Interim Condensed Consolidated Financial Statements

Q2 2023

Extendicare Inc.
Dated: August 10, 2023

Extendicare Inc.
Interim Condensed Consolidated Financial Statements

Three and six months ended June 30, 2023 and 2022

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

(thousands of dollars)	***notes***	**June 30, 2023**	**December 31, 2022**
Assets			
Current assets			
Cash and cash equivalents		**89,273**	167,281
Restricted cash		**2,986**	2,701
Accounts receivable		**80,267**	61,166
Income taxes recoverable		**2,289**	2,908
Other assets		**23,255**	23,982
Total current assets		**198,070**	258,038
Non-current assets			
Property and equipment	***3***	**427,968**	388,719
Goodwill and other intangible assets	***4***	**102,759**	97,064
Other assets		**30,130**	30,468
Deferred tax assets		**6,004**	7,290
Total non-current assets		**566,861**	523,541
Total assets		**764,931**	781,579
Liabilities and Equity			
Current liabilities			
Accounts payable and accrued liabilities		**232,159**	250,140
Income taxes payable		**1,220**	5,606
Long-term debt	***5***	**19,507**	19,239
Total current liabilities		**252,886**	274,985
Non-current liabilities			
Long-term debt	***5***	**380,465**	364,735
Provisions		**10,695**	10,512
Other long-term liabilities		**22,652**	23,757
Deferred tax liabilities		**6,800**	6,889
Total non-current liabilities		**420,612**	405,893
Total liabilities		**673,498**	680,878
Share capital	***7***	**473,650**	475,415
Equity portion of convertible debentures		**7,085**	7,085
Contributed surplus		**10,544**	10,619
Accumulated deficit		**(392,628)**	(384,620)
Accumulated other comprehensive loss		**(7,218)**	(7,798)
Shareholders' equity		**91,433**	100,701
Total liabilities and equity		**764,931**	781,579

See accompanying notes to the unaudited interim condensed consolidated financial statements.
Commitments and Contingencies (*Note 12*), Subsequent Events (*Note 15*).

Extendicare Inc.

Interim Condensed Consolidated Statements of Earnings

(Unaudited)

(thousands of dollars except for per share amounts)	***notes***	**Three months ended June 30, 2023**	**Three months ended June 30, 2022(i)**	**Six months ended June 30, 2023**	**Six months ended June 30, 2022(i)**
CONTINUING OPERATIONS					
Revenue		**307,535**	296,585	**632,247**	602,295
Operating expenses		**279,065**	266,244	**559,213**	538,978
Administrative costs		**13,694**	12,284	**27,280**	25,057
Total expenses	***8***	**292,759**	278,528	**586,493**	564,035
Earnings before depreciation, amortization, and other expense		**14,776**	18,057	**45,754**	38,260
Depreciation and amortization		**7,173**	8,058	**14,524**	16,309
Other expense	***9***	**1,402**	975	**5,020**	1,615
Earnings before net finance costs and income taxes		**6,201**	9,024	**26,210**	20,336
Net finance costs	***10***	**3,096**	4,378	**7,339**	9,426
Earnings before income taxes		**3,105**	4,646	**18,871**	10,910
Current income tax expense		**506**	1,100	**4,352**	5,060
Deferred income tax expense (recovery)		**648**	36	**988**	(1,705)
Total income tax expense		**1,154**	1,136	**5,340**	3,355
Earnings from continuing operations		**1,951**	3,510	**13,531**	7,555
DISCONTINUED OPERATIONS					
Earnings from discontinued operations, net of income taxes	***11***	**—**	67,883	**—**	67,958
Net earnings		**1,951**	71,393	**13,531**	75,513
Basic Earnings per Share					
Earnings from continuing operations		**$0.02**	$0.04	**$0.16**	$0.08
Net earnings		**$0.02**	$0.79	**$0.16**	$0.83
Diluted Earnings per Share					
Earnings from continuing operations		**$0.02**	$0.04	**$0.16**	$0.08
Net earnings		**$0.02**	$0.72	**$0.16**	$0.78

(i)Certain comparative information has been reclassified to conform to the current year presentation.

See accompanying notes to the 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,	
(thousands of dollars)	**2023**	**2022**	**2023**	**2022**
Net earnings	**1,951**	71,393	**13,531**	75,513
Other Comprehensive Income, Net of Taxes				
Items that will not be reclassified to profit or loss:				
Defined benefit plan actuarial gains	**1,501**	1,745	**789**	5,835
Tax expense on changes in defined benefit plan	**(398)**	(463)	**(209)**	(1,547)
Other comprehensive income, net of taxes	**1,103**	1,282	**580**	4,288
Total comprehensive income	**3,054**	72,675	**14,111**	79,801

See accompanying notes to the unaudited interim condensed consolidated financial statements.

Extendicare Inc.
Interim Condensed Consolidated Statements of Changes in Equity
(Unaudited)

(thousands of 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	*6*	*177,425*	1,901	—	(652)	—	—	1,249
Net earnings		—	—	—	—	75,513	—	75,513
Dividends declared	*7*	—	—	—	—	(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

(thousands of 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, 2023		***84,728,744***	**475,415**	**7,085**	**10,619**	**(384,620)**	**(7,798)**	**100,701**
Purchase of shares for cancellation	***7***	***(627,500)***	**(3,526)**	**—**	**—**	**(601)**	**—**	**(4,127)**
Share-based compensation	***6***	***178,702***	**1,761**	**—**	**(75)**	**(656)**	**—**	**1,030**
Net earnings		**—**	**—**	**—**	**—**	**13,531**	**—**	**13,531**
Dividends declared	***7***	**—**	**—**	**—**	**—**	**(20,282)**	**—**	**(20,282)**
Other comprehensive income		**—**	**—**	**—**	**—**	**—**	**580**	**580**
Balance at June 30, 2023		***84,279,946***	**473,650**	**7,085**	**10,544**	**(392,628)**	**(7,218)**	**91,433**

See accompanying notes to the 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,	
(thousands of dollars)	***notes***	**2023**	**2022**[i]	**2023**	**2022**[i]
Operating Activities					
Net earnings		**1,951**	71,393	**13,531**	75,513
Adjustments for:					
Share-based compensation		**1,154**	(236)	**1,030**	1,249
Depreciation and amortization	***3, 4***	**7,173**	8,058	**14,524**	16,874
Net finance costs	***10***	**3,096**	4,698	**7,339**	9,857
Current taxes		**506**	1,013	**4,352**	4,607
Deferred taxes		**648**	110	**988**	(1,237)
Defined benefit plan expenses		**311**	202	**622**	405
Defined benefit plan contributions		**—**	(1,154)	**(1,096)**	(1,700)
Gain on sale of retirement living segment, net of tax	***11***	**—**	(67,920)	**—**	(67,920)
		14,839	16,164	**41,290**	37,648
Net change in operating assets and liabilities					
Accounts receivable		**(6,637)**	(11,373)	**(19,101)**	5,163
Other assets		**(1,251)**	(1,559)	**82**	(1,198)
Accounts payable and accrued liabilities		**25,664**	16,867	**(11,439)**	26,278
		32,615	20,099	**10,832**	67,891
Interest paid, net		**(4,486)**	(6,078)	**(5,644)**	(9,759)
Income taxes (paid) received, net		**(969)**	297	**(8,167)**	7,523
Net cash from (used in) from operating activities		**27,160**	14,318	**(2,979)**	65,655
Investing Activities					
Purchase of property, equipment and other intangible assets	***3, 4***	**(31,799)**	(17,057)	**(65,266)**	(37,795)
Change in other assets		**661**	1,101	**1,503**	2,217
Proceeds from sale of retirement living segment, net of taxes paid	***11***	**—**	245,631	**—**	245,631
Net cash (used in) from investing activities		**(31,138)**	229,675	**(63,763)**	210,053
Financing Activities					
Issuance of long-term debt	***5***	**7,051**	9,647	**23,656**	13,353
Repayment of long-term debt and lease liabilities	***5, 11***	**(4,818)**	(123,748)	**(10,189)**	(134,496)
Change in restricted cash		**(143)**	729	**(285)**	600
Purchase of securities for cancellation	***7***	**(4,127)**	—	**(4,127)**	—
Dividends paid	***7***	**(10,151)**	(10,754)	**(20,318)**	(21,504)
Financing costs		**—**	(176)	**(3)**	(205)
Net cash used in financing activities		**(12,188)**	(124,302)	**(11,266)**	(142,252)
(Decrease) increase in cash and cash equivalents		**(16,166)**	119,691	**(78,008)**	133,456
Cash and cash equivalents at beginning of period		**105,439**	118,392	**167,281**	104,627
Cash and cash equivalents at end of period		**89,273**	238,083	**89,273**	238,083

[i]Certain comparative information has been reclassified to conform to the current year presentation.
See accompanying notes to the 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 4T9.

2. BASIS OF PREPARATION

a) Statement of Compliance

The unaudited interim condensed consolidated financial statements (the "consolidated financial statements") have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" as issued by the International Accounting Standards Board, and were approved by the board of directors (the "Board") of the Company on August 10, 2023.

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 2022 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, 2022.

b) Basis of Measurement

The 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.

3. PROPERTY AND EQUIPMENT

	Land & Land Improve-ments	Buildings & Leasehold Improvements	Right-of-use Assets	Furniture & Equipment	Construction in Progress ("CIP")	Projects in Progress ("PIP")	Total
Cost							
January 1, 2022	61,343	534,150	102,205	69,101	51,880	10,493	829,172
Additions	362	6,124	5,476	7,738	71,318	13,360	104,378
Derecognition	(2)	(1,565)	(1,669)	(2,021)	—	—	(5,257)
Transfers	94	11,569	—	1,107	—	(12,770)	—
Disposal of retirement living operations (*Note 11*)	(24,609)	(215,010)	(20)	(9,512)	(2,533)	—	(251,684)
December 31, 2022	37,188	335,268	105,992	66,413	120,665	11,083	676,609
Additions	**18**	**1,014**	**1,251**	**3,255**	**42,385**	**4,018**	**51,941**
Derecognition	**—**	**(1)**	**(542)**	**(31)**	**—**	**—**	**(574)**
Transfers	**—**	**1,558**	**—**	**3,674**	**—**	**(5,232)**	**—**
June 30, 2023	**37,206**	**337,839**	**106,701**	**73,311**	**163,050**	**9,869**	**727,976**

	Land & Land Improve-ments	Buildings & Leasehold Improvements	Right-of-use Assets	Furniture & Equipment	CIP	PIP	Total
Accumulated Depreciation and Impairment Losses							
January 1, 2022	5,968	211,021	44,059	32,524	—	—	293,572
Depreciation	537	14,330	5,832	7,046	—	—	27,745
Derecognition	(2)	(1,565)	(1,669)	(2,021)	—	—	(5,257)
Impairment losses	133	4,505	—	304	—	—	4,942
Disposal of retirement living operations (*Note 11*)	(555)	(29,381)	(4)	(3,172)	—	—	(33,112)
December 31, 2022	6,081	198,910	48,218	34,681	—	—	287,890
Depreciation	**259**	**6,892**	**1,520**	**4,021**	**—**	**—**	**12,692**
Derecognition	**—**	**(1)**	**(542)**	**(31)**	**—**	**—**	**(574)**
June 30, 2023	**6,340**	**205,801**	**49,196**	**38,671**	**—**	**—**	**300,008**
Carrying Amounts							
December 31, 2022	31,107	136,358	57,774	31,732	120,665	11,083	388,719
June 30, 2023	**30,866**	**132,038**	**57,505**	**34,640**	**163,050**	**9,869**	**427,968**

4. GOODWILL AND OTHER INTANGIBLE ASSETS

	Goodwill	Other Intangible Assets	Total
Cost			
January 1, 2022	45,850	78,486	124,336
Additions	—	10,951	10,951
Disposal of retirement living operations (*Note 11*)	—	(2,928)	(2,928)
Derecognition	—	(67)	(67)
December 31, 2022	45,850	86,442	132,292
Additions	**—**	**7,527**	**7,527**
June 30, 2023	**45,850**	**93,969**	**139,819**

	Goodwill	Other Intangible Assets	Total
Accumulated Amortization			
January 1, 2022	—	31,852	31,852
Amortization	—	4,379	4,379
Disposal of retirement living operations *(Note 11)*	—	(936)	(936)
Derecognition	—	(67)	(67)
December 31, 2022	—	35,228	35,228
Amortization	**—**	**1,832**	**1,832**
June 30, 2023	**—**	**37,060**	**37,060**
Carrying Amounts			
December 31, 2022	45,850	51,214	97,064
June 30, 2023	**45,850**	**56,909**	**102,759**

5. LONG-TERM DEBT

	Interest Rate	Year of Maturity	June 30, 2023	December 31, 2022
Convertible unsecured subordinated debentures	5.00%	2025	**124,284**	123,719
CMHC mortgages, fixed rate	2.65% - 7.70%	2024 - 2037	**41,685**	43,498
CMHC mortgage, variable rate	Variable	2025	**20,807**	21,121
Non-CMHC mortgages and loans	3.49% - 5.64%	2025 - 2038	**101,278**	103,248
Construction facilities and loans	Variable	2024	**56,944**	33,288
Lease liabilities	3.53% - 7.19%	2023 - 2029	**58,661**	63,502
Total debt			**403,659**	388,376
Deferred financing costs			**(3,687)**	(4,402)
Total debt, net of deferred financing costs			**399,972**	383,974
Less: current portion			**(19,507)**	(19,239)
Long-term debt			**380,465**	364,735

Principal Repayments

	Convertible Debentures	Mortgages and Loans Regular	Mortgages and Loans Maturity	Construction Facilities	Lease Liabilities	Total
2023 remaining	—	4,446	—	—	7,907	12,353
2024	—	8,278	—	56,944	15,571	80,793
2025	126,500	7,276	35,921	—	15,027	184,724
2026	—	6,831	—	—	14,027	20,858
2027	—	5,115	25,954	—	7,229	38,298
Thereafter	—	62,076	7,873	—	8,405	78,354
Total debt principal and lease liability repayments	126,500	94,022	69,748	56,944	68,166	415,380
Unamortized accretion of 2025 convertible debentures	(2,216)	—	—	—	—	(2,216)
Interest on lease liabilities	—	—	—	—	(9,505)	(9,505)
Principal and lease liabilities, after accretion and interest	124,284	94,022	69,748	56,944	58,661	403,659

Long-term Debt Continuity

	June 30, 2023	December 31, 2022
As at January 1	**383,974**	536,851
Issuance of long-term debt	**23,656**	36,393
New lease liabilities	**1,251**	5,476
Accretion and other	**565**	1,001
Repayments(i)	**(4,097)**	(136,687)
Payment of lease liabilities	**(6,092)**	(11,304)
Increase in deferred financing costs	**(3)**	(382)
Amortization of deferred financing costs and other(i)	**718**	6,077
Assumed debt related to the Retirement Living Sale *(Note 11)*	**—**	(53,451)
As at end of period	**399,972**	383,974

(i) Includes amounts related to the Retirement Living Sale in comparative period (*Note 11*).

Construction Facilities

	June 30, 2023	December 31, 2022
Construction facilities	**156,573**	156,573
Amount drawn down, end of period	**(56,944)**	(33,288)
Construction facilities available	**99,629**	123,285

Credit Facilities

The Company has two demand credit facilities totalling $112.3 million. One is secured by 13 Class C long-term care ("LTC") homes in Ontario and the other is secured by the assets of the home health care business. Neither of these facilities has financial covenants but do contain normal and customary terms. As at June 30, 2023, $27.3 million of the facilities secure the Company's defined benefit pension plan obligations (December 31, 2022 – $30.5 million), $4.8 million was used in connection with obligations relating to long-term care homes (December 31, 2022 – $4.8 million), leaving $80.2 million unutilized (December 31, 2022 – $77.0 million).

Financial Covenants

The Company is subject to debt service coverage covenants on certain of its mortgages and loans. The Company was in compliance with all of these covenants as at June 30, 2023.

6. 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:

	PSUs			
	Three months ended June 30,		Six months ended June 30,	
(number of units)	2023	2022	2023	2022
Settled in Common Shares issued from treasury	—	177,425	**178,702**	177,425
Settled in cash	—	226,301	**164,650**	226,301
PSUs settled during the period	—	403,726	**343,352**	403,726

The Company's DSUs and PSUs were an expense of $1.2 million for the three months ended June 30, 2023 (three months ended June 30, 2022 – $1.3 million), and $2.1 million for the six months ended June 30, 2023 (six months ended June 30, 2022 – $2.8 million), recorded in administrative costs.

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

	June 30, 2023	December 31, 2022
Contributed surplus – DSUs	**5,611**	4,994
Contributed surplus – PSUs	**4,933**	5,625
Total	**10,544**	10,619

As at June 30, 2023, an aggregate of 3,884,611 (December 31, 2022 – 4,063,313) Common Shares were reserved and available for issuance pursuant to the LTIP.

DSU and PSU activity was as follows:

	DSUs		PSUs	
(number of units)	**Six months ended June 30, 2023**	**Year ended December 31, 2022**	**Six months ended June 30, 2023**	**Year ended December 31, 2022**
Units outstanding, beginning of period	**670,671**	507,811	**1,302,586**	1,176,273
Granted	**67,450**	125,018	**529,802**	582,875
Reinvested dividend equivalents	**24,818**	37,842	**49,282**	92,478
Forfeited	**—**	—	**(38,195)**	(21,417)
Settled	**—**	—	**(343,352)**	(527,623)
Units outstanding, end of period	**762,939**	670,671	**1,500,123**	1,302,586
Weighted average fair value of units granted during the period at grant date	**$6.66**	$6.92	**$6.35**	$8.07

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, 2023	**Year ended December 31, 2022**	
Grant date	**March 14, 2023**	September 6, 2022	March 11, 2022
Vesting date	**March 14, 2026**	March 11, 2025	March 11, 2025
PSUs granted	**529,802**	49,375	533,500
Fair value of AFFO component	**$3.16**	$3.60	$3.87
Fair value of TSR component	**$3.19**	$4.06	$4.24
Grant date fair value	**$6.35**	$7.66	$8.11
Expected volatility of the Company's Common Shares	**19.18 %**	23.72 %	31.52 %
Expected volatility of the Index	**16.43 %**	16.29 %	22.00 %
Risk-free rate	**3.50 %**	3.56 %	1.67 %
Dividend yield	**nil**	nil	nil

7. SHARE CAPITAL

Common Shares

Each Common Share is transferable, represents an equal and undivided beneficial interest in the assets of the Company and entitles the holder to one vote at all meetings of shareholders of the Company. Shareholders are entitled to receive dividends from the Company when declared by the Board. During the three and six months ended June 30, 2023 and 2022, the Company declared cash dividends of $0.12 per share and $0.24 per share, respectively.

In June 2023, the Company received approval from the TSX to renew its normal course issuer bid ("NCIB") to purchase for cancellation up to 7,273,707 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, 2023, and provides the Company with flexibility to purchase Common Shares for cancellation until June 29, 2024, 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 36,281 Common Shares.

Under the NCIB that commenced on June 30, 2022 and ended on June 29, 2023, the Company purchased 5,638,680 Common Shares at a cost of $39.1 million, representing a weighted average price per share of $6.94, of which 627,500 were acquired during 2023 at a cost of $4.1 million, representing a weighted average price per share of $6.53.

8. EXPENSES BY NATURE

	Three months ended June 30,		Six months ended June 30,	
	2023	**2022**[(i)]	**2023**	**2022**[(i)]
Employee wages and benefits	**253,702**	236,407	**496,510**	472,975
Food, drugs, supplies and other variable costs	**15,376**	16,054	**30,556**	36,209
Property based and leases	**13,478**	12,585	**31,250**	25,608
Other	**10,203**	13,482	**28,177**	29,243
Total operating expenses and administrative costs from continuing operations	**292,759**	278,528	**586,493**	564,035

[(i)]Certain comparative information has been reclassified to conform to the current year presentation.

9. OTHER EXPENSE

Strategic Transformation Costs

During the three and six months ended June 30, 2023, the Company incurred costs related to the strategic transformation of the Company related to the announced transactions with Revera Inc. ("Revera") and Axium Infrastructure Inc. and its affiliates ("Axium") in respect of the ownership, operation and redevelopment of long-term care homes (*Note 15*). Costs incurred include transaction, legal, regulatory, IT integration and management transition costs of $1.4 million and $5.0 million, respectively (June 30, 2022 – $1.0 million and $1.6 million, respectively).

10. NET FINANCE COSTS

	Three months ended June 30,		Six months ended June 30,	
	2023	**2022**	**2023**	**2022**
Interest expense	**5,149**	5,022	**10,503**	10,080
Interest revenue	**(1,619)**	(541)	**(3,428)**	(1,291)
Accretion	**377**	(240)	**747**	607
Other	**(811)**	137	**(483)**	30
Net finance costs from continuing operations	**3,096**	4,378	**7,339**	9,426

11. DISCONTINUED OPERATIONS

On May 16, 2022, the Company completed the sale of its retirement living operations to Sienna-Sabra LP. In addition, on October 9, 2022, the Company completed the transition of the operations and delivery of care services of its Saskatchewan long-term care homes ("SK LTC Homes") to the Saskatchewan Health Authority ("SHA"), including the sale of the property and equipment, certain assets and the assumption of certain liabilities by the SHA.

Financial information of the discontinued operations in the interim condensed consolidated statements of earnings is set out below:

For the 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, 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 income tax expense (recovery)	125	(212)	(87)
Deferred income tax expense	74	—	74
Total income tax expense (recovery)	199	(212)	(13)
Earnings (loss) from operating activities	551	(588)	(37)
Gain on sale of discontinued operations before income tax	78,779	—	78,779
Current income tax expense related to gain on sale	3,842	—	3,842
Deferred income tax expense related to gain on sale	7,017	—	7,017
Total income tax expense on gain on sale of discontinued operations	10,859	—	10,859
Earnings (loss) from discontinued operations	68,471	(588)	67,883

For the 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, 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 income tax expense (recovery)	297	(750)	(453)
Deferred income tax expense	468	—	468
Total income tax expense (recovery)	765	(750)	15
Earnings (loss) from operating activities	2,118	(2,080)	38
Gain on sale of discontinued operations before income tax	78,779	—	78,779
Current income tax expense related to gain on sale	3,842	—	3,842
Deferred income tax expense related to gain on sale	7,017	—	7,017
Total income tax expense on gain on sale of discontinued operations	10,859	—	10,859
Earnings (loss) from discontinued operations	70,038	(2,080)	67,958

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

For the 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

For the 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

12. COMMITMENTS AND CONTINGENCIES

Commitments

As at June 30, 2023, 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
2023	37,816	9,864	47,680
2024	40,469	11,854	52,323
2025 and thereafter	17,791	2,923	20,714
Total	96,076	24,641	120,717

Revera and Axium Transactions

On March 1, 2022, the Company entered into agreements with Revera and Axium in respect of the ownership, operation and redevelopment of LTC homes in Ontario and Manitoba.

REVERA TRANSACTIONS

The Company entered into agreements with Revera to acquire a 15% managed interest in 25 LTC homes currently jointly owned by Revera and Axium, composed of 19 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, the Company will enter into management contracts with Revera to manage all of Revera’s other LTC homes, which comprise 30 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. In addition, the Company will enter into development arrangement agreements with Revera in respect of the potential redevelopment of the Revera managed Class C homes in Ontario into new homes (collectively with the Revera Acquisition, the “Revera Transactions”).

On August 1, 2023, the Company closed the Revera Transactions (*Note 15*).

Pursuant to the development arrangement agreements, Revera has granted the Company (either alone or with Axium) a right to participate in any redevelopment of Revera’s 30 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.

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 homes 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 a limited partnership agreement between affiliates and/or subsidiaries of Extendicare and Axium, the parties entered into a purchase and sale agreement, as amended, whereby the limited partnership has agreed to purchase four Class C home redevelopment projects from the Company comprising an aggregate of 960 funded LTC beds currently under construction in Sudbury, Kingston, Stittsville, and Peterborough, Ontario.

Subsequent to June 30, 2023, the Axium Transaction received regulatory approval and closing remains subject to customary closing conditions and is anticipated by September 30, 2023 (*Note 15*).

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 personal support workers 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 June 30, 2023. This matter could have a materially adverse impact on the Company's business, results of operations and financial condition.

13. FINANCIAL INSTRUMENTS

Fair Values of Financial Instruments

The following table presents the fair value and fair value hierarchy of the Company's financial instruments and excludes financial instruments measured at amortized cost that are short-term in nature. The carrying amounts of the Company's financial instruments approximate their fair values except for items presented below.

As at June 30, 2023	**Carrying Amount**	**Fair Value**	**Fair Value Hierarchy**
Financial assets			
Construction funding subsidy receivable(i)	**30,639**	**29,080**	Level 2
	30,639	**29,080**	
Financial liabilities			
Long-term debt(ii)	**220,714**	**217,419**	Level 2
Convertible unsecured subordinated debentures	**124,284**	**121,061**	Level 1
	344,998	**338,480**	

As at December 31, 2022	**Carrying Amount**	**Fair Value**	**Fair Value Hierarchy**
Financial assets			
Construction funding subsidy receivable(i)	32,142	30,636	Level 2
	32,142	30,636	
Financial liabilities			
Long-term debt(ii)	201,157	198,314	Level 2
Convertible unsecured subordinated debentures	123,719	119,543	Level 1
	324,876	317,857	

(i) Includes current portion.
(ii) Excludes leases, convertible debentures and netting of deferred financing costs.

14. SEGMENTED INFORMATION

The Company reports the following segments: i) long-term care; ii) home health care; iii) managed services; 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. Through the Company's 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 managed services are composed of its management, consulting and group purchasing divisions. Through the Extendicare Assist division, the Company provides management and consulting services to third parties; and through the 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 were transitioned to SHA, and the Company's retirement living segment was sold; in the comparative period, the two are treated as discontinued operations and are therefore excluded from continuing operations (*Note 11*).

	Three months ended June 30, 2023				
	Long-term Care	Home Health Care	Managed Services	Corporate	Total
CONTINUING OPERATIONS					
Revenue	**182,377**	**116,327**	**8,831**	**—**	**307,535**
Operating expenses	**168,504**	**106,274**	**4,287**	**—**	**279,065**
Net operating income	**13,873**	**10,053**	**4,544**	**—**	**28,470**
Administrative costs				**13,694**	**13,694**
Earnings before depreciation, amortization, and other expense					**14,776**
Depreciation and amortization				**7,173**	**7,173**
Other expense				**1,402**	**1,402**
Earnings before net finance costs and income taxes					**6,201**
Net finance costs				**3,096**	**3,096**
Earnings before income taxes					**3,105**
Current income tax expense				**506**	**506**
Deferred income tax expense				**648**	**648**
Total income tax expense				**1,154**	**1,154**
Earnings from continuing operations					**1,951**
DISCONTINUED OPERATIONS					
Earnings from discontinued operations, net of income taxes					**—**
Net earnings					**1,951**

	Three months ended June 30, 2022[i]				
	Long-term Care	Home Health Care	Managed Services	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				12,284	12,284
Earnings before depreciation, amortization, and other expense					18,057
Depreciation and amortization				8,058	8,058
Other expense				975	975
Earnings before net finance costs and income taxes					9,024
Net finance costs				4,378	4,378
Earnings before income taxes					4,646
Current income tax expense				1,100	1,100
Deferred income tax expense				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

[i]Certain comparative information has been reclassified to conform to the current year presentation.

	Six months ended June 30, 2023				
	Long-term Care	Home Health Care	Managed Services	Corporate	Total
CONTINUING OPERATIONS					
Revenue	**389,988**	**223,754**	**18,505**	**—**	**632,247**
Operating expenses	**342,361**	**207,268**	**9,584**	**—**	**559,213**
Net operating income	**47,627**	**16,486**	**8,921**	**—**	**73,034**
Administrative costs				**27,280**	**27,280**
Earnings before depreciation, amortization, and other expense					**45,754**
Depreciation and amortization				**14,524**	**14,524**
Other expense				**5,020**	**5,020**
Earnings before net finance costs and income taxes					**26,210**
Net finance costs				**7,339**	**7,339**
Earnings before income taxes					**18,871**
Current income tax expense				**4,352**	**4,352**
Deferred income tax expense				**988**	**988**
Total income tax expense				**5,340**	**5,340**
Earnings from continuing operations					**13,531**
DISCONTINUED OPERATIONS					
Earnings from discontinued operations, net of income taxes					**—**
Net earnings					**13,531**

	Six months ended June 30, 2022[(i)]				
	Long-term Care	Home Health Care	Managed Services	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				25,057	25,057
Earnings before depreciation, amortization, and other expense					38,260
Depreciation and amortization				16,309	16,309
Other expense				1,615	1,615
Earnings before net finance costs and income taxes					20,336
Net finance costs				9,426	9,426
Earnings before income taxes					10,910
Current income tax expense				5,060	5,060
Deferred income tax recovery				(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

[(i)]Certain comparative information has been reclassified to conform to the current year presentation.

15. SUBSEQUENT EVENTS

REVERA TRANSACTIONS

On August 1, 2023, Extendicare completed the Revera Transactions (*Note 12*).

The aggregate consideration paid for the acquisition of the joint venture interest and rights to manage the 56 homes was $69.7 million, comprised of cash proceeds, net of holdbacks, of $32.6 million and the assumption of Extendicare's prorated share of fixed rate mortgages within the joint venture of $37.1 million.

AXIUM TRANSACTION

Subsequent to June 30, 2023, the Axium Transaction received regulatory approval and closing remains subject to customary closing conditions and is anticipated by September 30, 2023 (*Note 12*).