EXTENDICARE®
... helping people live better

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AND NOTES

Q2 2022

Extendicare Inc.
Dated: August 9, 2022

Extendicare Inc.

Interim Condensed Consolidated Financial Statements

Three and six months ended June 30, 2022 and 2021

Extendicare Inc.

Interim Condensed Consolidated Statements of Financial Position

(Unaudited)

(in thousands of Canadian dollars)	*notes*	**June 30, 2022**	**December 31, 2021**
Assets			
Current assets			
Cash and cash equivalents		**238,083**	104,627
Restricted cash		**2,427**	3,027
Accounts receivable		**62,983**	69,435
Income taxes recoverable		**2,784**	14,101
Other assets	*5*	**27,881**	26,468
Assets held for sale	*14*	**7,337**	7,262
Total current assets		**341,495**	224,920
Non-current assets			
Property and equipment	*3*	**340,174**	535,600
Goodwill and other intangible assets	*4*	**94,670**	92,484
Other assets	*5*	**30,793**	32,892
Deferred tax assets		**7,989**	14,427
Total non-current assets		**473,626**	675,403
Total assets		**815,121**	900,323
Liabilities and Equity			
Current liabilities			
Accounts payable and accrued liabilities		**221,995**	192,994
Income taxes payable		**2,656**	1,566
Long-term debt	*7*	**23,790**	73,577
Liabilities directly associated with assets held for sale	*14*	**11,440**	13,775
Total current liabilities		**259,881**	281,912
Non-current liabilities			
Long-term debt	*7*	**349,390**	463,274
Provisions	*6*	**10,494**	11,312
Other long-term liabilities	*8*	**24,189**	33,106
Deferred tax liabilities		**9,698**	8,796
Total non-current liabilities		**393,771**	516,488
Total liabilities		**653,652**	798,400
Share capital	*10*	**502,778**	500,877
Equity portion of convertible debentures	*7*	**7,085**	7,085
Contributed surplus	*9*	**7,530**	8,182
Accumulated deficit		**(348,444)**	(402,453)
Accumulated other comprehensive loss		**(7,480)**	(11,768)
Shareholders' equity		**161,469**	101,923
Total liabilities and equity		**815,121**	900,323

See accompanying notes to unaudited interim condensed consolidated financial statements.
Commitments and contingencies (Note 15), subsequent events (Note 10)

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, 2022	Three months ended June 30, 2021[(i)]	Six months ended June 30, 2022	Six months ended June 30, 2021[(i)]
CONTINUING OPERATIONS					
Revenue	*17*	**296,585**	281,693	**602,295**	576,554
Operating expenses		**266,244**	252,793	**538,978**	511,335
Administrative costs		**13,259**	13,434	**26,672**	25,975
Total expenses	*11*	**279,503**	266,227	**565,650**	537,310
Earnings before depreciation, amortization, and other expense		**17,082**	15,466	**36,645**	39,244
Depreciation and amortization		**8,058**	7,431	**16,309**	15,157
Earnings before net finance costs and income taxes		**9,024**	8,035	**20,336**	24,087
Net finance costs	*12*	**4,378**	5,340	**9,426**	10,742
Earnings before income taxes		**4,646**	2,695	**10,910**	13,345
Income tax expense (recovery)					
Current		**1,100**	2,034	**5,060**	4,837
Deferred		**36**	(1,002)	**(1,705)**	(667)
Total income tax expense		**1,136**	1,032	**3,355**	4,170
Earnings from continuing operations		**3,510**	1,663	**7,555**	9,175
DISCONTINUED OPERATIONS					
Earnings (loss) from discontinued operations, net of income taxes	*14*	**67,883**	(703)	**67,958**	108
Net earnings		**71,393**	960	**75,513**	9,283
Basic and Diluted Earnings per Share					
Earnings from continuing operations	*13*	**$0.04**	$0.02	**$0.08**	$0.10
Net earnings	*13*	**$0.79**	$0.01	**$0.83**	$0.10
Diluted Earnings per Share					
Earnings from continuing operations	*13*	**$0.04**	$0.02	**$0.08**	$0.10
Net earnings	*13*	**$0.72**	$0.01	**$0.78**	$0.10

[(i)] *Comparative figures have been re-presented to reflect discontinued operations (Note 14).*

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)	**2022**	**2021**	**2022**	**2021**
Net earnings	**71,393**	960	**75,513**	9,283
Other comprehensive income, net of taxes				
Items that will not be reclassified to profit or loss:				
Defined benefit plan actuarial gains (losses)	**1,745**	(203)	**5,835**	2,306
Tax expense on defined benefit plan actuarial gains (losses)	**(463)**	51	**(1,547)**	(614)
Defined benefit plan actuarial gains (losses), net of taxes	**1,282**	(152)	**4,288**	1,692
Items that are or may be reclassified subsequently to profit or loss:				
Net change in foreign currency translation adjustment	**—**	(8)	**—**	172
Other comprehensive income (loss), net of taxes	**1,282**	(160)	**4,288**	1,864
Total comprehensive income	**72,675**	800	**79,801**	11,147

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, 2021		*89,539,085*	500,577	7,085	4,916	(370,963)	(13,427)	128,188
Share-based compensation	*9*	*23,414*	300	—	1,524	—	—	1,824
Net earnings		—	—	—	—	9,283	—	9,283
Dividends declared		—	—	—	—	(21,496)	—	(21,496)
Other comprehensive income		—	—	—	—	—	1,864	1,864
Balance at June 30, 2021		*89,562,499*	500,877	7,085	6,440	(383,176)	(11,563)	119,663

(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, 2022		***89,562,499***	**500,877**	**7,085**	**8,182**	**(402,453)**	**(11,768)**	**101,923**
Share-based compensation	***9***	***177,425***	**1,901**	**—**	**(652)**	**—**	**—**	**1,249**
Net earnings		**—**	**—**	**—**	**—**	**75,513**	**—**	**75,513**
Dividends declared		**—**	**—**	**—**	**—**	**(21,504)**	**—**	**(21,504)**
Other comprehensive income		**—**	**—**	**—**	**—**	**—**	**4,288**	**4,288**
Balance at June 30, 2022		***89,739,924***	**502,778**	**7,085**	**7,530**	**(348,444)**	**(7,480)**	**161,469**

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)	*notes*	Three months ended June 30, 2022	Three months ended June 30, 2021	Six months ended June 30, 2022	Six months ended June 30, 2021
Operating Activities					
Net earnings		**71,393**	960	**75,513**	9,283
Adjustments for:					
Share-based compensation	*9*	**(236)**	1,166	**1,249**	1,824
Depreciation and amortization	*3, 4*	**8,058**	9,307	**16,874**	19,162
Net finance costs	*7, 12, 14*	**4,698**	6,769	**9,857**	12,884
Current taxes		**1,013**	2,091	**4,607**	4,918
Deferred taxes		**110**	(1,310)	**(1,237)**	(707)
Defined benefit plan expenses		**202**	171	**405**	362
Defined benefit plan contributions		**(1,154)**	(541)	**(1,700)**	(1,764)
Gain on sale of retirement living segment, net of tax	*14*	**(67,920)**	—	**(67,920)**	—
		16,164	18,613	**37,648**	45,962
Net change in operating assets and liabilities					
Accounts receivable		**(11,373)**	15,779	**5,163**	6,189
Other assets	*5*	**(1,559)**	1,560	**(1,198)**	2,798
Accounts payable and accrued liabilities		**22,127**	(5,846)	**30,425**	(11,233)
		25,359	30,106	**72,038**	43,716
Interest paid, net		**(6,078)**	(7,102)	**(9,759)**	(10,972)
Income taxes received (paid), net		**297**	(750)	**7,523**	(23,637)
Net cash from operating activities		**19,578**	22,254	**69,802**	9,107
Investing Activities					
Purchase of property, equipment and other intangible assets	*3, 4*	**(22,402)**	(12,521)	**(41,936)**	(21,364)
Decrease in other assets	*5*	**1,101**	1,535	**2,217**	3,057
Proceeds from sale of retirement living segment, net of taxes paid	*14*	**245,631**	—	**245,631**	—
Net cash from (used in) investing activities		**224,330**	(10,986)	**205,912**	(18,307)
Financing Activities					
Issuance of long-term debt	*7*	**9,647**	—	**13,353**	—
Repayment of long-term debt	*7, 14*	**(123,748)**	(8,351)	**(134,496)**	(15,676)
Change in restricted cash		**729**	(202)	**600**	(259)
Dividends paid		**(10,754)**	(10,744)	**(21,504)**	(21,496)
Financing costs		**(176)**	(687)	**(205)**	(757)
Net cash used in financing activities		**(124,302)**	(19,984)	**(142,252)**	(38,188)
Increase (decrease) in cash and cash equivalents		**119,606**	(8,716)	**133,462**	(47,388)
Cash and cash equivalents at beginning of period		**118,392**	141,271	**104,627**	179,956
Foreign exchange gain/(loss) on cash held in foreign currency		**85**	(104)	**(6)**	(117)
Cash and cash equivalents at end of period		**238,083**	132,451	**238,083**	132,451

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, 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 400, 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 9, 2022.

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 2021 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, 2021, except for those identified below. Certain comparative information has been reclassified to conform to the current year presentation.

b) Accounting Standards Adopted during the Period

During the six months ended June 30, 2022, the Company adopted certain IFRS standards and amendments:

Derecognition of financial liabilities

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

c) Future Changes in Accounting Standards

Classification of liabilities as current or non-current

Beginning no earlier than January 1, 2024, the Company will adopt IASB amendments to IAS 1 *Presentation of financial statements*, which clarified the criteria of classification of liabilities as current or non-current. Management is assessing whether the adoption of this amendment is expected to have a material impact on the consolidated financial statements. The International Accounting Standards Board has tentatively deferred the adoption date to no earlier than January 1, 2024 from January 1, 2023.

Deferred tax related to assets and liabilities arising from a single transaction

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

3. PROPERTY AND EQUIPMENT

	Land & Land Improve-ments	Buildings and Leasehold Improvements	Right-of-use assets	Furniture & Equipment	Construction in Progress ("CIP")	Projects in Progress ("PIP")	Total
Cost or Deemed Cost							
January 1, 2021	61,844	540,382	99,963	69,198	20,542	3,922	795,851
Additions	331	6,022	3,111	6,313	31,338	10,554	57,669
Write-offs	—	(793)	(280)	(251)	—	—	(1,324)
Reclassification to assets held for sale (*Note 14*)	(896)	(14,101)	—	(2,544)	—	(62)	(17,603)
Write-off of fully depreciated assets	—	(520)	(589)	(4,312)	—	—	(5,421)
Transfer to in use	64	3,160	—	697	—	(3,921)	—
Impairment	—	(9,144)	—	—	—	—	(9,144)
December 31, 2021	61,343	525,006	102,205	69,101	51,880	10,493	820,028
January 1, 2022	**61,343**	**525,006**	**102,205**	**69,101**	**51,880**	**10,493**	**820,028**
Additions	**36**	**1,569**	**2,956**	**5,531**	**23,616**	**3,852**	**37,560**
Disposal of retirement living operations (*Note 14*)	**(24,609)**	**(215,010)**	**(20)**	**(9,512)**	**(2,533)**	**—**	**(251,684)**
Write-off of fully depreciated assets	**(2)**	**(180)**	**—**	**(950)**	**—**	**—**	**(1,132)**
Transfer to in use	**2**	**1,001**	**—**	**521**	**—**	**(1,524)**	**—**
June 30, 2022	**36,770**	**312,386**	**105,141**	**64,691**	**72,963**	**12,821**	**604,772**

	Land & Land Improve-ments	Buildings and Leasehold Improvements	Right-of-use assets	Furniture & Equipment	CIP	PIP	Total
Accumulated Depreciation							
January 1, 2021	5,576	191,242	41,994	31,135	—	—	269,947
Additions	687	21,435	2,743	7,469	—	—	32,334
Write-offs	—	(469)	(89)	(214)	—	—	(772)
Reclassification to assets held for sale (*Note 14*)	(295)	(9,811)	—	(1,554)	—	—	(11,660)
Write-off of fully depreciated assets	—	(520)	(589)	(4,312)	—	—	(5,421)
December 31, 2021	5,968	201,877	44,059	32,524	—	—	284,428
January 1, 2022	**5,968**	**201,877**	**44,059**	**32,524**	**—**	**—**	**284,428**
Additions	**304**	**6,971**	**3,547**	**3,592**	**—**	**—**	**14,414**
Disposal of retirement living operations (*Note 14*)	**(555)**	**(29,381)**	**(4)**	**(3,172)**	**—**	**—**	**(33,112)**
Write-off of fully depreciated assets	**(2)**	**(180)**	**—**	**(950)**	**—**	**—**	**(1,132)**
June 30, 2022	**5,715**	**179,287**	**47,602**	**31,994**	**—**	**—**	**264,598**
Carrying amounts							
At December 31, 2021	55,375	323,129	58,146	36,577	51,880	10,493	535,600
At June 30, 2022	**31,055**	**133,099**	**57,539**	**32,697**	**72,963**	**12,821**	**340,174**

The Company capitalized $0.3 million and $0.5 million of borrowing costs related to development projects under construction for the three and six months ended June 30, 2022, respectively (three and six months ended June 30, 2021 – $nil).

4. GOODWILL AND OTHER INTANGIBLE ASSETS

	Goodwill	Other Intangible Assets	Total
Cost or Deemed Cost			
January 1, 2021	51,675	66,948	118,623
Additions	—	16,365	16,365
Write-off of fully amortized assets	—	(4,827)	(4,827)
Impairment	(5,825)	—	(5,825)
December 31, 2021	45,850	78,486	124,336
January 1, 2022	**45,850**	**78,486**	**124,336**
Additions	**—**	**6,638**	**6,638**
Disposal of retirement living operations (*Note 14*)	**—**	**(2,928)**	**(2,928)**
Write-off of fully amortized assets	**—**	**(55)**	**(55)**
June 30, 2022	**45,850**	**82,141**	**127,991**

	Goodwill	Other Intangible Assets	Total
Accumulated Amortization			
January 1, 2021	—	30,445	30,445
Additions	—	6,234	6,234
Write-off of fully amortized assets	—	(4,827)	(4,827)
December 31, 2021	—	31,852	31,852
January 1, 2022	**—**	**31,852**	**31,852**
Additions	**—**	**2,460**	**2,460**
Disposal of retirement living operations (*Note 14*)	**—**	**(936)**	**(936)**
Write-off of fully amortized assets	**—**	**(55)**	**(55)**
June 30, 2022	**—**	**33,321**	**33,321**
Carrying amounts			
At December 31, 2021	45,850	46,634	92,484
At June 30, 2022	**45,850**	**48,820**	**94,670**

5. OTHER ASSETS

	June 30, 2022	December 31, 2021
Construction funding subsidy receivable	**34,055**	36,271
Supply inventory	**10,369**	11,127
Prepaid, deposits and other	**14,250**	11,962
	58,674	59,360
less: current portion	**(27,881)**	(26,468)
	30,793	32,892

Construction Funding Subsidy Receivable

Construction funding subsidy receivable represents discounted amounts receivable due from the Government of Ontario with respect to construction funding subsidies for long-term care homes. As at June 30, 2022, the current portion of construction funding subsidy receivable is $3.9 million (December 31, 2021 – $4.1 million). 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.

Supply Inventory

Supply inventory is primarily comprised of personal protective equipment and other related supplies.

6. PROVISIONS

	Decommissioning Provisions	Indemnification Provisions	Total
January 1, 2021	9,717	5,217	14,934
Provisions recorded/(released)	1,413	(3,688)	(2,275)
Provisions used	(13)	(1,510)	(1,523)
Accretion	195	—	195
Effect of movements in exchange rates	—	(19)	(19)
December 31, 2021	**11,312**	**—**	**11,312**
January 1, 2022	**11,312**	**—**	**11,312**
Reclassification to liabilities directly associated with assets held for sale (*Note 14*)	**(888)**	**—**	**(888)**
Accretion	**70**	**—**	**70**
June 30, 2022	**10,494**	**—**	**10,494**

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 $11.3 million (December 31, 2021 – $12.2 million) was discounted using a rate of 3.17% (December 31, 2021 – 1.32%) over an estimated time to settle of 5 years.

7. LONG-TERM DEBT

	Interest Rate	Year of Maturity	June 30, 2022	December 31, 2021
Convertible unsecured subordinated debentures	5.00 %	2025	**123,175**	122,644
CMHC mortgages, fixed rate	2.65% - 7.70%	2022 - 2037	**51,555**	125,014
CMHC mortgages, variable rate	Variable	2025	**21,516**	22,017
Non-CMHC mortgages and loans	3.49% - 5.64%	2023 - 2038	**105,201**	161,793
Construction facilities and loans	Variable	2024	**10,246**	45,450
Lease liabilities	4.23% - 7.19%	2022 - 2034	**66,697**	69,438
			378,390	546,356
Deferred financing costs			**(5,210)**	(9,505)
Total debt, net of deferred financing costs			**373,180**	536,851
Less: current portion			**(23,790)**	(73,577)
Long-term debt, net of deferred financing costs			**349,390**	463,274

Principal Repayments

	Convertible Debentures	Mortgages and loans Regular	Maturity	Construction Facilities	Lease Liabilities	Total
2022 remaining	—	4,595	5,854	—	7,711	18,160
2023	—	8,542	—	—	15,112	23,654
2024	—	8,277	—	10,246	14,857	33,380
2025	126,500	6,561	36,597	—	14,345	184,003
2026	—	6,831	—	—	13,340	20,171
2027 and thereafter	—	62,221	38,795	—	14,533	115,549
Total debt principal and lease liability	126,500	97,027	81,246	10,246	79,898	394,917
Unamortized accretion of 2025 convertible debentures	(3,326)	—	—	—	—	(3,326)
Interest on lease liabilities	—	—	—	—	(13,201)	(13,201)
	123,174	97,027	81,246	10,246	66,697	378,390

Long-term Debt Continuity

	June 30, 2022	December 31, 2021
As at beginning of period	**536,851**	564,597
Issuance of long-term debt	**13,353**	2,337
New lease liabilities	**2,956**	3,111
Accretion and other	**456**	1,093
Repayments [(i)]	**(131,865)**	(32,319)
Increase in deferred financing costs	**(205)**	(1,342)
Amortization of deferred financing costs and other [(i)]	**5,085**	2,023
Reclassification to liabilities directly associated with assets held for sale (Note 14)	**—**	(2,649)
Assumed debt related to the Retirement Living Sale	**(53,451)**	—
As at end of period	**373,180**	536,851

[(i)] *Includes amounts related to the Retirement Living Sale (Note 14).*

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 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. 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 debenture holders 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 2.65% to 7.70% with maturity dates through to 2037.

Non-CMHC Mortgages and Loans

In May 2022, the Company amended an existing loan agreement to increase the principal amount by $5.4 million and extended the term. The amended loan matures in April 2027 and the Company entered into interest rate swap contracts to lock in the interest rate at a fixed rate of 5.40% per annum.

The Company has a number of conventional mortgages and loans on certain long-term care homes, at rates ranging from 3.49% to 5.64%.

Construction Facilities

(in millions of Canadian dollars)	**June 30, 2022**	**December 31, 2021**
Construction facilities	**156.6**	156.6
Amount drawn down, end of period	**(10.2)**	(2.3)
Amount available	**146.4**	154.3

In 2021, the Company secured construction facilities in connection with three LTC redevelopment projects. Each facility matures on the earlier of 42 months from closing or the date that they are refinanced following completion or lease-up. Interest rates are prime plus 1.25% with standby fees of 0.55%. The facilities also provide for an additional $6.0 million in letter of credit facilities of which none was utilized. Interest is capitalized during construction and is payable following completion of construction until maturity.

Lease Liabilities

Lease liabilities include leases on long-term care homes and head and district offices. The Company operates nine Ontario long-term care homes, which were built between 2001 and 2003, under 25-year lease arrangements. The liabilities associated with the head and district office leases is amortized over the remaining lease terms ranging up to 13 years.

During the three and six months ended June 30, 2022, the Company has recognized new and renewed district office lease liabilities of $1.4 million and $3.0 million, respectively (three months ended June 30, 2021 – $1.0 million and six months ended June 30, 2021 – $1.4 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, 2022, $30.5 million of the facilities secure the Company's defined benefit pension plan obligations (December 31, 2021 – $33.7 million), $5.1 million was used in connection with obligations relating to long-term care homes (December 31, 2021 – $5.8 million), leaving $76.7 million unutilized (December 31, 2021 – $72.8 million).

Interest Rates

The weighted average interest rate of all long-term debt as at June 30, 2022, was approximately 5.3% (December 31, 2021 – 4.3%).

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, 2022.

8. OTHER LONG-TERM LIABILITIES

	June 30, 2022	December 31, 2021
Accrued pension and benefits obligation	**23,993**	31,419
Interest rate swap	**196**	736
Other	**—**	951
	24,189	33,106

Interest Rate Swaps

The interest rate swap includes a swap contract relating to a loan with a notional amount of $29.9 million (December 31, 2021 – $85.2 million), to lock in a rate of 5.40% for the full term of the loan, maturing in April 2027 (December 31, 2021 – rates between 3.11% and 5.04% for the full term of the loans being three to ten years).

All interest rate swap contracts are measured at FVTPL, and hedge accounting has not been applied. Changes in fair value are recorded in the consolidated statements of earnings.

As at June 30, 2022, the interest rate swaps were classified as a liability of $0.2 million (December 31, 2021 – liability of $0.7 million).

9. SHARE-BASED COMPENSATION

Equity-settled Long-term Incentive Plan

The Company's long-term incentive plan ("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 deferred share units ("DSUs") for non-employee directors and preferred share units ("PSUs") for employees.

DSUs and PSUs granted under the LTIP do not carry any voting rights. DSUs vest immediately upon grant and PSUs vest with a term of not less than 24 months and not more than 36 months from the date of grant. The Company settled PSUs as follows:

	Performance Share Units			
	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Settled in Common Shares issued from treasury	**177,425**	—	**177,425**	23,414
Settled in cash[(i)]	**226,301**	—	**226,301**	17,478
	403,726	—	**403,726**	40,892

[(i)] Settled in cash to cover withholding taxes payable of $1.6 million for the three and six months ended June 30, 2022 and $0.1 million for the three and six months ended June 30, 2021.

The Company's DSUs and PSUs were an expense of $1.3 million for the three months ended June 30, 2022 (three months ended June 30, 2021 – $1.2 million) and $2.8 million for the six months ended June 30, 2022 (six months ended June 30, 2021 - $2.0 million).

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

	June 30, 2022	December 31, 2021
Contributed surplus – DSUs	**3,754**	3,323
Contributed surplus – PSUs	**3,776**	4,859
	7,530	8,182

As at June 30, 2022, an aggregate of 4,063,313 (December 31, 2021 - 4,240,738) 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, 2022	Twelve months ended December 31, 2021	Six months ended June 30, 2022	Twelve months ended December 31, 2021
Units outstanding, beginning of period	**507,811**	381,731	**1,176,273**	695,087
Granted	**58,652**	98,204	**533,500**	471,712
Reinvested dividend equivalents	**17,139**	27,876	**46,484**	63,983
Forfeited	**—**	—	**10,786**	(13,617)
Settled	**—**	—	**(403,726)**	(40,892)
Units outstanding, end of period	**583,602**	507,811	**1,363,317**	1,176,273
Weighted average fair value of units granted during the period at grant date	**$7.35**	$7.72	**$8.11**	$7.36

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, 2022	Twelve months ended December 31, 2021	
Grant date	**March 11, 2022**	March 9, 2021	May 25, 2021
Vesting date	**March 11, 2025**	March 9, 2024	March 9, 2024
PSUs granted	**533,500**	448,582	23,130
Fair value of AFFO component	**$3.87**	$3.44	$4.03
Fair value of TSR component	**$4.24**	$3.85	$4.61
Grant date fair value	**$8.11**	$7.29	$8.64
Expected volatility of the Company's Common Shares	**31.52 %**	32.50 %	33.43 %
Expected volatility of the Index	**22.00 %**	21.60 %	22.49 %
Risk-free rate	**1.67 %**	0.46 %	0.41 %
Dividend yield	**nil**	nil	nil

10. 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 and six months ended June 30, 2022 and 2021, the Company declared cash dividends of $0.12 per share and $0.24 per share, respectively.

Normal Course Issuer Bid ("NCIB")

In June 2022, the Company received approval from the TSX to make a NCIB to purchase for cancellation up to 7,829,630 Common Shares, representing 10% of its public float, through the facilities of the TSX and/or through alternative Canadian trading systems, in accordance with TSX rules. The NCIB commenced on June 30, 2022, and provides the Company with flexibility to purchase Common Shares for cancellation until June 29, 2023, 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, daily purchases will be limited to 53,068 Common Shares. During the three and six months ended June 30, 2022, the Company had not purchased any Common Shares for cancellation. Subsequent to June 30, 2022, the Company acquired for cancellation 985,176 Common Shares at an average price of $7.22 per share, for a total cost of $7.1 million.

The Company did not purchase any Common Shares under the NCIB that commenced on January 15, 2020 and ended on January 14, 2021.

11. EXPENSES BY NATURE

	Three months ended June 30,		Six months ended June 30,	
	2022	2021[(i)]	**2022**	2021[(i)]
Employee wages and benefits	**237,382**	227,042	**474,590**	457,776
Government grants	**—**	(7,667)	**—**	(17,362)
Food, drugs, supplies and other variable costs	**16,054**	18,269	**36,209**	39,434
Property based and leases	**12,585**	12,572	**25,608**	26,646
Other	**13,482**	16,011	**29,243**	30,816
Total operating expenses and administrative costs	**279,503**	266,227	**565,650**	537,310

[(i)] *Comparative figures have been re-presented to reflect discontinued operations (Note 14).*

Government Grants

On April 11, 2020, the Government of Canada enacted the Canada Emergency Wage Subsidy ("CEWS") program, which was designed to help Canadian employers that have experienced revenue declines as a result of COVID-19. The Company's home health care subsidiary, ParaMed Inc., applied for and received $7.7 million during the three months ended June 30, 2021 and $17.4 million in CEWS during the six months ended June 30, 2021. Payments under the CEWS program are recorded on a net basis as a reduction to operating expenses of the home health care segment, thereby impacting the home health care segment net operating income for the year ended December 31, 2021. The Company has not applied for further CEWS during the three and six months ended June 30, 2022.

12. NET FINANCE COSTS

	Three months ended June 30,		Six months ended June 30,	
	2022	**2021**[(i)]	**2022**	**2021**[(i)]
Interest expense	**5,022**	5,388	**10,080**	10,733
Interest revenue	**(541)**	(450)	**(1,291)**	(965)
Accretion	**(240)**	301	**607**	599
Foreign exchange	**(34)**	164	**(70)**	508
Fair value adjustments	**171**	(63)	**100**	(133)
Net finance costs	**4,378**	5,340	**9,426**	10,742

[(i)] Comparative figures have been re-presented to reflect discontinued operations (Note 14).

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 calculation of diluted earnings per share does not assume conversion, exercise, or other issue of potential ordinary shares that would have an antidilutive effect on earnings per share.

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,	
	2022	**2021[(i)]**	**2022**	**2021[(i)]**
Numerator for Basic and Diluted Earnings per Share				
Earnings from continuing operations				
Net earnings for basic earnings per share	**71,393**	960	**75,513**	9,283
Less: (earnings)/loss from discontinued operations, net of tax	**(67,883)**	708	**(67,958)**	(103)
Earnings from continuing operations for basic earnings per share	**3,510**	1,668	**7,555**	9,180
Add: after-tax interest on convertible debt	**1,286**	1,555	**3,133**	3,106
Earnings from continuing operations for diluted earnings per share	**4,796**	3,223	**10,688**	12,286
Net earnings				
Net earnings for basic earnings per share	**71,393**	960	**75,513**	9,283
Add: after-tax interest on convertible debt	**1,286**	1,555	**3,133**	3,106
Net earnings for diluted earnings per share	**72,679**	2,515	**78,646**	12,389
Denominator for Basic and Diluted Earnings per Share				
Actual weighted average number of shares	**89,591,745**	89,562,499	**89,577,203**	89,552,862
Actual weighted average number of DSUs	**547,727**	417,218	**530,072**	401,522
Weighted average number of shares for basic earnings per share	**90,139,472**	89,979,717	**90,107,275**	89,954,384
Shares issued if all convertible debt was converted	**10,326,531**	10,326,531	**10,326,531**	10,326,531
PSUs	**635,711**	308,484	**674,348**	391,506
Total for diluted earnings per share	**101,101,714**	100,614,732	**101,108,154**	100,672,421
Basic Earnings per Share (*in dollars*)				
Earnings from continuing operations	**$0.04**	$0.02	**$0.08**	$0.10
Earnings (loss) from discontinued operations	**$0.75**	$(0.01)	**$0.75**	$0.00
Net earnings	**$0.79**	$0.01	**$0.83**	$0.10
Diluted Earnings per Share (*in dollars*)				
Earnings from continuing operations	**$0.04**	$0.02	**$0.08**	$0.10
Earnings (loss) from discontinued operations	**$0.67**	$(0.01)	**$0.67**	$0.00
Net earnings	**$0.72**	$0.01	**$0.78**	$0.10

(i) *Comparative figures have been re-presented to reflect discontinued operations (Note 14).*

14. DISCONTINUED OPERATIONS

Retirement Living Sale

On May 16, 2022, the Company completed the sale of its retirement living operations to Sienna-Sabra LP ("Sienna") for an aggregate purchase price of $307.1 million, net of an initial working capital adjustment of $0.4 million comprised of cash proceeds of $253.6 million and assumption of mortgages by Sienna of $53.5 million on certain retirement communities. Cash proceeds were used to repay all remaining outstanding indebtedness related to the retirement living operations of $117.9 million, inclusive of debt settlement fees. The net proceeds realized on the transaction, net of debt repayments, taxes, certain closing adjustments and transactions costs, is estimated to be approximately $128.0 million, subject to customary post-closing working capital adjustments.

The Company recorded a gain on sale of $78.8 million, or $67.9 million after current and deferred taxes and closing costs, which is presented in earnings from discontinued operations.

The net assets of the discontinued operation which were transferred to Sienna at May 16, 2022, are as follows:

	May 16, 2022
Property and equipment and intangible assets	**221,197**
Other assets, net	**97**
Long-term debt	**(53,451)**
Net book value of total net assets	**167,843**

Saskatchewan ("SK") LTC Homes

On October 14, 2021, the Saskatchewan Health Authority ("SHA") announced that the SHA and the Company agreed to work collaboratively to transition the delivery of LTC services operated at the Company's five LTC homes in Saskatchewan (the "Saskatchewan LTC Homes") to the SHA. The timing of the transfer of the operations, and potentially the related assets, is anticipated to be completed in 2022. The Saskatchewan LTC Homes were classified as assets held for sale and discontinued operations as of December 31, 2021.

The assets and liabilities of the discontinued operations at June 30, 2022, are as follows:

	June 30, 2022	**December 31, 2021**
Assets held for sale		
Receivables and other current assets	**1,365**	1,319
Property and equipment and intangible assets	**5,972**	5,943
Total assets held for sale	**7,337**	**7,262**
Liabilities directly associated with assets held for sale		
Accounts payable and accrued liabilities	**10,616**	11,126
Provisions	**824**	—
Long term debt, net of deferred financing costs	**—**	2,649
Total liabilities directly associated with assets held for sale	**11,440**	**13,775**
Net assets (liabilities) directly associated with discontinued operations	**(4,103)**	**(6,513)**

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

Three months ended June 30, 2022	**Retirement Living**	**SK LTC Homes**	**Total**
Earnings from Discontinued Operations			
Revenue	**6,272**	**13,010**	**19,282**
Operating expenses	**5,202**	**13,810**	**19,012**
Earnings (loss) before depreciation, amortization, other income, net finance costs, and income taxes	**1,070**	**(800)**	**270**
Depreciation and amortization	**—**	**—**	**—**
Net finance costs	**320**	**—**	**320**
Earnings (loss) before income taxes	**750**	**(800)**	**(50)**
Current	**125**	**(212)**	**(87)**
Deferred	**74**	**—**	**74**
Income tax expense (recovery)	**199**	**(212)**	**(13)**
Earnings (loss) from operating activities	**551**	**(588)**	**(37)**
Gain on sale of discontinued operation before income taxes	**78,779**	**—**	**78,779**
Current tax related to gain on sale	**3,842**	**—**	**3,842**
Deferred tax related to gain on sale	**7,017**	**—**	**7,017**
Income tax on gain on sale of discontinued operation	**10,859**	**—**	**10,859**
Earnings (loss) from discontinued operations	**68,471**	**(588)**	**67,883**

Three months ended June 30, 2021	**Retirement Living**	**SK LTC Homes**	**Total**
Earnings from Discontinued Operations			
Revenue	12,301	13,455	25,756
Operating expenses	8,601	14,804	23,405
Earnings (loss) before depreciation, amortization, other income, net finance costs, and income taxes	3,700	(1,349)	2,351
Depreciation and amortization	1,691	184	1,875
Net finance costs	1,404	26	1,430
Earnings (loss) before income taxes	605	(1,559)	(954)
Current	57	—	57
Deferred	103	(411)	(308)
Income tax expense (recovery)	160	(411)	(251)
Earnings (loss) from discontinued operations	445	(1,148)	(703)

Six months ended June 30, 2022	Retirement Living	SK LTC Homes	Total
Earnings from Discontinued Operations			
Revenue	**18,937**	**26,370**	**45,307**
Operating expenses	**15,058**	**29,200**	**44,258**
Earnings (loss) before depreciation, amortization, other income, net finance costs, and income taxes	**3,879**	**(2,830)**	**1,049**
Depreciation and amortization	**565**	**—**	**565**
Net finance costs	**431**	**—**	**431**
Earnings (loss) before income taxes	**2,883**	**(2,830)**	**53**
Current	**297**	**(750)**	**(453)**
Deferred	**468**	**—**	**468**
Income tax expense (recovery)	**765**	**(750)**	**15**
Earnings (loss) from operating activities	**2,118**	**(2,080)**	**38**
Gain on sale of discontinued operation before income tax	**78,779**	**—**	**78,779**
Current tax related to gain on sale	**3,842**	**—**	**3,842**
Deferred tax related to gain on sale	**7,017**	**—**	**7,017**
Income tax on gain on sale of discontinued operation	**10,859**	**—**	**10,859**
Earnings (loss) from discontinued operations	**70,038**	**(2,080)**	**67,958**

Six months ended June 30, 2021	Retirement Living	SK LTC Homes	Total
Earnings from Discontinued Operations			
Revenue	24,475	28,801	53,276
Operating expenses	17,328	29,652	46,980
Earnings (loss) before depreciation, amortization, other income, net finance costs, and income taxes	7,147	(851)	6,296
Depreciation and amortization	3,653	352	4,005
Net finance costs	2,089	53	2,142
Earnings (loss) before income taxes	1,405	(1,256)	149
Current	81	—	81
Deferred	291	(331)	(40)
Income tax expense (recovery)	372	(331)	41
Earnings (loss) from discontinued operations	1,033	(925)	108

For the three and six months ended June 30, 2022, net finance costs related to the Retirement Living Sale are made up of net interest expense of \$0.7 million and \$2.0 million (three and six months ended June 30, 2021 – \$1.6 million and \$3.1 million, respectively), and fair value adjustments of \$0.4 million and \$1.6 million (three and six months ended June 30, 2021 \$0.2 million and \$1.0 million, respectively).

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

Three months ended June 30, 2022	Retirement Living	SK LTC Homes	Total
Cash Flows from Discontinued Operations			
Net cash used in operating activities	**(566)**	**(2,543)**	**(3,109)**
Net cash from (used in) investing activities	**244,966**	**(10)**	**244,956**
Net cash used in financing activities	**(118,093)**	**—**	**(118,093)**
Effect on cash flows	**126,307**	**(2,553)**	**123,754**

Three months ended June 30, 2021	**Retirement Living**	**SK LTC Homes**	**Total**
Cash Flows from Discontinued Operations			
Net cash from (used in) operating activities	2,872	(621)	2,251
Net cash used in investing activities	(200)	(144)	(344)
Net cash used in financing activities	(965)	(512)	(1,477)
Effect on cash flows	1,707	(1,277)	430

Six months ended June 30, 2022	**Retirement Living**	**SK LTC Homes**	**Total**
Cash Flows from Discontinued Operations			
Net cash from (used in) operating activities	**829**	**(5,270)**	**(4,441)**
Net cash from (used in) investing activities	**244,789**	**(7)**	**244,782**
Net cash used in financing activities	**(119,165)**	**(2,631)**	**(121,796)**
Effect on cash flows	**126,453**	**(7,908)**	**118,545**

Six months ended June 30, 2021	**Retirement Living**	**SK LTC Homes**	**Total**
Cash Flows from Discontinued Operations			
Net cash from (used in) operating activities	3,706	(1,512)	2,194
Net cash used in investing activities	(391)	(272)	(663)
Net cash used in financing activities	(1,946)	(1,025)	(2,971)
Effect on cash flows	1,369	(2,809)	(1,440)

15. COMMITMENTS AND CONTINGENCIES

Commitments

As at June 30, 2022, the Company has outstanding commitments in connection with construction contracts for its LTC redevelopment projects currently under construction. The Company also has outstanding commitments in connection with various IT service and license agreements to support the transition of key IT platforms to cloud-based solutions in support of the Company's growth initiatives. The expected payments towards those obligations are due as follows:

	Construction Commitments	**Technology Commitments**	**Total**
2022	31,155	6,567	37,722
2023	51,403	10,570	61,973
2024	4,733	8,972	13,705
2025 and thereafter	—	759	759
	87,291	26,868	114,159

Revera and Axium Transactions

On March 1, 2022, the Company entered into agreements with Revera Inc. ("Revera") and Axium Infrastructure Inc. and its affiliates ("Axium") in respect of the ownership, operation and redevelopment of LTC homes in Ontario and Manitoba.

Revera Transactions

The Company has entered into agreements with Revera to acquire a 15% managed interest in 24 LTC homes currently jointly owned by Revera and Axium, composed of 18 Class A LTC homes located in Ontario and six homes in Manitoba, consisting of approximately 3,000 funded LTC beds (the "Revera Acquisition"). The remaining 85% interest will continue to be owned by Axium and Extendicare will operate the homes in consideration for a customary management fee.

On closing of the Revera Acquisition, the Company will enter into management contracts with Revera to manage all of Revera's other LTC homes, which comprise 31 Class C homes located in Ontario and one personal care home located in Manitoba, and will offer employment to Revera's head office LTC personnel.

Pursuant to the development arrangement agreements, Revera will grant the Company (either alone or with Axium) a right to participate in any redevelopment of Revera's 31 Class C homes in Ontario should Revera determine to pursue redevelopment of any of those homes into new LTC homes. If the Company determines, in its discretion, to participate in any such redevelopment project, Revera will act as development and construction manager and will be paid customary development and construction management fees.

Closing of the Revera Transactions is subject to customary closing conditions, including receipt of regulatory approvals from the MLTC, and Manitoba Health and Winnipeg Regional Health Authority, and is not conditional on financing or due diligence.

The aggregate cash consideration for the Revera Transactions is approximately $32.5 million plus the assumption of approximately $37.5 million in debt (at Extendicare's share), subject to customary adjustments. Certain of the associated debt will be refinanced or repaid on or before closing, resulting in changes in the allocation between cash consideration and debt assumption. The purchase price is expected to be funded from cash on hand.

Axium Transaction

In addition to the Revera Transactions, the Company entered into an agreement with Axium in respect of the formation of a joint venture with Axium to jointly redevelop certain of Extendicare's existing Ontario Class C homes (the "Axium Transaction"). Axium will own an 85% interest in the joint venture with Extendicare retaining a 15% managed interest. The Company will continue to undertake all development activities in respect of the joint venture homes and will operate the homes upon completion of construction.

As part of the Axium Transaction, Extendicare and Axium have entered into a Master Development Agreement ("Axium MDA") pursuant to which Extendicare has granted Axium a right to participate in the redevelopment of five of Extendicare's Ontario Class C homes located in Sudbury (two homes), Kingston, Stittsville and Peterborough, Ontario. This development arrangement could also apply to additional redevelopment projects should the Company wish to offer them to Axium. The Company will act as development and construction manager and will be paid customary development and construction management fees in respect of any projects in which Axium participates. Upon receipt of necessary redevelopment approvals, the home would be acquired by the Extendicare/Axium joint venture and the Company would operate the homes on the same terms as it will operate the homes to be acquired in the Revera Acquisition.

Pursuant to the Axium MDA and the Limited Partnership Agreement between affiliates and/or subsidiaries of Extendicare and Axium, the parties entered into a Purchase and Sale Agreement ("Axium PSA") whereby the limited partnership has agreed to purchase three Class C home redevelopment projects from the Company comprising an aggregate of 704 funded LTC beds currently under construction in Sudbury, Kingston and Stittsville, Ontario.

The Axium Transaction is subject to customary closing conditions, including receipt of regulatory approvals from the MLTC, and is not conditional on financing or due diligence. All required regulatory submissions have been filed.

Legal Proceedings and Regulatory Actions

In the ordinary course of business, the Company is involved in and potentially subject to legal proceedings brought against it from time to time in connection with its operations. The COVID-19 pandemic has increased the risk that litigation or other legal proceedings, regardless of merit, will be commenced against the Company.

In April 2021, the Company was served with a statement of claim filed in the Court of Queen's Bench for Saskatchewan alleging negligence, breach of fiduciary duty, breach of contract and breach of the required standard of care by the Company and certain unnamed defendants in respect of all residents of Company LTC homes and retirement communities located in Saskatchewan as well as their family members. The claim seeks an order certifying the action as a class action and unspecified damages.

In January 2022, the case management judge overseeing the Company's COVID-related class action granted a plaintiff's motion to, among other things, consolidate all four active class actions against the Company into one action pursuant to the *Class Proceedings Act* (Ontario). The consolidated claim is in respect of all Ontario LTC homes owned, operated, licensed and/or managed by the Company and its affiliates and names as defendants the Company, certain of its affiliates and the owners of any such managed LTC homes and alleges negligence, gross negligence, breach of fiduciary duty, breach of contract, unjust enrichment, wrongful death in respect of all persons who contracted COVID-19 at the residence or subsequently contracted COVID-19 from such persons and breach of section 7 of the *Canadian Charter of Rights and Freedoms*. The consolidated claim seeks damages in the aggregate of $110 million. The plaintiffs served the consolidated claim in June 2022 and the Company delivered its statement of defence in July 2022.

The Company intends to vigorously defend itself against these claims and these claims are subject to insurance coverage maintained by the Company. However, given the status of the proceedings, the Company is unable to assess their potential outcome and they could have a materially adverse impact on the Company's business, results of operations and financial condition.

In December 2020, the Government of Ontario passed Bill 218, *Supporting Ontario's Recovery Act* (Ontario), which provides targeted liability protection against COVID-19 exposure-related claims against any individual, corporation, or other entity that made a "good faith" or "honest" effort to act in accordance with public health guidance and laws relating to COVID-19 and did not otherwise act with "gross negligence". The protection under Bill 218 is retroactive to March 17, 2020, when Ontario first implemented emergency measures as part of its response to the COVID-19 pandemic. Similar legislation has been passed in other provincial jurisdictions, including Saskatchewan.

In October 2021, the Supreme Court of Canada dismissed an application for leave to appeal by the Attorney General of Ontario which sought to challenge the decision issued by the previous presiding court that ruled in favour of certain unions in respect of a legal challenge to a 2016 Pay Equity Tribunal decision. The unions argued that new pay equity adjustments were required in order to maintain pay equity with municipal LTC homes where PSWs and other direct care workers in other industries are included in determining pay equity. The matter has now been referred back to the Pay Equity Tribunal to settle the matter between the participating LTC homes, unions and the Government and establish a framework for pay equity suitable for the sector. The Company, along with other participants in the long-term care sector, including the Government of Ontario, are working to resolve the matter. Given the uncertainty of the matter and the various stakeholders involved, and as a result the wide range of possible settlement outcomes and related funding changes the Company is unable to determine a reliable estimate of the potential outcome. Therefore, the Company did not record a provision with respect to this matter as at March 31, 2022. This matter could have a materially adverse impact on the Company's business, results of operations and financial condition.

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.

In addition to cash generated from its operations and cash on hand as at June 30, 2022, the Company has available undrawn credit facilities totalling $76.7 million (December 31, 2021 – $71.3 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.

	June 30, 2022		December 31, 2021	
	US$	**C$**	***US$***	**C$**
Assets				
Current assets	*1,961*	**2,525**	*11,759*	14,861
Liabilities				
Current liabilities	*745*	**959**	*820*	1,036
Net asset exposure	*1,216*	**1,566**	*10,939*	13,825

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, 2022, the CMHC variable-rate mortgage and construction loans are variable-rate debt, which 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 7*).

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

Below is the interest rate profile of our interest-bearing financial instruments, which reflects the impact of the interest rate swaps:

	June 30, 2022		December 31, 2021	
	Percentage of Total Debt	**Carrying Amount**	**Percentage of Total Debt**	**Carrying Amount**
Fixed-rate long-term debt(i)	**91.6 %**	**346,628**	87.7 %	478,889
Variable-rate long-term debt(i)	**8.4 %**	**31,762**	12.3 %	67,467
Total	**100.0 %**	**378,390**	100.0 %	546,356

(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, 2022, long-term debt with variable rates represented 8.4% of total debt (December 31, 2021 – 12.3%). 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, 2022. This analysis assumes that all other variables remain 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, 2022	**Amortized Cost**	**Fair Value through Profit and Loss**	**Total Carrying Amount**	**Fair Value**	**Fair Value Hierarchy**
Financial assets:					
Cash and cash equivalents	**238,083**	**—**	**238,083**	**238,083**	Level 1
Restricted cash	**2,427**	**—**	**2,427**	**2,427**	Level 1
Accounts receivable	**62,983**	**—**	**62,983**	**62,983**	N/A
Amounts receivable and other assets(i)(ii)	**34,055**	**—**	**34,055**	**31,280**	Level 2
	337,548	**—**	**337,548**	**334,773**	
Financial liabilities:					
Accounts payable	**20,311**	**—**	**20,311**	**20,311**	N/A
Interest rate swaps	**—**	**196**	**196**	**196**	Level 2
Long-term debt (ii) (iii)	**255,215**	**—**	**255,215**	**255,811**	Level 2
Convertible debentures	**123,175**	**—**	**123,175**	**125,817**	Level 1
	398,701	**196**	**398,897**	**402,135**	

As at December 31, 2021	Amortized Cost	Fair Value through Profit and Loss	Total Carrying Amount	Fair Value	Fair Value Hierarchy
Financial assets:					
Cash and cash equivalents	104,627	—	104,627	104,627	Level 1
Restricted cash	3,027	—	3,027	3,027	Level 1
Accounts receivable	69,435	—	69,435	69,435	N/A
Amounts receivable and other assets(i)(ii)	36,271	—	36,271	36,129	Level 2
	213,360	—	213,360	213,218	
Financial liabilities:					
Accounts payable	28,956	—	28,956	28,956	N/A
Interest rate swaps	—	736	736	736	Level 2
Long-term debt(ii)(iii)	423,712	—	423,712	446,360	Level 2
Convertible debentures	122,644	—	122,644	125,804	Level 1
	575,312	736	576,048	601,856	

(i) *Includes primarily amounts receivable from government.*

(ii) *Includes current portion.*

(iii) *Excludes convertible debentures and netting of deferred financing costs.*

BASIS FOR DETERMINING FAIR VALUES

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

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

FAIR VALUE HIERARCHY

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. SEGMENTED INFORMATION

The Company reports the following segments: i) long-term care; ii) home health care; iii) management, consulting and group purchasing as “other operations”; and iv) the corporate functions and any intersegment eliminations as “corporate”.

The long-term care segment represents the 53 long-term care homes that the Company owns and operates in Canada (excluding the Saskatchewan LTC Homes). 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 management, consulting and group purchasing divisions. Through our Extendicare Assist division, the Company provides management and consulting services 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’s Saskatchewan LTC Homes are being transitioned to SHA and is held for sale as of June 30, 2022. The Company completed the sale of its retirement living segment during the three and six months ended June 30, 2022. The two segments are treated as discontinued operations and are therefore, excluded from Continuing Operations (*Note 14*).

					Three months ended June 30, 2022
(in thousands of Canadian dollars)	Long-term Care	Home Health Care	Other Operations	Corporate	Total
CONTINUING OPERATIONS					
Revenue	**181,641**	**106,774**	**8,170**	**—**	**296,585**
Operating expenses	**163,994**	**98,566**	**3,684**	**—**	**266,244**
Net operating income	**17,647**	**8,208**	**4,486**	**—**	**30,341**
Administrative costs				**13,259**	**13,259**
Earnings before depreciation, amortization, and other expense				**—**	**17,082**
Depreciation and amortization				**8,058**	**8,058**
Earnings before net finance costs and income taxes				**—**	**9,024**
Net finance costs				**4,378**	**4,378**
Earnings before income taxes				**—**	**4,646**
Income tax expense					
Current				**1,100**	**1,100**
Deferred				**36**	**36**
Total income tax expense				**1,136**	**1,136**
Earnings from continuing operations					**3,510**
DISCONTINUED OPERATIONS					
Earnings from discontinued operations, net of income taxes					**67,883**
Net earnings					**71,393**

					Three months ended June 30, 2021[(i)]
(in thousands of Canadian dollars)	Long-term Care	Home Health Care	Other Operations	Corporate	Total
CONTINUING OPERATIONS					
Revenue	173,711	101,097	6,885	—	281,693
Operating expenses	162,583	87,056	3,154	—	252,793
Net operating income	11,128	14,041	3,731	—	28,900
Administrative costs				13,434	13,434
Earnings before depreciation, amortization, and other expense				—	15,466
Depreciation and amortization				7,431	7,431
Earnings before net finance costs and income taxes					8,035
Net finance costs				5,340	5,340
Earnings before income taxes					2,695
Income tax expense (recovery)					
Current				2,034	2,034
Deferred				(1,002)	(1,002)
Total income tax expense				1,032	1,032
Earnings from continuing operations					1,663
DISCONTINUED OPERATIONS					
Earnings from discontinued operations, net of income taxes					(703)
Net earnings					960

[(i)] *Comparative figures have been re-presented to reflect discontinued operations (Note 14).*

	Six months ended June 30, 2022				
(in thousands of Canadian dollars)	**Long-term Care**	**Home Health Care**	**Other Operations**	**Corporate**	**Total**
CONTINUING OPERATIONS					
Revenue	**381,449**	**205,423**	**15,423**	**—**	**602,295**
Operating expenses	**337,238**	**194,504**	**7,236**	**—**	**538,978**
Net operating income	**44,211**	**10,919**	**8,187**	**—**	**63,317**
Administrative costs				**26,672**	**26,672**
Earnings before depreciation, amortization, and other expense					**36,645**
Depreciation and amortization				**16,309**	**16,309**
Earnings before net finance costs and income taxes					**20,336**
Net finance costs				**9,426**	**9,426**
Earnings before income taxes					**10,910**
Income tax expense (recovery)					
Current				**5,060**	**5,060**
Deferred				**(1,705)**	**(1,705)**
Total income tax expense				**3,355**	**3,355**
Earnings from continuing operations					**7,555**
DISCONTINUED OPERATIONS					
Earnings from discontinued operations, net of income taxes					**67,958**
Net earnings					**75,513**

	Six months ended June 30, 2021[i]				
(in thousands of Canadian dollars)	**Long-term Care**	**Home Health Care**	**Other Operations**	**Corporate**	**Total**
CONTINUING OPERATIONS					
Revenue	363,500	198,764	14,290	—	576,554
Operating expenses	336,582	168,761	5,992	—	511,335
Net operating income	26,918	30,003	8,298	—	65,219
Administrative costs				25,975	25,975
Earnings before depreciation, amortization, and other expense					39,244
Depreciation and amortization				15,157	15,157
Earnings before net finance costs and income taxes					24,087
Net finance costs				10,742	10,742
Earnings before income taxes					13,345
Income tax expense (recovery)					
Current				4,837	4,837
Deferred				(667)	(667)
Total income tax expense				4,170	4,170
Earnings from continuing operations					9,175
DISCONTINUED OPERATIONS					
Earnings from discontinued operations, net of income taxes					108
Net earnings					9,283

[i] *Comparative figures have been re-presented to reflect discontinued operations (Note 14).*