of claim previously issued to the owner of a long-term care and retirement community to which the Company provides contracted services under its Extendicare Assist division. The claim seeks an order to certify the claim as a class action pursuant to the

Class Proceedings Act (Ontario) and alleges negligence and breach of contract in respect of all persons who contracted COVID-19 at the residence or subsequently contracted COVID-19 from such persons, all residents of the residence and all family members of such individuals. The claim seeks damages in the aggregate of $40.0 million. The Company is currently reviewing the proposed action and intends to vigorously defend itself against the claim. Given the status of the proceeding, management is unable to assess the potential impact of this proposed class action on the Company's financial results.

16. MANAGEMENT OF RISKS AND FINANCIAL INSTRUMENTS

(a) Management of Risks

LIQUIDITY RISK

Liquidity risk is the risk that the Company will encounter difficulty in meeting its contractual obligations. The Company manages liquidity risk through the use of budgets and forecasts. Cash requirements are monitored regularly based on actual financial results and actual cash flows to ensure that there are sufficient resources to meet operational requirements. In addition, since there is a risk that current borrowings and long-term debt may not be refinanced or may not be refinanced on as favourable terms or with interest rates as favourable as those of the existing debt, the Company attempts to appropriately structure the timing of contractual long-term debt renewal obligations and exposures. The impact of COVID-19 has increased the uncertainty of the Company's outlook on revenue and operating costs which impact the budgets and forecasts used to manage liquidity risk. In addition, the impact of COVID-19 on the capital and credit markets and our ability to access sufficient capital or capital on favourable terms are also subject to significant uncertainty.

During the six months ended June 30, 2020, the Company renewed non-CMHC mortgages on three long-term care homes and finalized new non-CMHC mortgages on two retirement communities. The Company also renewed one CMHC mortgage on a long-term care home and finalized a new CMHC mortgage on a retirement community (*Note 6*).

In addition to cash generated from its operations and cash on hand, the Company has available undrawn credit facilities totalling $71.9 million (December 31, 2019 – $68.7 million).

CURRENCY RISK

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

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 items retained from the U.S. Sale Transaction.

	June 30, 2020		December 31, 2019	
	US$	C$	*US$*	C$
Assets				
Current assets	*24,485*	**33,242**	*17,115*	22,239
Investments held for self-insured liabilities	—	**—**	*21,218*	27,562
Other long-term assets	229	**311**	221	287
Liabilities				
Current liabilities	*1,519*	**2,062**	*3,955*	5,137
Indemnification provisions	*5,656*	**7,678**	*5,716*	7,426
Other non-current liabilities	*551*	**749**	*6,663*	8,654
Net asset exposure	*16,988*	**23,064**	*22,220*	28,871

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, 2020, construction loans and a CMHC mortgage totalling $66.3 million have variable-rates (December 31, 2019 – $64.6 million) and do not have interest rate swaps in place. The Company's demand credit facilities, and future borrowings, may be at variable rates which would expose the Company to the risk of interest rate volatility (*Note 6*).

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:

	Carrying Amount	
	June 30, 2020	**December 31, 2019**
Fixed-rate long-term debt (1)	**522,202**	500,110
Variable-rate long-term debt (1)	**66,330**	64,601
Total	**588,532**	**564,711**

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

Fair Value Sensitivity Analysis for Variable-rate Instruments

All long-term debt with variable rates are classified as other financial liabilities, which are measured at amortized cost using the effective interest method of amortization; therefore, changes in interest rates would not affect OCI or net earnings with respect to variable-rate debt. As at June 30, 2020, long-term debt with variable rates represented 11.3% of total debt (December 31, 2019 – 11.4%). The value of the interest rate swaps is subject to fluctuations in interest rates, changes in fair value of these swaps are recognized in net earnings.

Cash Flow Sensitivity Analysis for Variable-rate Instruments

An increase of 100 basis points in interest rates would have decreased net earnings by $0.1 million and a decrease of 100 basis points in interest rates would have increased net earnings by $0.1 million, for the three months ended June 30, 2020. This analysis assumes that all other variables, in particular foreign currency rates, remains constant, and excludes variable interest rate debt that is locked in through interest rate swaps.

(b) Fair values of Financial Instrument

As at June 30, 2020	**Amortized Cost**	**Fair Value through Profit and Loss**	**Total Carrying Amount**	**Fair Value**	**Fair Value Hierarchy**
Financial assets:					
Cash and cash equivalents	**121,969**	—	**121,969**	**121,969**	Level 1
Restricted cash	**16,842**	—	**16,842**	**16,842**	Level 1
Invested assets (1)	**354**	—	**354**	**354**	Level 2
Accounts receivable	**53,018**	—	**53,018**	**53,018**	
Amounts receivable and other assets (2) (3)	**44,957**	—	**44,957**	**46,704**	Level 2
	237,140	—	**237,140**	**238,887**	
Financial liabilities:					
Accounts payable	**15,667**	—	**15,667**	**15,667**	
Interest rate swaps	—	**2,869**	**2,869**	**2,869**	Level 2
Long-term debt excluding convertible debentures (3) (4)	**467,387**	—	**467,387**	**478,074**	Level 2
Convertible debentures	**121,145**	—	**121,145**	**118,278**	Level 1
	604,199	**2,869**	**607,068**	**614,888**	

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

As at December 31, 2019	Amortized Cost	Fair Value through Profit and Loss	Total Carrying Amount	Fair Value	Fair Value Hierarchy
Financial assets:					
Cash and cash equivalents	94,457	—	94,457	94,471	Level 1
Restricted cash	2,441	—	2,441	2,441	Level 1
Invested assets [(1)]	354	—	354	354	Level 2
Accounts receivable	50,382	—	50,382	50,382	
Interest rate swaps	—	1,480	1,480	1,480	Level 2
Amounts receivable and other assets [(2) (3)]	47,854	—	47,854	51,950	Level 2
Investments held for self-insured liabilities	6,316	21,246	27,562	27,562	Level 1
	201,804	22,726	224,530	228,640	
Financial liabilities:					
Accounts payable	18,021	—	18,021	18,021	
Interest rate swaps	—	702	702	702	Level 2
Long-term debt excluding convertible debentures [(3) (4)]	444,036	—	444,036	450,382	Level 2
Convertible debentures	120,675	—	120,675	132,585	Level 1
	582,732	702	583,434	601,690	

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

BASIS FOR DETERMINING FAIR VALUES

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

Fair values for investments designated as FVTPL are based on quoted market prices. Accounts receivable are recorded at amortized cost. The carrying values of accounts receivable approximate fair values due to their short-term maturities, with the exception of the amounts receivable due from the government of Ontario, which are valued at discounted future cash flows using current applicable rates for similar instruments of comparable maturity and credit quality (*Note 4*). The fair values of convertible debentures are based on the closing price of the publicly traded convertible debentures on each reporting date, and the fair values of mortgages and other debt are estimated based on discounted future cash flows using discount rates that reflect current market conditions for instruments with similar terms and risks.

FAIR VALUE HIERARCHY

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

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

17. SUBSEQUENT EVENTS

On April 11, 2020, the Government of Canada enacted various programs in response to the COVID-19 pandemic, including the Canada Emergency Wage Subsidy (CEWS) and further changes were announced to the CEWS program on July 17, 2020. Subsequent to June 30, 2020, the Company's home health care subsidiary, ParaMed Inc., applied for CEWS in respect of the initial two claims periods of the program and received $21.0 million in August 2020. The amounts will be recorded in the third quarter as a reduction to operating expenses of the home health care segment, thereby impacting the home health care segment net operating income. ParaMed Inc., anticipates filing for additional funding under the CEWS program.

18. SEGMENTED INFORMATION

The Company reports the following segments: i) long-term care; ii) retirement living; iii) home health care; iv) contract services, consulting and group purchasing as "other operations"; and v) the corporate functions and any intersegment eliminations as "corporate".

The long-term care segment represents the 58 long-term care homes that the Company owns and operates in Canada. The retirement living segment represents 11 retirement communities that the Company owns and operates in Canada. The retirement communities provide accommodation and services to private-pay residents at rates set by the Company based on the services provided and market conditions. Through our wholly owned subsidiary ParaMed, ParaMed's home health care operations provide complex nursing care, occupational, physical and speech therapy, and assistance with daily activities to accommodate those living at home.

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

The Company ceased operation of the U.S. segment and is treating it as a discontinued operations (*Note 14*), thus it is no longer presented as a separate segment.

	Three months ended June 30, 2020					
(in thousands of Canadian dollars)	**Long-term Care**	**Retirement Living**	**Home Health Care**	**Other Operations**	**Corporate**	**Total**
CONTINUING OPERATIONS						
Revenue	**178,471**	**11,737**	**85,467**	**6,272**	**—**	**281,947**
Operating expenses	**167,360**	**8,221**	**84,048**	**2,384**	**—**	**262,013**
Net operating income	**11,111**	**3,516**	**1,419**	**3,888**	**—**	**19,934**
Administrative costs					**11,767**	**11,767**
Earnings before depreciation, amortization, and other expense						**8,167**
Depreciation and amortization					**9,685**	**9,685**
Other expense					**2,780**	**2,780**
Loss before net finance costs and income taxes						**(4,298)**
Net interest costs					**6,874**	**6,874**
Foreign exchange and fair value adjustments					**735**	**735**
Net finance costs					**7,609**	**7,609**
Loss before income taxes						**(11,907)**
Income tax recovery						
Current					**(1,848)**	**(1,848)**
Deferred					**(1,170)**	**(1,170)**
Total income tax recovery					**(3,018)**	**(3,018)**
Loss from continuing operations						**(8,889)**
DISCONTINUED OPERATIONS						
Earnings from discontinued operations, net of income taxes						**5,230**
Net loss						**(3,659)**

(in thousands of Canadian dollars)	Three months ended June 30, 2019					
	Long-term Care	**Retirement Living**	**Home Health Care**	**Other Operations**	**Corporate**	**Total**
CONTINUING OPERATIONS						
Revenue	159,936	10,006	108,217	5,894	—	284,053
Operating expenses	140,506	7,089	98,443	2,695	—	248,733
Net operating income	19,430	2,917	9,774	3,199	—	35,320
Administrative costs					10,168	10,168
Earnings before depreciation, amortization, and other expense						25,152
Depreciation and amortization					9,705	9,705
Other expense					975	975
Earnings before net finance costs and income taxes						14,472
Net interest costs					6,422	6,422
Foreign exchange and fair value adjustments					881	881
Net finance costs					7,303	7,303
Earnings before income taxes						7,169
Income tax expense (recovery)						
Current					3,029	3,029
Deferred					(826)	(826)
Total income tax expense					2,203	2,203
Earnings from continuing operations						4,966
DISCONTINUED OPERATIONS						
Earnings from discontinued operations, net of income taxes						3,359
Net earnings						8,325

	Six months ended June 30, 2020					
(in thousands of Canadian dollars)	**Long-term Care**	**Retirement Living**	**Home Health Care**	**Other Operations**	**Corporate**	**Total**
CONTINUING OPERATIONS						
Revenue	**338,711**	**23,776**	**178,567**	**12,711**	**—**	**553,765**
Operating expenses	**309,164**	**16,551**	**172,831**	**4,902**	**—**	**503,448**
Net operating income	**29,547**	**7,225**	**5,736**	**7,809**	**—**	**50,317**
Administrative costs					**22,019**	**22,019**
Earnings before depreciation, amortization, and other expense						**28,298**
Depreciation and amortization					**19,538**	**19,538**
Other expense					**2,780**	**2,780**
Earnings before net finance costs and income taxes						**5,980**
Net interest costs					**13,289**	**13,289**
Foreign exchange and fair value adjustments					**2,995**	**2,995**
Net finance costs					**16,284**	**16,284**
Loss before income taxes						**(10,304)**
Income tax expense (recovery)						
Current					**225**	**225**
Deferred					**(2,877)**	**(2,877)**
Total income tax recovery					**(2,652)**	**(2,652)**
Loss from continuing operations						**(7,652)**
DISCONTINUED OPERATIONS						
Earnings from discontinued operations, net of income taxes						**9,899**
Net earnings						**2,247**

(in thousands of Canadian dollars)	Long-term Care	Retirement Living	Home Health Care	Other Operations	Corporate	Total
						Six months ended June 30, 2019
CONTINUING OPERATIONS						
Revenue	316,157	19,514	210,882	11,769	—	558,322
Operating expenses	279,889	14,018	193,555	5,154	—	492,616
Net operating income	36,268	5,496	17,327	6,615	—	65,706
Administrative costs					20,780	20,780
Earnings before depreciation, amortization, and other expense						44,926
Depreciation and amortization					19,132	19,132
Other expense					2,404	2,404
Earnings before net finance costs and income taxes						23,390
Net interest costs					12,742	12,742
Foreign exchange and fair value adjustments					2,710	2,710
Net finance costs					15,452	15,452
Earnings before income taxes						7,938
Income tax expense (recovery)						
Current					4,553	4,553
Deferred					(1,594)	(1,594)
Total income tax expense					2,959	2,959
Earnings from continuing operations						4,979
DISCONTINUED OPERATIONS						
Earnings from discontinued operations, net of income taxes						6,304
Net earnings						11,283