Shareholders’ Quarterly Report

Q2 2023

Extendicare Inc.
Dated: August 10, 2023

Helping people
live better

Extendicare

Management's Discussion and Analysis

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Three and six months ended June 30, 2023
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BASIS OF PRESENTATION

This Management's Discussion and Analysis ("MD&A") provides information on Extendicare Inc. and its subsidiaries, and unless the context otherwise requires, references to "Extendicare", the "Company", "we", "us" and "our" or similar terms refer to Extendicare Inc., either alone or together with its subsidiaries. The Company's common shares (the "Common Shares") are listed on the Toronto Stock Exchange ("TSX") under the symbol "EXE". The registered office of Extendicare is located at 3000 Steeles Avenue East, Suite 400, Markham, Ontario, Canada, L3R 4T9.

Extendicare is a recognized leader in the delivery of quality health care services to Canadians across the continuum of seniors' care. In operation since 1968, it is the largest private-sector owner and operator of long-term care ("LTC") homes in Canada and one of the largest private-sector providers of publicly funded home health care services in Canada through its wholly owned subsidiary ParaMed Inc. ("ParaMed"). As well, the Company provides management and consulting services to LTC homes and retirement communities owned by third parties through its Extendicare Assist division and procurement services through its group purchasing division, SGP Purchasing Partner Network ("SGP").

In May 2022, the Company completed the previously announced sale of its retirement living operations composed of 11 retirement communities (1,050 suites), located in Ontario and Saskatchewan, to Sienna-Sabra LP, a partnership formed between Sienna Senior Living Inc. and SABRA Healthcare REIT (the "Retirement Living Sale"). In October 2022, the Company completed the previously announced transition of operations and ownership of the Company's five LTC homes in Saskatchewan (the "Saskatchewan LTC Homes") to the Saskatchewan Health Authority ("SHA"). The Company classified its retirement living segment and the Saskatchewan LTC Homes as discontinued commencing in Q1 2022 and Q4 2021, respectively (refer to the discussion under "Discontinued Operations" and *Note 11* of the unaudited interim condensed consolidated financial statements).

In This MD&A

This MD&A has been prepared to provide information to current and prospective investors of the Company to assist them to understand the Company's financial results for the three and six months ended June 30, 2023. This MD&A should be read in conjunction with the Company's unaudited interim condensed consolidated financial statements for the three and six months ended June 30, 2023, and the notes thereto, together with the annual MD&A and the audited consolidated financial statements for the year ended December 31, 2022, and the notes thereto, prepared in accordance with International Financial Reporting Standards. The accompanying unaudited interim condensed consolidated financial statements for the three and six months ended June 30, 2023 have been prepared in accordance with the International Accounting Standard 34 "Interim Financial Reporting", as issued by the International Accounting Standards Board.

In this document, "Q1" refers to the three-month period ended March 31; "Q2" refers to the three-month period ended June 30; "Q3" refers to the three-month period ended September 30; and "Q4" refers to the three-month period ended December 31. Except as otherwise specified, references to years indicate the fiscal year ended December 31, 2023, or December 31 of the year referenced.

In this MD&A, the Company uses a number of performance measures and indicators to monitor and analyze the financial results that do not have standardized meanings prescribed by generally accepted accounting principles ("GAAP") and, therefore, may not be comparable to similar performance measures and indicators used by other issuers. Refer to the "Key Performance Indicators" and "Non-GAAP Measures" sections of this MD&A for details.

The annual and interim MD&A, financial statements and other materials are available on the Company's website at www.extendicare.com. All currencies are in Canadian dollars unless otherwise indicated.

This MD&A is dated as of August 10, 2023, the date this report was approved by the Company's board of directors (the "Board of Directors" or "Board"), and is based upon information available to management as of that date. This MD&A should not be considered all-inclusive, as it does not include all changes that may occur in general economic, political and environmental conditions. Additionally, other events may or may not occur, which could affect the Company in the future.

ADDITIONAL INFORMATION

Additional information about the Company, including its latest Annual Information Form, may be found on SEDAR's website at www.sedar.com under the Company's issuer profile and on the Company's website at www.extendicare.com.

FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking statements within the meaning of applicable Canadian securities laws ("forward-looking statements" or "forward-looking information"). Statements other than statements of historical fact contained in this MD&A may be forward-looking statements, including, without limitation, management's expectations, intentions and beliefs concerning anticipated future events, results, circumstances, economic performance or expectations with respect to the Company, including, without limitation: statements regarding its business operations, business strategy, growth strategy, results of operations and financial condition; statements relating to the expected annual revenue, net operating income yield ("NOI Yield") and adjusted funds from operations ("AFFO") to be derived from development projects; statements relating to the agreements entered into with Revera Inc. and its affiliates ("Revera") and Axium Infrastructure Inc. and its affiliates ("Axium") in respect of the ownership, operation and redevelopment of LTC homes in Ontario and Manitoba; statements relating to expected future current income taxes and maintenance capex impacting AFFO; and in particular statements in respect of the impact of measures taken to mitigate the impact of COVID-19, the availability of various government programs and financial assistance announced in respect of COVID-19, and the impact of COVID-19 on the Company's operating costs, staffing, procurement, occupancy levels and volumes in its home health care business. Forward-looking statements can often be identified by the expressions "anticipate", "believe", "estimate", "expect", "intend", "objective", "plan", "project", "will", "may", "should" or other similar expressions or the negative thereof. These forward-looking statements reflect the Company's current expectations regarding future results, performance or achievements and are based upon information currently available to the Company and on assumptions that the Company believes are reasonable. Actual results and developments may differ materially from results and developments discussed in the forward-looking statements, as they are subject to a number of risks and uncertainties.

Although forward-looking statements are based upon estimates and assumptions that the Company believes are reasonable based upon information currently available, these statements are not representations or guarantees of future results, performance or achievements of the Company and are inherently subject to significant business, economic and competitive uncertainties and contingencies. In addition to the assumptions and other factors referred to specifically in connection with these forward-looking statements, the risks, uncertainties and other factors that could cause the actual results, performance or achievements of the Company to differ materially from those expressed or implied by the forward-looking statements, include, without limitation, those described under "Risks and Uncertainties" in this MD&A and those other risks, uncertainties and other factors identified in the Company's other public filings with the Canadian securities regulators available on SEDAR's website at www.sedar.com under the Company's issuer profile. These risks and uncertainties include the following: the occurrence of a pandemic, epidemic or outbreak of a contagious illness, such as COVID-19; changes in the overall health of the economy and changes in government; the availability and ability of the Company to attract and retain qualified personnel; changes in the health care industry in general and the long-term care industry in particular because of political, legal and economic influences; changes in applicable accounting policies; changes in regulations governing the health care and long-term care industries and the compliance by the Company with such regulations; changes in government funding levels for health care services; the ability of the Company to renew its government licenses and customer contracts; changes in labour relations, employee costs and pay equity; changes in tax laws; resident care and class action litigation, including the Company's exposure to punitive damage claims, increased insurance costs and other claims; the ability of the Company to maintain and increase resident occupancy levels and business volumes; changes in competition; changes in demographics and local environment economies; changes in interest rates; changes in the financial markets, which may affect the ability of the Company to refinance debt; and the availability and terms of capital to the Company to fund capital expenditures and acquisitions; changes in the anticipated outcome and benefits of proposed or actualized dispositions, acquisitions and development projects, including risks relating to the actual completion of proposed transactions.

The preceding reference to material factors or assumptions is not exhaustive. All forward-looking statements in this MD&A are qualified in their entirety by this forward-looking disclaimer. Although forward-looking statements contained in this MD&A are based upon what management believes are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements. Accordingly, readers should not place undue reliance on such forward-looking statements and assumptions as management cannot provide assurance that actual results or developments will be realized or, even if substantially realized, that they will have the expected consequences to, or effects on, the Company. The forward-looking statements speak only as of the date of this MD&A. Except as required by applicable securities laws, the Company assumes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

SUBSEQUENT EVENTS

Strategic Transactions With Revera and Axium

COMPLETED REVERA TRANSACTIONS

On August 1, 2023, the Company completed the previously announced transactions with Revera (the "Revera Transactions") in respect of the ownership, operation and redevelopment of LTC homes in Ontario and Manitoba.

Highlights of the transactions include:

- Acquisition of Revera's 15% interest in a portfolio of 25 LTC homes consisting of approximately 3,100 funded LTC beds held by the Axium Extendicare LTC LP II, a joint venture partnership with Axium, with Extendicare managing these homes
- Management by Extendicare of 31 LTC homes owned by Revera (consisting of approximately 3,000 funded LTC beds and 900 private pay assisted living and seniors living beds), including 30 Class C LTC homes in Ontario that are currently being considered for redevelopment
- Revera's LTC operations team joined Extendicare to advance the delivery of high-quality care and services across Extendicare's homes
- An option to purchase future Revera LTC redevelopment projects either with Axium or alone pursuant to development arrangement agreements entered into with Revera

The Revera Transactions, combined with the earlier sale of Extendicare's portfolio of retirement communities in 2022, advance Extendicare's strategy to focus on LTC and home health care using a less capital-intensive, higher margin business model. Extendicare will focus its growth on operating and building new LTC homes utilizing the joint venture partnership to support the capital needed, expanding its managed services segment through the provision of management and consulting services, and growing its home health care business.

The aggregate cash consideration for the Revera Transactions, net of holdbacks, was approximately $32.6 million, plus the assumption of approximately $37.1 million in debt (Extendicare's share of the joint venture partnership debt), subject to customary post-closing adjustments. The purchase price was funded from cash on hand.

REGULATORY APPROVAL RECEIVED FOR AXIUM TRANSACTION

Subsequent to quarter end, regulatory approval was also received for the previously announced transaction with Axium (the "Axium Transaction") to form a joint venture, Axium Extendicare LTC LP, to redevelop certain of Extendicare's Class C LTC homes. Extendicare and Axium amended the previously announced purchase and sale agreement to include our 256 bed Peterborough LTC redevelopment project that commenced construction in May 2023, increasing the total number of homes and beds to be acquired by the limited partnership to four Class C home redevelopment projects comprising an aggregate of 960 funded LTC beds currently under construction in Sudbury, Kingston, Stittsville and Peterborough, Ontario (see "Key Performance Indicators – LTC Projects Under Construction"). The Axium Transaction is anticipated to close in Q3 2023, subject to customary closing conditions. 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 provide managed services to operate the homes upon completion of construction.

STRATEGIC TRANSFORMATION COSTS

Costs related to the strategic transformation of the Company in connection with the transactions with Revera and Axium (together the "Revera and Axium Transactions"), and which are transitional in nature, are reported as a separate line item in "other expense" below Adjusted EBITDA. The strategic transformation costs for the six months ended June 30, 2023, were $5.0 million and include transaction, legal, regulatory, IT integration and management transition costs. We will continue to incur strategic transformation costs through to the end of 2024 as we complete the full integration of operations and IT platforms, which includes supporting approximately 9,000 staff working across the 56 managed LTC homes. The estimated total strategic transformation costs to be incurred in future quarters ranges between $14.0 and $16.0 million, the timing of which will vary quarterly as the integration plan is executed.

SIGNIFICANT DEVELOPMENTS

Home Health Care ADV and NOI Margin up Sequentially and Over Prior Year

In Q2 2023, we saw growth in our home health care adjusted daily volumes ("ADV") and margin recovery, demonstrating continued strong demand for services and our growing capacity as the pandemic impacts on the labour market moderate. ADV in Q2 2023 was 27,102, marking a 4.1% increase relative to Q1 2023 and up 7.7% from Q2 2022. Our NOI margins(1) excluding the impact of unfunded COVID-19 costs and workers compensation rebates improved to 8.6% in Q2 2023 from 6.0% in Q1 2023 and from 7.3% in Q2 2022.

The investments we have made in recruiting and retention programs and technology is expected to support continued growth of our home health care segment in the near term and beyond. As pandemic impacts recede, we expect the historical seasonality in our ADV and staffing levels to return, with our third quarter typically experiencing a drop in sequential ADV as vacations temporarily lower staffing capacity and certain patient and client programs are suspended during the summer months.

Construction Commenced on Fourth Redevelopment Project of a New 256-bed LTC Home in Peterborough

In November 2022, the Ontario Ministry of Long-Term Care ("MLTC") introduced new time-limited funding to help offset rising construction costs and interest rates that have made it challenging to construct new LTC homes. This supplemental funding provides an additional $35 per bed per day to the base capital funding subsidy ("CFS") and is available to eligible applicants who receive approval from the government to construct before August 31, 2023.

In April 2023, we received approval from the MLTC to proceed with construction of a new 256-bed LTC home in Peterborough, Ontario. Construction of the home commenced in May 2023 and is anticipated to be completed in Q4 2025. The new home will replace the existing 172-bed Class C home currently operating in the same city. Together with our Sudbury, Kingston and Stittsville projects, these four homes will replace 834 Class C LTC beds in Ontario with 960 new beds at an estimated total net investment of $281.1 million. The Company's three homes currently under construction continue to progress towards completion by Q1 2024. The homes are being constructed exclusively with private and semi-private rooms, the latter of which consist of single resident bedrooms with a shared bathroom. For more information refer to the discussion under "Key Performance Indicators – LTC Projects Under Construction".

Subsequent to quarter end, the Company received regulatory approval for the Axium Transaction to sell the four redevelopment projects currently under construction to the limited partnership formed with Axium. Refer to "Subsequent Events – Strategic Transactions With Revera and Axium" for more details.

The Company continues to focus its efforts on progressing the redevelopment of the remaining 16 redevelopment projects in support of the MLTC's commitment to address an aging long-term care infrastructure. The MLTC previously awarded Extendicare 4,248 new or replacement beds across 20 redevelopment projects. These projects would replace all of our 3,285 existing Class C beds. We are targeting to start an additional project in 2023 under the enhanced CFS that is in place until August 31, 2023. We continue to advance the balance of our redevelopment portfolio to be ready to make use of any future enhancements to the Capital Funding Program that may be made available beyond August 2023, including one additional project that may be ready to start construction in 2023, subject to construction tender results and regulatory and municipal approvals. We are working collaboratively with industry partners and the government to make as many of these projects as possible economically feasible, including the need to address the particular challenges faced by projects in the Greater Toronto Area and in smaller rural markets.

Inflation and Elevated Staffing Costs Weigh on LTC NOI Margins as Recent Rate Increases Lag Inflationary Increases

Our LTC operations have experienced significant increases in labour, insurance, utilities and supply costs over the past three years, in part driven by the effects of the pandemic. Higher staff wage rates and the continued use of agency staffing, which carries a significant cost premium over regular staffing rates, continue to impact our NOI margins as we adjust our staffing levels in line with the new direct care models that have been introduced in the provinces and work to reduce our use of agency labour as the pandemic recedes. Over the long term, LTC NOI margins have been reliably stable, however, recent funding rate increases have not kept pace with the increase in costs. Effective April 1, 2023, the MLTC implemented a 2.0% increase in the flow-through care envelopes and a 2.0% increase in the accommodation envelope. Despite recent historic investments by the Government of Ontario in care funding, these 2.0% increases do not address the inflation and other pressures experienced in both the flow-through and other accommodation envelopes, which will continue to impact our LTC NOI margins. We are working with other sector participants and the Government of Ontario to ensure funding realigns with the significant inflationary cost pressures the sector is experiencing.

Normal Course Issuer Bid

In June 2023, the Company renewed 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. 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.

Under its prior NCIB that expired 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 in 2023 at a cost of $4.1 million, representing a weighted average price per share of $6.53 (see "Liquidity and Capital Resources – Normal Course Issuer Bid").

BUSINESS OVERVIEW

As at June 30, 2023, the Company owned and operated 53 LTC homes and provided management services to 50 LTC homes and retirement communities for third parties through Extendicare Assist. In total, Extendicare operated or provided management services to a network of 103 LTC homes and retirement communities across three provinces in Canada, with capacity for 13,258 residents. The majority of these homes are in Ontario and Alberta, which accounted for approximately 80% and 13% of residents served, respectively.

In addition to providing procurement services to the Company's own operations, SGP supports third-party clients representing approximately 115,600 beds across Canada, as at June 30, 2023.

Subsequent to quarter end, the Company completed the Revera Transactions, which add 56 homes and 6,990 beds to our managed services segment, including both our Assist management services and our SGP group purchasing services. Refer to "Key Performance Indicators – Managed Services" for additional details on all events impacting the managed services segment subsequent to quarter end.

The Company's home health care operations, ParaMed, delivered approximately 9.5 million hours of home health care services for the trailing twelve months ended June 30, 2023. The majority of ParaMed's volumes are generated in Ontario and Alberta, representing 93% and 4% of the total volume, respectively.

The Company reports on the following segments: i) long-term care; ii) home health care; iii) managed services, which include management and consulting services and group purchasing services; and iv) the corporate functions and any intersegment eliminations as "corporate".

The following table summarizes the contribution of the business segments to the Company's consolidated revenue and NOI from continuing operations for the six months ended June 30, 2023 and 2022. The impact of COVID-19 on all segments affects the comparability of the contributions of the business segments to the Company's consolidated revenue and NOI. Refer to "Select Quarterly Financial Information" and "2023 Six Month Financial Review" for additional details to understand the impacts on the business segments.

	Six months ended June 30,				Year ended December 31,	
	2023		2022		2022	
Operating Segments as % of	**Revenue**	**NOI**	**Revenue**	**NOI**	**Revenue**	**NOI**
Long-term care	**61.7 %**	**65.2 %**	63.3 %	69.8 %	62.8 %	63.2 %
Home health care	**35.4 %**	**22.6 %**	34.1 %	17.3 %	34.5 %	20.7 %
Managed services	**2.9 %**	**12.2 %**	2.6 %	12.9 %	2.7 %	16.1 %
Total	**100.0 %**	**100.0 %**	100.0 %	100.0 %	100.0 %	100.0 %

The following describes the operating segments of the Company.

Long-term Care

The Company owns and operates 53 LTC homes with capacity for 7,299 residents, inclusive of a stand-alone designated supportive living home (140 suites) and a designated supportive living wing (60 suites) in Alberta and two retirement wings (76 suites) in Ontario. In addition, the Company has 185 ward-style beds in Ontario LTC homes that have been taken out of service as a result of regulatory changes and which form part of the Company's 3,285 Class C Beds that are eligible to be reinstated upon redevelopment.

Provincial legislation and regulations closely control all aspects of the operation and funding of LTC homes and government-funded supportive living homes, including the fee structure, subsidies, the adequacy of physical homes, standards of care and accommodation, equipment and personnel. A substantial portion of the fees paid to providers of these services are funded by provincial programs, with a significantly smaller portion to be paid by the resident. No individual is refused access to long-term care due to an inability to pay, as a government subsidy, generally based on an income test, is available for LTC residents who are unable to afford the resident co-payment. Long-term care funding in Ontario is provided in four envelopes allocated to personal care, programming, food and accommodation, respectively. The first three envelopes must be spent entirely on residents and are independently audited with any surplus funding returned to the government. The additional COVID-19 pandemic related funding being provided in Ontario is subject to this same reconciliation process. In Alberta, designated supportive living homes provide an alternative setting for residents not yet requiring the needs of a more expensive LTC home. Such homes are licensed, regulated and funded by Alberta Health Services ("AHS") in a similar manner to LTC homes, including a government-determined fee structure.

In Ontario, long-term care operators have the opportunity to receive additional funding through higher accommodation rates charged to residents for private and semi-private accommodation, at maximum preferred accommodation rates that are fixed by the government. Long-term care operators are permitted to designate up to 60% of the resident capacity of a home as preferred accommodation and charge premiums that vary according to the structural classification of the LTC home.

The following summarizes the government funding rate changes announced for LTC during 2023 in Ontario, Alberta and Manitoba, exclusive of one-time funding in respect of COVID-19 (refer to the discussion under "Select Quarterly Financial Information – COVID-19 and Related Expenses and Funding").

ONTARIO LTC FUNDING CHANGES

Effective July 1, 2023, the MLTC implemented a 2.5% increase in preferred accommodation premiums paid for by residents to LTC providers for private and semi-private accommodation. For older LTC beds that are not classified as "New" or "A" beds, the maximum daily preferred accommodation premiums are now $8.96 and $20.14 for semi-private and private rooms, respectively. For newer LTC beds that are classified as "New" or "A" beds, the maximum daily preferred accommodation premiums are now $13.43 and $28.00 for semi-private and private rooms, respectively.

Effective April 1, 2023, the MLTC implemented a 2.4% blended level of care funding increase, representing a combination of a 9.7% increase in nutritional support, a 2.0% increase in the remaining flow-through envelopes and a 2.0% increase in the accommodation envelope. In addition, beginning on April 1, 2023, and ending on April 1, 2025, the MLTC is phasing out funding for ward-style beds no longer in service, with 100% of the accommodation envelope funding preserved through the phase-out period. The Company's Ontario LTC homes closed 185 ward-style beds, of which 84 will be re-opened as private and semi-private rooms in its four redevelopment projects currently under construction. These April 2023 funding changes represent incremental annual revenue of approximately $4.0 million, of which $2.2 million is applicable to the non-flow through accommodation envelope (2022 – 1.75% effective April 1, 2022, representing incremental annual revenue of $6.0 million applicable to the flow-through envelopes, with no increase to the non-flow through accommodation envelope).

In November 2021, the MLTC implemented the first phase of its LTC Staffing Plan to increase the level of direct care for LTC residents over four years through increased funding of the nursing and program flow-through envelopes, where any funding not spent on resident care is returned to the government. During 2022, the Company recognized approximately $42.8 million in revenue through the flow-through envelopes to support the increased hours of direct care. The next phase of the LTC Staffing Plan took effect on April 1, 2023, and the Company estimates that it will provide incremental revenue of approximately $25.0 to $30.0 million in 2023 over 2022 to support the incremental hours of direct care. While there is no impact on NOI from this increase in flow-through funding, it does have the effect of compressing the NOI margin as a percentage of revenue.

ALBERTA LTC FUNDING CHANGES

Effective April 1, 2023, AHS implemented adjustments to the portion of government funding for providers of LTC and designated supportive living homes, which are estimated to represent additional annual revenue for the Company of approximately $2.2 million (2022 – $0.2 million).

Effective July 1, 2023, AHS implemented a 3.6% annual inflationary increase for the portion of the accommodation rates paid directly by residents of LTC and designated supportive living homes to providers, which is currently being compensated for directly by AHS during a resident deferral period in light of the high inflation levels. This increase represents additional revenue for the Company of approximately $1.4 million (2022 – 5.5% effective July 1, 2022, $2.3 million).

Effective July 1, 2023, AHS implemented funding enhancements to support an increase in hours of direct care and a $2/hour wage enhancement that health care aides had been receiving as part of the government's COVID-19 funding that ended June 30, 2023. The Company estimates that these will provide incremental revenue of approximately $5.0 million to support increased costs and will have no impact on NOI.

MANITOBA LTC FUNDING CHANGES

As at August 10, 2023, Manitoba Health has not announced funding changes for the year commencing April 1, 2023. The following are the funding changes implemented during 2022 and one-time items impacting Q1 2023 related to prior periods.

In March 2023, the Company recognized $6.1 million in one-time funding received from Manitoba Health in support of union wage settlements for prior periods dating back to 2017. The Company had previously incurred or accrued for the anticipated increased costs associated with the union wage settlements.

As part of the Government of Manitoba's initiatives to support the recommendations to strengthen and enhance Manitoba's long-term care system outlined in the *Maples Personal Care Home COVID-19 Outbreak: External Review Final Report*, a series of government-funded initiatives were announced during the latter part of 2022 that will enhance infection prevention and control, housekeeping, allied health and technology in LTC homes. The Company estimates these initiatives, if fully implemented, could result in incremental annual revenue and corresponding costs of up to $4.6 million, which will have no impact on NOI.

Home Health Care

The Company provides home health care services through ParaMed, whose professionals and staff members are skilled in providing complex nursing care, occupational, physical and speech therapy and assistance with daily activities to accommodate clients of all ages living at home.

Provincial governments fund a wide range of home health care services and contract these services to providers such as ParaMed. ParaMed receives approximately 99% of its revenue from contracts tendered by locally administered provincial agencies, with the remainder coming from private clients.

HOME HEALTH CARE FUNDING CHANGES

The following summarizes the government funding rate changes announced for home health care during 2023 in Ontario and Alberta, exclusive of one-time funding in respect of COVID-19 (refer to the discussion under "Select Quarterly Financial Information – COVID-19 and Related Expenses and Funding").

As part of its 2022 budget, the Government of Ontario committed to investing $1.0 billion over three years to provide care to people in their own homes and communities. Building on this announcement, it announced the acceleration of this investment as part of the 2023-24 budget. In the 2023-24 fiscal year, up to $569.0 million will be applied to home and community care, including nearly $300.0 million to support contract rate increases to stabilize the home and community care workforce. While we have not received the specific details as to how this increased investment will be allocated and distributed, we have accrued for billing rate increases of 3% retroactive to April 1, 2023. Based on ADV and mix of services provided for the trailing twelve months ended June 30, 2023, this is estimated to increase our annual revenue by approximately $12.2 million and help offset wage and benefit increases and increased recruitment costs in the home health care division.

Effective April 1, 2023, AHS implemented home health care billing rate increases of 8% and made permanent the $2/hour wage enhancement that health care aides had been receiving as part of the government's COVID-19 funding. Based on ADV and mix of services provided for the trailing twelve months ended June 30, 2023, this is estimated to increase our annual revenue by approximately $2.0 million and help offset wage and benefit increases, including the additional $2/hour, and increased recruitment costs in the home health care division.

Managed Services

The Company leverages its size, scale and operational expertise in the senior care industry to provide managed services to third parties through its Extendicare Assist and SGP divisions.

MANAGEMENT AND CONSULTING SERVICES

Through its Extendicare Assist division, the Company provides a wide range of management and consulting services to third parties. Extendicare Assist provides services to not-for-profit and for-profit organizations, hospitals and municipalities seeking to improve their management practices, quality of care practices and operating efficiencies. Extendicare Assist provides a broad range of services aimed at meeting the needs of its clients, including: financial administration, record keeping, regulatory compliance and purchasing. In addition, Extendicare Assist provides consulting services to third parties for the development and redevelopment of LTC homes. As at June 30, 2023, Extendicare Assist's management services portfolio consisted of 50 LTC homes and retirement communities with capacity for 5,959 residents.

GROUP PURCHASING SERVICES

Through its SGP 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. SGP negotiates long-term, high volume contracts with suppliers that provide members with preferred pricing, thereby providing a cost-effective means to secure quality national brand-name products, along with a range of innovative services. As at June 30, 2023, SGP provided services to third parties representing approximately 115,600 beds across Canada.

KEY PERFORMANCE INDICATORS

In addition to those measures identified under "Non-GAAP Measures", management uses certain key performance indicators in order to compare the financial performance of the Company's continuing operations between periods. In addition, we assess the operations on a same-store basis between the reported periods. Such performance indicators may not be comparable to similar indicators presented by other companies. Set forth below is an analysis of the key performance indicators and a discussion of significant trends when comparing the Company's financial results from continuing operations.

The following is a glossary of terms for some of the Company's key performance indicators:

"Average Daily Volume" or "ADV" in the context of the home health care operations, is measured as the number of hours of service provided divided by the number of days in the period; and

"Occupancy" is measured as the percentage of the number of earned resident days relative to the total available resident days. Total available resident days is the number of beds available for occupancy multiplied by the number of days in the period. Beginning in 2023, the determination of earned and available resident days is adjusted for certain bed types that are excluded from the government's occupancy requirements for funding purposes.

Long-term Care

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

Long-term Care Homes		**2023**(ii)				**2022**		**2021**
Average Occupancy(i) ***(%)***	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**
Total LTC	**97.2%**	**96.6%**	94.5%	93.5%	92.5%	90.8%	92.1%	90.9%
Change over prior year period (bps)	**470**	**580**	240	260	460	530	240	(110)
Sequential quarterly change (bps)	**60**	**210**	100	100	170	(130)	120	300
Ontario LTC								
Total ON LTC	**98.7%**	**97.9%**	94.8%	93.4%	92.1%	90.5%	91.1%	89.9%
Preferred Accommodation(iii)								
"New" homes – private	**92.2%**	**91.1%**	87.9%	86.3%	86.4%	85.9%	87.9%	85.6%
"C" homes – private	**92.7%**	**91.0%**	90.7%	87.2%	85.8%	83.5%	83.9%	79.9%
"C" homes – semi-private	**61.9%**	**59.2%**	55.3%	52.6%	54.3%	53.1%	54.1%	51.3%

(i) Excludes 185 ward-style beds in Ontario LTC homes that have been taken out of service per regulatory changes, and which form part of the Company's 3,285 Class C beds that are eligible to be reinstated upon redevelopment.

(ii) Beginning in 2023, the determination of earned and available resident days is adjusted for certain bed types that are excluded from the government's occupancy requirements for funding purposes.

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

The Company's LTC occupancy levels have been negatively impacted by COVID-19 since March 2020. In the last half of 2021, average occupancy levels improved following the success of the vaccination program and easing of restrictions on admissions during that period. However, a combination of seasonal factors and the surge of COVID-19 related outbreaks driven by the initial Omicron variant contributed to a sequential decline in Q1 2022 and subsequent Omicron variants slowed the pace of recovery. Since that time, our average occupancy has continued to recover, improving to 97.2% in Q2 2023, up 470 bps from Q2 2022 and up 60 bps from Q1 2023.

In Ontario, overall government funding is occupancy-based, but once the average occupancy level of 97% for the calendar year is achieved, operators receive government funding based on 100% occupancy. In the event of closure to admissions related to an outbreak, which is not unusual during the winter months, full funding is preserved in Ontario, otherwise referred to as occupancy protection funding. Prior to the onset of COVID-19 in 2020, the Company's Ontario LTC homes generally operated above the 97% occupancy threshold, with all but one having done so in 2019. In response to financial pressures caused by the impacts of COVID-19 on occupancy levels, the Government of Ontario provided basic occupancy protection funding for all LTC homes for 2020 and through to the end of January 2022, including for third and fourth beds in ward rooms taken out of service and beds designated for isolation purposes. Occupancy targets were reinstated on February 1, 2022, requiring LTC homes to achieve average occupancy of 97%, adjusted to exclude ward-style beds taken out of service and isolation beds, in order to maintain full funding. The continued prevalence of LTC outbreaks throughout 2022 slowed our occupancy recovery, with certain Ontario LTC homes not achieving the required 97% occupancy for the 11 months ended December 31, 2022, lowering our LTC NOI by approximately $0.7 million in 2022. Beginning in 2023, occupancy targets are no longer adjusted for isolation beds. Occupancy protection does not compensate for the loss of preferred accommodation premiums from private and semi-private room vacancies. Our preferred accommodation premium revenue for the year ended December 31, 2022, improved slightly over 2021 by approximately $0.4 million, although it remained below 2019 levels by approximately $1.4 million. For the six months ended June 30, 2023, our preferred premium revenue increased by $0.5 million over the same prior year period.

LTC Projects Under Construction

During Q2 2023, the Company commenced construction on a new 256-bed LTC home in Peterborough, Ontario, which will replace a 172 Class C bed home in the same city. Completion is anticipated in Q4 2025. This project is eligible for the new time-limited $35 per bed per day supplementary CFS. The Company entered into a $69.6 million fixed-price construction contract in connection with the new home.

During 2022, significant inflationary pressures, labour disruptions, including strike actions on the part of selected trades, supply chain issues, and rising interest rates have impacted our projected completion and opening dates for some of our projects under construction and resulted in estimated aggregate cost increases of $3.0 million outside of the contingency levels included in our estimated Adjusted Development Costs and delays in expected opening dates for our Sudbury and Kingston projects. We continue to work with our general contractors and construction partners to mitigate the impacts of these factors on schedules and costs.

The following table summarizes the LTC projects that are either under construction or under contract as at August 10, 2023:

LTC Project	# of Beds	Construction Commenced / Planned	Expected Opening	Estimated Adjusted Development Costs(1) ($ millions)	Adjusted Development Costs(1) Incurred as at June 30, 2023 ($ millions)	Annual CFS(i) ($ millions)	Estimated Stabilized NOI(1) ($ millions)	Expected NOI Yield(1)
Sudbury	256	Q4-20	Q1-24	66.4	56.2	1.9	3.1	7.5 %
Kingston	192	Q2-21	Q1-24	48.3	29.3	1.4	2.3	7.7 %
Stittsville	256	Q4-21	Q1-24	69.5	44.4	2.2	3.0	7.6 %
Peterborough	256	Q2-23	Q4-25	96.9	8.6	5.2	3.1	8.6 %
	960			**281.1**	**138.5**	**10.7**	**11.5**	**7.9 %**

(i) "CFS" means the Government of Ontario's capital construction funding subsidy for qualifying newly constructed or renovated LTC homes, payable over 25 years following completion of the project.

Home Health Care

The table set out below provides the service volumes and ADV of the home health care operations for the past eight quarters.

During 2022, the impact of COVID-19 sub-variants on our workforce capacity, exacerbated by a tight labour market, impeded the progress made in the recovery of our home health care ADV during 2021, following the peak impact of the initial variants of COVID-19 in 2020. During this time, referral activity remained strong and in Q4 2022, our home health care operations experienced a return to sequential growth in ADV, which continued in Q2 2023, with ADV of 27,102 up 4.1% from Q1 2023 and 7.7% from Q2 2022 (refer to the discussion under "Significant Developments – Home Health Care ADV and NOI Margin up Sequentially and Over Prior Year").

Home Health Care	**2023**		**2022**				**2021**	
Service Volumes	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**
Hours of service *(000's)*	**2,466.3**	**2,343.8**	2,349.8	2,304.7	2,290.9	2,209.7	2,373.2	2,331.7
ADV	**27,102**	**26,043**	25,542	25,051	25,174	24,552	25,796	25,345
Change over prior year period	**7.7 %**	**6.1 %**	(1.0)%	(1.2)%	(0.4)%	0.8 %	7.7 %	11.4 %
Sequential quarterly change	**4.1 %**	**2.0 %**	2.0 %	(0.5)%	2.5 %	(4.8)%	1.8 %	0.3 %

Managed Services

The following table provides information in respect of the third-party clients receiving services from Extendicare Assist and SGP at the end of each period for the past eight quarters. At June 30, 2023, Extendicare Assist was providing management services to third parties representing 50 LTC homes and retirement communities with capacity for 5,959 senior residents. The decline in Q4 2022 of 304 beds from Q3 2022 related to ward-style beds no longer in service. SGP continues to grow its market share, increasing its third-party beds served by 12.9% at the end of Q2 2023 from Q2 2022, and by 3.3% from Q1 2023.

	2023		2022				2021	
Managed Services	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**
Extendicare Assist								
Homes at period end	**50**	**50**	50	50	50	50	50	51
Resident capacity	**5,959**	**5,959**	5,959	6,263	6,263	6,263	6,263	6,359
Change over prior year period	**(4.9)%**	**(4.9)%**	(4.9)%	(1.5)%	(1.5)%	(1.5)%	(1.8)%	(2.8)%
Sequential quarterly change	**— %**	**— %**	(4.9)%	— %	— %	— %	(1.5)%	— %
SGP Clients								
Third-party beds	**115,455**	**111,772**	109,725	106,989	102,219	98,845	93,208	88,431
Change over prior year period	**12.9 %**	**13.1 %**	17.7 %	21.0 %	22.4 %	21.9 %	18.1 %	11.4 %
Sequential quarterly change	**3.3 %**	**1.9 %**	2.6 %	4.7 %	3.4 %	6.0 %	5.4 %	5.9 %

Subsequent to quarter end, the Company completed the Revera Transactions, refer to "Subsequent Events – Strategic Transactions With Revera and Axium" for additional details. In connection with this important milestone in our strategic transformation, we are redefining our key performance indicators for our managed services segment starting August 1st, to better reflect the range of services we provide to our clients.

Extendicare Assist's business will be classified in two categories: management contracts and consulting and other services. Two versions of management contracts are offered to clients: i) a fully managed service providing management oversight over the day-to-day operations of the homes and ii) a back-office services only offering. Our full suite of back-office support services include human resources, labour relations, payroll and benefits administration, accounting and information technology expertise supported by our cloud-based integrated technology platform that provides all systems needed to operate a senior care home. Our full-service management contract offering provides our full suite of back-office support services with oversight of the day-to-day operations of a home supported by our regional support and clinical quality management team. Our consulting and other services cover a wide variety of offerings, including clinical improvement programs, operational review, financial performance advice and LTC home redevelopment. We also offer a LTC operating policy subscription service that can be procured as a standalone service. Starting in Q3 2023, we will report the homes and beds that we provide management contract services in our key performance indicators and will distinguish these from the number of consulting and other services homes we serve.

In connection with the Revera Transactions, we are adding 56 homes and 6,990 beds to our managed services segment. The Company will, under Extendicare Assist, provide Revera with fully managed services in respect of the 30 Class C LTC homes in Ontario and one personal care home in Manitoba. In addition, we will also provide fully managed services in respect of the 25 LTC homes owned in the joint venture partnership with Axium, of which the Company owns a 15% interest. Under separate agreements between the Company, Revera and the joint venture partnership, SGP group purchasing services will also be provided to the 6,990 beds across the 56 homes. Separately, subsequent to quarter end, we entered into new fully managed services contracts with two additional homes representing 340 beds that were former third-party managed clients of Revera.

During and subsequent to Q2 2023, certain of Extendicare Assist's clients moved or notified the Company of their intent to move to self-management or close their homes. These changes are underway in Q3 2023, which will reduce the number of homes and beds that Extendicare Assist provides management contract services. A significant portion of these homes will remain as consulting and other services clients of Extendicare Assist, however, the homes and beds will no longer be counted as managed homes in our key performance indicators. There is minimal impact on third-party beds serviced by SGP, as substantially all of the homes moving to self-management are continuing as customers of SGP. As a result of these events and the closing of the Revera Transactions, Extendicare Assist has management contracts with 73 homes comprising 9,962 beds and provides a further 53 homes with consulting and other services. SGP third-party beds served increase to 122,785.

SELECT QUARTERLY FINANCIAL INFORMATION

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

	2023					2022		2021
(thousands of dollars unless otherwise noted)	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**
Revenue	**307,535**	**324,712**	310,393	308,889	296,585	305,710	306,162	284,271
Net operating income(1)	**28,460**	**44,564**	21,686	23,526	30,341	32,976	38,742	29,009
NOI margin(1)	***9.3%***	***13.7%***	*7.0%*	*7.6%*	*10.2%*	*10.8%*	*12.7%*	*10.2%*
Adjusted EBITDA(1)	**14,776**	**30,978**	9,160	10,034	18,057	20,203	24,506	16,789
Adjusted EBITDA margin(1)	***4.8%***	***9.5%***	*3.0%*	*3.2%*	*6.1%*	*6.6%*	*8.0%*	*5.9%*
Earnings (loss) from continuing operations	**1,951**	**11,580**	(7,704)	(4,362)	3,510	4,045	(4,483)	2,812
per basic and diluted share *($)*	**0.02**	**0.14**	(0.09)	(0.04)	0.04	0.04	(0.06)	0.03
(Loss) earnings from operating activities of discontinued operations	**—**	**—**	(306)	96	(37)	75	661	3,231
Gain on sale of discontinued operations, net of income taxes	**—**	**—**	6,317	—	67,920	—	—	—
Net earnings (loss)	**1,951**	**11,580**	(1,693)	(4,266)	71,393	4,120	(3,822)	6,043
per basic share *($)*	**0.02**	**0.14**	(0.02)	(0.04)	0.79	0.04	(0.04)	0.07
per diluted share *($)*	**0.02**	**0.14**	(0.02)	(0.04)	0.72	0.04	(0.04)	0.07
AFFO(1)	**9,037**	**20,839**	1,889	2,112	9,624	12,518	16,530	9,573
per basic share *($)*	**0.11**	**0.24**	0.02	0.02	0.11	0.14	0.18	0.11
per diluted share *($)*	**0.11**	**0.23**	0.02	0.02	0.11	0.13	0.17	0.11
Maintenance capex	**2,728**	**2,047**	6,630	4,240	2,700	1,412	5,472	3,833
Cash dividends declared	**10,104**	**10,178**	10,275	10,584	10,754	10,750	10,746	10,752
per share *($)*	**0.120**	**0.120**	0.120	0.120	0.120	0.120	0.120	0.120
Weighted Average Number of Shares *(000's)*								
Basic	**85,212**	**85,437**	86,678	89,178	90,139	90,075	90,040	90,009
Diluted	**96,009**	**96,229**	97,604	100,079	101,102	101,190	100,953	100,786

There are a number of factors affecting the trend of the Company's quarterly results from continuing operations. With respect to the core operations, while year-over-year quarterly comparisons will generally remain comparable, sequential quarters can vary materially for seasonal and other trends.

COVID-19 has impacted the Company's quarterly results from both continuing operations and discontinued operations since Q1 2020 (refer to the discussion that follows under "COVID-19 and Related Expenses and Funding").

The significant factors that impact the results from period to period, in addition to the impacts that result from COVID-19, are as follows:

- Ontario long-term care funding tied to flow-through funding envelopes requires revenue be deferred until it is matched with the related costs for resident care in the periods in which the costs are incurred, resulting in a fluctuation in revenue and operating expenses by quarter, with both generally being at their lowest in Q1 and at their highest in Q4;
- Ontario long-term care providers generally receive annual flow-through funding increases and case mix index adjustments effective April 1st and increases in preferred accommodation premiums effective July 1st, and Alberta long-term care providers generally receive annual inflationary rate increases and acuity-based funding adjustments on April 1st and accommodation funding increases effective July 1st;
- maintenance capex spending, which impacts AFFO, fluctuates on a quarterly basis with the timing of projects and seasonality and is generally at its lowest in Q1 and its highest in Q4;
- utility costs are generally at their highest in Q1 and their lowest in Q2 and Q3; and
- certain line items that are reported separately due to their transitional nature that would otherwise distort the comparability of the historical trends, being "other expense" and "fair value adjustments".

COVID-19 and Related Expenses and Funding

In March 2023, the Government of Ontario ended prevention and containment funding for pandemic costs incurred through to March 31, 2023. They further indicated that the increase in direct hours of care funding, effective April 1, 2023, is expected to be sufficient support for any ongoing costs that may continue as the pandemic transitions to endemic status, which coincided with the April 1st phase out of certain prevention and containment measures in LTC homes. The change in measures includes the elimination of regular testing of asymptomatic staff, caregivers and visitors and relaxing of certain masking, screening and physical distancing requirements. With these changes in funding and prevention and containment measures, we expect that the significant volatility in our financial results caused by the timing of COVID-19 funding and related expenses will normalize as we continue to work on adjusting our staffing levels in line with the new direct care models that have been introduced in the provinces (refer to the discussions under "Business Overview – Long-term Care – Ontario LTC Funding Changes"). Similarly, the Manitoba and Alberta governments ended funding support for prevention and containment measures for costs incurred through to March 31, 2023 and June 30, 2023, respectively.

The following table provides a summary of the estimated revenue recognized and the operating and administrative costs incurred related to COVID-19 since the start of the pandemic in Q1 2020 to the end of Q2 2023, when provincial government reimbursement of such costs ceased. The temporary pandemic pay premiums funded by the Ontario and Alberta governments are included in operating expenses and the related offsetting funding for these programs is recognized as revenue.

Estimated COVID-19 Revenue, Operating Expenses and Administrative Costs

	2023			2022						2021			2020
(millions of dollars)	Q2	Q1	YTD Q2	Q4	Q3	Q2	Q1	YTD Q2	Year	Q4	Q3	Year	Year
Revenue													
Long-term care[i]	**3.6**	**24.1**	**27.7**	14.4	18.7	17.0	43.1	60.1	93.2	27.4	23.3	121.2	62.5
Home health care	**0.3**	**0.7**	**1.0**	0.9	3.3	4.5	7.6	12.1	16.3	8.7	7.7	33.0	23.6
Revenue impact	**3.9**	**24.8**	**28.7**	15.3	22.0	21.5	50.7	72.2	109.5	36.1	31.0	154.2	86.1
Operating Expenses													
Long-term care	**3.6**	**12.0**	**15.6**	22.1	18.4	16.1	32.3	48.4	88.9	21.3	21.9	118.2	85.3
Home health care	**0.3**	**0.7**	**1.0**	1.7	4.0	5.9	9.8	15.7	21.4	9.8	8.2	35.8	24.9
Operating expenses impact	**3.9**	**12.7**	**16.6**	23.8	22.4	22.0	42.1	64.1	110.3	31.1	30.1	154.0	110.2
NOI													
Long-term care	**—**	**12.1**	**12.1**	(7.7)	0.3	0.9	10.8	11.7	4.3	6.1	1.4	3.0	(22.8)
Home health care	**—**	**—**	**—**	(0.8)	(0.7)	(1.4)	(2.2)	(3.6)	(5.1)	(1.1)	(0.5)	(2.8)	(1.3)
NOI impact	**—**	**12.1**	**12.1**	(8.5)	(0.4)	(0.5)	8.6	8.1	(0.8)	5.0	0.9	0.2	(24.1)
Administrative costs	**—**	**—**	**—**	—	0.1	0.1	0.1	0.2	0.3	0.1	0.8	2.9	3.5
Adjusted EBITDA impact	**—**	**12.1**	**12.1**	(8.5)	(0.5)	(0.6)	8.5	7.9	(1.1)	4.9	0.1	(2.7)	(27.6)
Discontinued operations impact	**—**	**—**	**—**	—	(0.5)	(1.0)	(3.2)	(4.2)	(4.7)	(0.7)	(0.8)	(5.6)	(2.5)
Total impact	**—**	**12.1**	**12.1**	(8.5)	(1.0)	(1.6)	5.3	3.7	(5.8)	4.2	(0.7)	(8.3)	(30.1)

(i) Q1 2023 includes funding of $13.1 million towards costs incurred in prior years. 2022 includes funding of $17.6 million towards costs incurred in prior years: Q4 2022 of $1.6 million; Q3 2022 of $1.1 million; Q2 2022 of $1.6 million; and Q1 2022 of $13.3 million. Q1 2021 includes funding of $18.8 million towards costs incurred in 2020; and Q3 2021 and Q4 2021 include funding of $5.1 million and $11.9 million, respectively, towards costs incurred in Q1 2021.

In Q2 2023, we recognized prevention and containment funding only in Alberta to support costs incurred of $3.9 million, with no impact on consolidated NOI[1] and Adjusted EBITDA[1] for the quarter. In comparison, in Q2 2022 our continuing operations recognized $21.5 million of COVID-19 funding, of which $1.6 million related to prior year unfunded COVID-19 costs, and our consolidated NOI and Adjusted EBITDA from continuing operations were reduced by $0.5 million and $0.6 million, respectively.

During the six months ended June 30, 2023, we recognized $28.7 million in COVID-19 funding, of which $13.1 million related to prior year unfunded COVID-19 costs. Our consolidated NOI and Adjusted EBITDA for the six months ended June 30, 2023, increased by $12.1 million and excluding prior year funding, were reduced by unfunded COVID costs of $1.0 million. In comparison, during the six months ended June 30, 2022, our continuing operations recognized $72.2 million in COVID-19 funding, of which $14.9 million related to prior year unfunded COVID-19 costs. Our consolidated NOI and Adjusted EBITDA from continuing operations were increased by $8.1 million and $7.9 million, respectively, and excluding prior year funding, were reduced by unfunded COVID costs of $6.8 million and $7.0 million respectively.

We are grateful for the financial support received from provincial governments during the pandemic that offset a significant portion of COVID-19 related expenses we experienced in our LTC operations. Since the beginning of the pandemic in Q1 2020, we incurred an estimated net unfunded COVID-19 related costs impacting our consolidated NOI and Adjusted EBITDA from continuing operations of approximately $12.6 million and $19.3 million, respectively. We do not anticipate any further material recovery of our cumulative unfunded net COVID-19 costs.

Reconciliations of Adjusted EBITDA and Net Operating Income

The following table provides a reconciliation of "earnings (loss) from continuing operations before income taxes" to Adjusted EBITDA and "net operating income", which excludes discontinued operations. Refer to the discussion under "Non-GAAP Measures".

	2023			2022[2]					2021	
(thousands of dollars)	Q2	Q1	YTD Q2	Q4	Q3	Q2	Q1	YTD Q2	Q4	Q3
Earnings (loss) from continuing operations before income taxes	**3,105**	**15,766**	**18,871**	(10,364)	(5,042)	4,646	6,264	10,910	(3,556)	4,196
Add:										
Depreciation and amortization	**7,173**	**7,351**	**14,524**	7,692	7,558	8,058	8,251	16,309	7,845	7,829
Net finance costs	**3,096**	**4,243**	**7,339**	3,081	3,931	4,378	5,048	9,426	5,248	4,764
Other expense	**1,402**	**3,618**	**5,020**	8,751	3,587	975	640	1,615	14,969	—
Adjusted EBITDA	**14,776**	**30,978**	**45,754**	9,160	10,034	18,057	20,203	38,260	24,506	16,789
Administrative costs	**13,694**	**13,586**	**27,280**	12,526	13,492	12,284	12,773	25,057	14,236	12,220
Net operating income	**28,470**	**44,564**	**73,034**	21,686	23,526	30,341	32,976	63,317	38,742	29,009

STATEMENT OF EARNINGS

The following provides the consolidated statement of earnings for the periods ended June 30, 2023 and 2022.

	Three months ended June 30,			Six months ended June 30,		
(thousands of dollars unless otherwise noted)	2023	2022[2]	Change	2023	2022[2]	Change
Revenue	**307,535**	296,585	10,950	**632,247**	602,295	29,952
Operating expenses	**279,065**	266,244	12,821	**559,213**	538,978	20,235
Net operating income[1]	**28,470**	30,341	(1,871)	**73,034**	63,317	9,717
Administrative costs	**13,694**	12,284	1,410	**27,280**	25,057	2,223
Adjusted EBITDA[1]	**14,776**	18,057	(3,281)	**45,754**	38,260	7,494
Depreciation and amortization	**7,173**	8,058	(885)	**14,524**	16,309	(1,785)
Other expense	**1,402**	975	427	**5,020**	1,615	3,405
Earnings before net finance costs and income taxes	**6,201**	9,024	(2,823)	**26,210**	20,336	5,874
Interest expense (net of capitalized interest)	**5,149**	5,022	127	**10,503**	10,080	423
Interest revenue	**(1,619)**	(541)	(1,078)	**(3,428)**	(1,291)	(2,137)
Accretion	**377**	(240)	617	**747**	607	140
Fair value adjustments	**(811)**	137	(948)	**(483)**	30	(513)
Net finance costs	**3,096**	4,378	(1,282)	**7,339**	9,426	(2,087)
Earnings from continuing operations before income taxes	**3,105**	4,646	(1,541)	**18,871**	10,910	7,961
Income Tax Expense (Recovery)						
Current	**506**	1,100	(594)	**4,352**	5,060	(708)
Deferred	**648**	36	612	**988**	(1,705)	2,693
Total income tax expense	**1,154**	1,136	18	**5,340**	3,355	1,985
Earnings from continuing operations	**1,951**	3,510	(1,559)	**13,531**	7,555	5,976
Earnings from operating activities of discontinued operations	**—**	67,883	(67,883)	**—**	67,958	(67,958)
Net earnings	**1,951**	71,393	(69,442)	**13,531**	75,513	(61,982)
Earnings from continuing operations	**1,951**	3,510	(1,559)	**13,531**	7,555	5,976
Add (Deduct)[i]**:**						
Fair value adjustments	**(598)**	96	(694)	**(355)**	12	(367)
Other expense	**1,031**	718	313	**3,690**	1,188	2,502
Earnings from continuing operations before separately reported items, net of taxes[1]	**2,384**	4,324	(1,940)	**16,866**	8,755	8,111

(i) The separately reported items being added to or deducted from earnings from continuing operations are net of income taxes.

2023 SECOND QUARTER FINANCIAL REVIEW

The following is an analysis of the consolidated results from operations for Q2 2023, as compared to Q2 2022. The impact of COVID-19 affects the comparability of the Company's consolidated results (refer to "Select Quarterly Financial Information – COVID-19 and Related Expenses and Funding").

Revenue

Revenue of $307.5 million for Q2 2023 increased by $11.0 million or 3.7% from $296.6 million in Q2 2022. Improvements in revenue were driven primarily by LTC flow-through funding enhancements, timing of spend under the flow-through care envelopes, improvements in LTC occupancy, home health care ADV growth of 7.7% and billing rate increases, and growth from managed services, partially offset by lower COVID-19 funding of $17.6 million.

Operating Expenses

Operating expenses of $279.1 million for Q2 2023 increased by $12.8 million or 4.8% from Q2 2022. This increase was driven by higher costs related to labour (including increased hours of care supported by increased flow-through funding, labour rate increases and agency costs), utilities, repairs and maintenance and technology across the business segments and the impact of workers compensation rebates of $3.9 million received in Q2 2022, partially offset by lower estimated costs related to COVID-19 and funded pandemic pay programs of $18.1 million.

Net Operating Income

Net operating income of $28.5 million for Q2 2023 decreased by $1.9 million or 6.2% from $30.3 million for Q2 2022 and represented 9.3% of revenue as compared to 10.2% for Q2 2022. Excluding the impact in Q2 2022 of workers compensation rebates of $3.9 million and a recovery of estimated COVID-19 costs of $0.5 million, NOI increased by $1.6 million from $26.9 million in Q2 2022, reflecting home health care ADV growth of 7.7% and billing rate increases, partially offset by cost increases in excess of funding in LTC operations.

Administrative Costs

Administrative costs increased by $1.4 million to $13.7 million for Q2 2023, primarily due to higher technology costs.

Adjusted EBITDA

Adjusted EBITDA declined by $3.3 million to $14.8 million for Q2 2023 from $18.1 million for Q2 2022 and represented 4.8% of revenue as compared to 6.1%, respectively, reflecting the decrease in NOI and higher administrative costs.

Depreciation and Amortization

Depreciation and amortization costs declined by $0.9 million to $7.2 million for Q2 2023.

Other Expense

Other expense increased by $0.4 million to $1.4 million for Q2 2023 reflecting higher strategic transformation costs in connection with the Revera and Axium Transactions. The strategic transformation costs include transaction, legal, regulatory, IT integration and management transition costs. Refer to the discussion under "Subsequent Events – Strategic Transactions With Revera and Axium".

Net Finance Costs

Net finance costs declined by $1.3 million for Q2 2023, primarily due to increased interest revenue from cash on hand and a favourable change of $0.9 million in fair value adjustments related to interest rate swaps, partially offset by higher accretion and interest expense.

Income Taxes

The income tax provision of $1.2 million for Q2 2023, represented an effective tax rate of 37.2%, as compared to a tax provision of $1.1 million and an effective tax rate of 24.5% for Q2 2022, largely due to changes in taxable income of certain of the legal entities.

Earnings From Continuing Operations

The Company reported earnings from continuing operations of $2.0 million ($0.02 per basic share) for Q2 2023 as compared to earnings of $3.5 million ($0.04 per basic share) for Q2 2022. The decrease in earnings of $1.6 million resulted from the decline in Adjusted EBITDA of $3.3 million, partially offset by lower depreciation, amortization and net finance costs.

Summary of Results of Operations by Segment

The following summarizes the Company's segmented "revenue", "operating expenses" and "net operating income", followed by an analysis of the operating performance of each of the Company's operating segments. The impact of COVID-19 on all segments affects the comparability of the business segments (refer to "Select Quarterly Financial Information – COVID-19 and Related Expenses and Funding").

Three months ended June 30 *(thousands of dollars unless otherwise noted)*	**Long-term Care**	**Home Health Care**	**Managed Services**	**Total**
2023				
Revenue	**182,377**	**116,327**	**8,831**	**307,535**
Operating expenses	**168,504**	**106,274**	**4,287**	**279,065**
Net operating income[1]	**13,873**	**10,053**	**4,544**	**28,470**
NOI margin[1]	***7.6%***	***8.6%***	***51.5%***	***9.3%***
2022				
Revenue	181,641	106,774	8,170	296,585
Operating expenses	163,994	98,566	3,684	266,244
Net operating income[1]	17,647	8,208	4,486	30,341
NOI margin[1]	*9.7%*	*7.7%*	*54.9%*	*10.2%*
Change				
Revenue	736	9,553	661	10,950
Operating expenses	4,510	7,708	603	12,821
Net operating income[1]	(3,774)	1,845	58	(1,871)

LONG-TERM CARE OPERATIONS

Revenue from LTC operations grew by $0.7 million or 0.4% to $182.4 million for Q2 2023. Excluding a reduction in funding of $13.4 million to support costs associated with COVID-19, revenue increased by $14.1 million largely driven by funding enhancements and timing of spend, including $8.5 million in Ontario flow-through funding, and improvements in occupancy.

Net operating income from LTC operations declined by $3.8 million or 21.4% to $13.9 million for Q2 2023 as compared to $17.6 million for Q2 2022, with NOI margins of 7.6% and 9.7%, respectively. Excluding the impact in Q2 2022 of a recovery of estimated COVID-19 costs of $0.9 million and workers compensation rebates of $1.8 million, NOI declined by $1.1 million, reflecting higher operating costs, partially offset by funding enhancements.

HOME HEALTH CARE OPERATIONS

Revenue from home health care operations improved by $9.6 million or 8.9% to $116.3 million for Q2 2023 from $106.8 million for Q2 2022, driven by 7.7% growth in ADV, billing rate increases and $2.7 million in additional funding to support the permanent government wage enhancements implemented in Q2 2022, partially offset by reduced funding of $4.2 million to support the costs associated with COVID-19.

Net operating income from home health care operations increased by $1.8 million or 22.5% to $10.1 million for Q2 2023 from $8.2 million for Q2 2022, with NOI margins of 8.6% and 7.7%, respectively. Excluding the impact of unfunded estimated COVID-19 costs of $1.4 million year over year and workers compensation rebates of $2.1 million received in Q2 2022, NOI improved by $2.5 million, reflecting higher ADV and rate increases, partially offset by higher wages and benefits, travel and technology costs, including increased costs associated with recruitment, retention and training to address staffing capacity challenges. NOI margins excluding the impact of unfunded COVID-19 costs and the workers compensation rebates improved to 8.6% in Q2 2023 from 7.3% in Q2 2022.

MANAGED SERVICES

Revenue from managed services increased by $0.7 million or 8.1% to $8.8 million in Q2 2023 compared to Q2 2022, largely due to growth in SGP clients and mix of Assist consulting services.

Net operating income from managed services increased by $0.1 million or 1.3% to $4.5 million for Q2 2023 compared to Q2 2022, reflecting revenue growth, partially offset by higher costs related to the mix of Assist consulting services, business development and technology.

2023 SIX MONTH FINANCIAL REVIEW

The following is an analysis of the consolidated results from operations for the six months ended June 30, 2023, as compared to the same period in 2022. The impact of COVID-19 affects the comparability of the Company's consolidated results (refer to "Select Quarterly Financial Information – COVID-19 and Related Expenses and Funding").

Revenue

Revenue of $632.2 million for the six months ended June 30, 2023, increased by $30.0 million or 5.0% from $602.3 million for the six months ended June 30, 2022. Improvements in revenue were driven primarily by LTC flow-through funding enhancements, timing of spend under the flow-through care envelopes, impact of prior period LTC funding of $3.7 million, improvements in LTC occupancy, home health care ADV growth of 6.9% and billing rate increases, and growth from managed services, partially offset by lower COVID-19 funding of $43.5 million.

Operating Expenses

Operating expenses of $559.2 million for the six months ended June 30, 2023, increased by $20.2 million or 3.8% from $539.0 million for the six months ended June 30, 2022. This increase was driven by higher costs related to labour (including increased hours of care supported by increased flow-through funding, labour rate increases and agency costs), utilities, repairs and maintenance and technology across the business segments and the impact of workers compensation rebates of $3.9 million received in Q2 2022, partially offset by lower estimated costs related to COVID-19 and funded pandemic pay programs of $47.5 million.

Net Operating Income

Net operating income increased by $9.7 million or 15.3% to $73.0 million for the six months ended June 30, 2023, and represented 11.6% of revenue as compared to 10.5% for the six months ended June 30, 2022. Excluding the impact of a higher year-over-year recovery of estimated COVID-19 costs of $4.0 million and the benefit of prior period LTC funding adjustments of $3.7 million, net of workers compensation rebates of $3.9 million received in Q2 2022, NOI improved by $5.9 million, reflecting LTC funding enhancements and higher occupancy, home health care ADV growth of 6.9%, billing rate increases, and growth from managed services, partially offset by higher operating costs across all segments.

Administrative Costs

Administrative costs increased by $2.2 million or 8.9% to $27.3 million for the six months ended June 30, 2023, primarily due to higher technology costs, partially offset by lower costs related to COVID-19 of $0.2 million.

Adjusted EBITDA

Adjusted EBITDA improved by $7.5 million to $45.8 million for the six months ended June 30, 2023, from $38.3 million for the six months ended June 30, 2022, and represented 7.2% of revenue as compared to 6.4% in the prior year, reflecting the increase in NOI, partially offset by higher administrative costs.

Depreciation and Amortization

Depreciation and amortization costs decreased by $1.8 million to $14.5 million for six months ended June 30, 2023.

Other Expense

Other expense increased by $3.4 million to $5.0 million for the six months ended June 30, 2023, reflecting higher strategic transformation costs in connection with the Revera and Axium Transactions. The strategic transformation costs include transaction, legal, regulatory, IT integration and management transition costs. Refer to the discussion under "Subsequent Events – Strategic Transactions With Revera and Axium".

Net Finance Costs

Net finance costs decreased by $2.1 million for the six months ended June 30, 2023, reflecting increased interest revenue from cash on hand and a favourable change of $0.5 million in fair value adjustments related to interest rate swaps, partially offset by higher interest expense and accretion.

Income Taxes

The income tax provision of $5.3 million for the six months ended June 30, 2023, represented an effective tax rate of 28.3%, as compared to $3.4 million and an effective tax rate of 30.8% for the six months ended June 30, 2022, largely due to changes in taxable income of certain of the legal entities.

Earnings From Continuing Operations

The Company reported earnings from continuing operations of $13.5 million ($0.16 per basic share) for the six months ended June 30, 2023, as compared to earnings of $7.6 million ($0.08 per basic share) for the six months ended June 30, 2022. The increase in earnings of $6.0 million resulted from the increase in Adjusted EBITDA of $7.5 million and lower depreciation, amortization and net finance costs, partially offset by an increase in other expense by $3.4 million ($2.5 million net of tax). The year-over-year increase in earnings includes the higher recovery of estimated unfunded COVID-19 costs of $4.2 million ($3.1 million net of tax, or $0.04 per basic share).

Summary of Results of Operations by Segment

The following summarizes the Company's segmented "revenue", "operating expenses" and "net operating income", followed by an analysis of the operating performance of each of the Company's operating segments. The impact of COVID-19 on all segments affects the comparability of the business segments (refer to "Select Quarterly Financial Information – COVID-19 and Related Expenses and Funding").

Six months ended June 30 *(thousands of dollars unless otherwise noted)*	**Long-term Care**	**Home Health Care**	**Managed Services**	**Total**
2023				
Revenue	**389,988**	**223,754**	**18,505**	**632,247**
Operating expenses	**342,361**	**207,268**	**9,584**	**559,213**
Net operating income(1)	**47,627**	**16,486**	**8,921**	**73,034**
NOI margin(1)	***12.2%***	***7.4%***	***48.2%***	***11.6%***
2022				
Revenue	381,449	205,423	15,423	602,295
Operating expenses	337,238	194,504	7,236	538,978
Net operating income(1)	44,211	10,919	8,187	63,317
NOI margin(1)	*11.6%*	*5.3%*	*53.1%*	*10.5%*
Change				
Revenue	8,539	18,331	3,082	29,952
Operating expenses	5,123	12,764	2,348	20,235
Net operating income(1)	3,416	5,567	734	9,717

LONG-TERM CARE OPERATIONS

Revenue from LTC operations grew by $8.5 million or 2.2% to $390.0 million for the six months ended June 30, 2023. Excluding a reduction in funding of $32.4 million to support costs associated with COVID-19, revenue increased by $40.9 million largely driven by funding enhancements and timing of spend, including $24.7 million in Ontario flow-through funding, improvements in occupancy and approximately $3.7 million of prior period funding adjustments. Prior period funding adjustments include Manitoba funding in support of prior year wage settlements of $6.1 million and other adjustments of $0.5 million recognized in Q1 2023, partially offset by $2.9 million of retroactive funding recognized in Q1 2022.

Net operating income from LTC operations increased by $3.4 million or 7.7% to $47.6 million for the six months ended June 30, 2023, from $44.2 million in the same prior year period, with NOI margins of 12.2% and 11.6%, respectively. Excluding a higher recovery of estimated COVID-19 costs of $0.4 million, NOI increased by $3.0 million, which included the benefit of prior period funding adjustments of $3.7 million, funding enhancements and increased occupancy, partially offset by higher operating costs and the impact of workers compensation rebates of $1.8 million received in Q2 2022.

HOME HEALTH CARE OPERATIONS

Revenue from home health care operations increased by $18.3 million or 8.9% to $223.8 million for the six months ended June 30, 2023, from $205.4 million in the same prior year period, driven by 6.9% growth in ADV, billing rate increases and approximately $9.2 million to support government funded wage enhancements, partially offset by reduced funding of $11.1 million to support the costs associated with COVID-19.

Net operating income from home health care operations increased by $5.6 million or 51.0% to $16.5 million for the six months ended June 30, 2023, from $10.9 million in the same prior year period, with NOI margins of 7.4% and 5.3%, respectively. Excluding a reduction in unfunded estimated COVID-19 costs of $3.6 million, NOI improved by $2.0 million reflecting higher ADV and rate increases, partially offset by higher wages and benefits, travel and technology costs, including increased costs associated with recruitment, retention and training to address staffing capacity challenges, and the impact of workers compensation rebates of $2.1 million received in 2022. NOI margins excluding the impact of unfunded COVID-19 costs and the workers compensation rebates improved to 7.4% for the six months ended June 30, 2023, from 6.4% in the same prior year period.

MANAGED SERVICES

Revenue from managed services increased by $3.1 million or 20.0% to $18.5 million for the six months ended June 30, 2023, largely due to timing and mix of Assist services and growth in SGP clients.

Net operating income from managed services increased by $0.7 million or 9.0% to $8.9 million for the six months ended June 30, 2023, reflecting revenue growth, partially offset by higher costs related to the mix of Assist consulting services, business development and technology.

FUNDS FROM OPERATIONS AND ADJUSTED FUNDS FROM OPERATIONS

Reconciliations of FFO to Net Earnings

The following table provides a reconciliation of "net earnings" to FFO, which the Company believes is the most comparable GAAP measure to FFO. In addition, the table includes a reconciliation from FFO to AFFO as supplemental information, both of which include discontinued operations. Refer to the discussion under "Non-GAAP Measures".

	Three months ended June 30,			Six months ended June 30,		
(thousands of dollars unless otherwise noted)	**2023**	**2022**(2)	**Change**	**2023**	**2022**(2)	**Change**
Earnings from continuing operations	**1,951**	3,510	(1,559)	**13,531**	7,555	5,976
Add (Deduct):						
Depreciation and amortization	**7,173**	8,058	(885)	**14,524**	16,309	(1,785)
Depreciation for FFEC (maintenance capex)	**(2,157)**	(2,801)	644	**(4,490)**	(4,590)	100
Depreciation for office leases	**(776)**	(753)	(23)	**(1,597)**	(1,410)	(187)
Other expense	**1,402**	975	427	**5,020**	1,615	3,405
Fair value adjustments	**(811)**	137	(948)	**(483)**	30	(513)
Current income tax expense (recovery) on other expense and fair value adjustments	**(371)**	(257)	(114)	**(1,330)**	(427)	(903)
Deferred income tax expense (recovery)	**648**	36	612	**988**	(1,705)	2,693
FFO from discontinued operations	**—**	(396)	396	**—**	(630)	630
FFO	**7,059**	8,509	(1,450)	**26,163**	16,747	9,416
Amortization of deferred financing costs	**357**	387	(30)	**718**	844	(126)
Accretion costs	**377**	(240)	617	**747**	533	214
Non-cash share-based compensation	**1,154**	(236)	1,390	**1,030**	1,249	(219)
Principal portion of government capital funding	**661**	1,102	(441)	**1,503**	2,217	(714)
Additional maintenance capex	**(571)**	102	(673)	**(285)**	552	(837)
AFFO	**9,037**	9,624	(587)	**29,876**	22,142	7,734
Per Basic Share *($)*						
FFO	**0.09**	0.10	(0.01)	**0.31**	0.19	0.12
AFFO	**0.11**	0.11	—	**0.35**	0.25	0.10
Per Diluted Share *($)*						
FFO	**0.09**	0.10	(0.01)	**0.31**	0.19	0.12
AFFO	**0.11**	0.11	—	**0.33**	0.25	0.08
Dividends						
Declared	**10,104**	10,754	(650)	**20,282**	21,504	(1,222)
Declared per share *($)*	**0.12**	0.12	—	**0.24**	0.24	—
Weighted Average Number of Shares						
Basic *(000's)*	**85,212**	90,139		**85,324**	90,107	
Diluted *(000's)*	**96,009**	101,102		**96,273**	101,108	
Current income tax expense included in FFO	**877**	1,270	(393)	**5,682**	5,034	648
FFO effective tax rate	***11.1 %***	*13.0 %*		***17.8 %***	*23.1 %*	

Reconciliations of AFFO to Net Cash From Operating Activities

The following table provides a reconciliation of AFFO, which includes discontinued operations, to "net cash from operating activities", which the Company believes is the most comparable GAAP measure to AFFO. Refer to the discussion under "Non-GAAP Measures".

	Three months ended June 30,			Six months ended June 30,		
(thousands of dollars)	**2023**	**2022**	**Change**	**2023**	**2022**	**Change**
Net cash from (used in) operating activities	**27,160**	14,318	12,842	**(2,979)**	65,655	(68,634)
Add (Deduct):						
Net change in operating assets and liabilities, including interest, and taxes	**(16,311)**	(3,061)	(13,250)	**34,034**	(41,396)	75,430
Other expense	**1,402**	975	427	**5,020**	1,615	3,405
Current income tax on items excluded from AFFO	**(371)**	(257)	(114)	**(1,330)**	(427)	(903)
Depreciation for office leases	**(776)**	(753)	(23)	**(1,597)**	(1,410)	(187)
Depreciation for FFEC (maintenance capex)[(i)]	**(2,157)**	(2,802)	645	**(4,490)**	(4,664)	174
Additional maintenance capex[(i)]	**(571)**	102	(673)	**(285)**	552	(837)
Principal portion of government capital funding	**661**	1,102	(441)	**1,503**	2,217	(714)
AFFO	**9,037**	9,624	(587)	**29,876**	22,142	7,734
Total maintenance capex[(i)]	**2,728**	2,700	28	**4,775**	4,112	663

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

AFFO 2023 Financial Review

For Q2 2023, AFFO decreased by $0.6 million to $9.0 million ($0.11 per basic share) from $9.6 million ($0.11 per basic share) for Q2 2022, reflecting the decline in Adjusted EBITDA, partially offset by lower net finance costs and current income taxes, and an increase in the adjustment for non-cash share-based compensation due to timing of share-based settlements.

For the six months ended June 30, 2023, AFFO increased by $7.7 million to $29.9 million ($0.35 per basic share) from $22.1 million ($0.25 per basic share) for the six months ended June 30, 2022, reflecting the improvement in Adjusted EBITDA and lower net finance costs, partially offset by a decline in the principal portion of government capital funding and higher maintenance capex and current income taxes. The year-over-year increase in AFFO included a higher recovery of estimated COVID-19 costs from continuing operations of $4.2 million ($3.1 million net of tax, or $0.04 per basic share).

Dividends declared as a percentage of AFFO for the six months ended June 30, 2023, represented a payout ratio of 68%. In addition to cash on hand of $89.3 million at June 30, 2023, and ongoing cash generated from operations, the Company has available undrawn credit facilities totalling $80.2 million (refer to the discussion under "Liquidity and Capital Resources").

A discussion of the factors impacting net earnings and Adjusted EBITDA can be found under "2023 Second Quarter Financial Review", "2023 Six Month Financial Review", and "Discontinued Operations".

The current income tax expense included in arriving at AFFO was $5.7 million for the six months ended June 30, 2023, and $5.0 million in the same prior year period, representing an effective tax rate on FFO of 17.8% and 23.1%, respectively. The Company's current income taxes for both periods have been impacted by the effects of COVID-19. In particular, increased costs as a result of COVID-19 have had an impact on the level of taxable income in our various legal entities and the resulting effective tax rate on the Company's FFO. The determination of FFO includes a deduction for current income tax expense and does not include deferred income tax expense. As a result, the effective tax rates on FFO can be impacted by: adjustments to estimates of annual deferred timing differences, particularly when dealing with cash-based tax items versus accounting accruals; changes in the proportion of earnings between taxable and non-taxable entities; book-to-file adjustments for prior year filings; and the ability to utilize loss carryforwards. For 2023, the Company expects the effective tax rate on FFO will be in the range of 15% to 18%.

Including the activity of discontinued operations in 2022, maintenance capex was $2.7 million for Q2 2023 as compared to $2.7 million for Q2 2022 and to $2.0 million for Q1 2023, representing 0.9%, 0.9% and 0.6% of revenue, respectively. For the six months ended June 30, 2023, maintenance capex was $4.8 million as compared to $4.1 million in the same prior year period, representing 0.8% and 0.6% of revenue, respectively. These costs fluctuate on a quarterly and annual basis with the timing of projects and seasonality. In 2023, the Company expects to spend in the range of $15.0 million to $17.0 million in maintenance capex.

The following provides a reconciliation of "Adjusted EBITDA" to AFFO, which includes discontinued operations, as supplemental information. Refer to the discussion under "Non-GAAP Measures".

	Three months ended June 30,			Six months ended June 30,		
(thousands of dollars)	**2023**	**2022**	**Change**	**2023**	**2022**	**Change**
Adjusted EBITDA	**14,776**	18,057	(3,281)	**45,754**	38,260	7,494
Add (Deduct):						
Depreciation for FFEC (maintenance capex)	**(2,157)**	(2,801)	644	**(4,490)**	(4,590)	100
Depreciation for office leases	**(776)**	(753)	(23)	**(1,597)**	(1,410)	(187)
Accretion costs	**(377)**	240	(617)	**(747)**	(607)	(140)
Interest expense	**(5,149)**	(5,022)	(127)	**(10,503)**	(10,080)	(423)
Interest revenue	**1,619**	541	1,078	**3,428**	1,291	2,137
Discontinued operations, pre-tax	**—**	(483)	483	**—**	(1,083)	1,083
	7,936	9,779	(1,843)	**31,845**	21,781	10,064
Current income tax expense	**877**	1,270	(393)	**5,682**	5,034	648
FFO	**7,059**	8,509	(1,450)	**26,163**	16,747	9,416
Amortization of deferred financing costs	**357**	387	(30)	**718**	844	(126)
Accretion costs	**377**	(240)	617	**747**	533	214
Non-cash share-based compensation	**1,154**	(236)	1,390	**1,030**	1,249	(219)
Principal portion of government capital funding	**661**	1,102	(441)	**1,503**	2,217	(714)
Additional maintenance capex	**(571)**	102	(673)	**(285)**	552	(837)
AFFO	**9,037**	9,624	(587)	**29,876**	22,142	7,734

LIQUIDITY AND CAPITAL RESOURCES

Sources and Uses of Cash

The following summarizes the sources and uses of cash between continuing and discontinued operations for the six months ended June 30, 2023 and 2022.

	Six months ended June 30,			
	2023			**2022**
(thousands of dollars)	**Total**	**Continuing**	**Discontinued**	**Total**
Net cash (used in) from operating activities	**(2,979)**	70,096	(4,441)	65,655
Net cash used in investing activities	**(63,763)**	(34,729)	244,782	210,053
Net cash used in financing activities	**(11,266)**	(20,456)	(121,796)	(142,252)
(Decrease) increase in cash and cash equivalents	**(78,008)**	14,911	118,545	133,456

As at June 30, 2023, the Company had cash and cash equivalents on hand of $89.3 million, reflecting a decline in cash of $78.0 million from the beginning of the year. Cash flow used in operating activities of the continuing operations was $3.0 million for the six months ended June 30, 2023. Cash declined in Q1 2023 due to timing of working capital changes, primarily attributable to the timing of COVID-19 funding recognition and receipt and payroll cycles in the quarter, and due to timing of draws on LTC construction financing facilities. Cash dividends paid of $20.3 million for Q1 2023 were funded from cash on hand.

Net cash from operating activities was a use of cash of $3.0 million for the six months ended June 30, 2023, down $68.6 million from a source of cash of $65.7 million in the prior year, reflecting unfavourable changes in operating assets and liabilities and cash income taxes between periods. Fluctuations in operating assets and liabilities between periods are primarily attributable to the volatility and timing of cash receipts related to flow-through funding and COVID-19, and the timing of payroll cycles. Net income taxes reflected taxes paid of $8.2 million in 2023 compared to net income taxes received of $7.5 million in 2022, which included the receipt of a prior year tax recoverable related to the former U.S. operations.

Net cash from investing activities was a use of cash of $63.8 million for the six months ended June 30, 2023 as compared to a source of cash of $210.1 million in the prior year. The 2023 activity included purchases of property, equipment and other intangible assets of $65.3 million, partially offset by the collection of other assets of $1.5 million. The 2022 activity included proceeds of $245.6 million from the sale of the retirement living segment, including assumed debt, net of taxes paid, and the collection of other assets of $2.2 million, partially offset by purchases of property, equipment and other intangible assets of $37.8 million.

The table that follows summarizes the additions to property, equipment and other intangibles, allocated between growth and maintenance capex for each of the continuing and discontinued operations. Growth capex relates to the LTC redevelopment projects, building improvements, IT projects, or other capital projects, all of which are aimed at earnings growth. Maintenance capex relates to the capital additions incurred to sustain and upgrade existing property and equipment.

	Six months ended June 30,			
	2023			**2022**
(thousands of dollars)	**Total**	**Continuing**	**Discontinued**	**Total**
Growth capex	**53,443**	37,824	—	37,824
Maintenance capex	**4,775**	3,295	817	4,112
	58,218	41,119	817	41,936

Management monitors and prioritizes the capital expenditure requirements of its properties throughout the year, taking into account the urgency and necessity of the expenditure. Growth capex in 2023 is focused primarily on the LTC projects under construction, redevelopment activities and investments in technology as part of our ongoing strategy of transitioning our key IT platforms to the cloud to support our growth initiatives (refer to "Other Contractual Obligations and Contingencies – Commitments"). The level of our future growth capex will be impacted by the establishment of our strategic joint venture with Axium, which has received regulatory approval and is anticipated to close in Q3 2023. Refer to "Subsequent Events – Strategic Transactions With Revera and Axium" and "Construction Commenced on Fourth Redevelopment Project of a New 256-bed LTC Home in Peterborough" under the heading "Significant Developments").

Net cash used in financing activities was a use of cash of $11.3 million for the six months ended June 30, 2023, a decrease of $131.0 million from a use of cash of $142.3 million in the prior year. The 2023 activity included draws on LTC construction financings of $23.7 million, offset by debt and lease liability repayments of $10.2 million and cash dividends paid of $20.3 million. The 2022 activity included debt and lease liability repayments of $134.5 million, including $121.6 million related to the divested operations, and cash dividends paid of $21.5 million, partially offset by draws on LTC construction financings of $13.4 million.

Discontinued operations reflect the operations of the retirement living segment and the Saskatchewan LTC Homes. Further details are provided under "Discontinued Operations" and in *Note 11* of the unaudited interim condensed consolidated financial statements.

Capital Structure

SHAREHOLDERS' EQUITY

Total shareholders' equity as at June 30, 2023, was $91.4 million as compared to $100.7 million at December 31, 2022, reflecting the contributions from net earnings and comprehensive income, offset by dividends declared of $20.3 million and the purchase of Common Shares through the NCIB at a cost of $4.1 million.

As at June 30, 2023, the Company had 84,279,946 Common Shares issued and outstanding (carrying value – $473.7 million), as compared to 84,728,744 Common Shares (carrying value – $475.4 million) as at December 31, 2022, reflecting 627,500 Common Shares purchased and cancelled through the NCIB, partially offset by 178,702 Common Shares issued under the Company's equity-based compensation plan.

Share Information *(000's)*	**August 9, 2023**	**June 30, 2023**	**December 31, 2022**
Common Shares (TSX symbol: EXE)[i]	**84,279.9**	**84,279.9**	89,739.9

(i) Closing market value per TSX on August 9, 2023, was $7.35.

As at August 10, 2023, the Company had an aggregate of 3,884,611 Common Shares reserved and available for issuance pursuant to the Company's long-term incentive plan, of which there were in aggregate 2,263,062 performance share units and deferred share units outstanding as at June 30, 2023 (refer to *Note 6* of the unaudited interim condensed consolidated financial statements).

As at August 10, 2023, the Company had $126.5 million in aggregate principal amount of convertible subordinate debentures outstanding that mature in April 2025, which in the aggregate are convertible into 10,326,531 Common Shares.

Dividends

The Company declared cash dividends of $0.24 per share in the six months ended June 30, 2023, consistent with that declared in 2022, representing $20.3 million and $21.5 million in each period, respectively.

Normal Course Issuer Bid

In June 2023, the Company received approval from the TSX to renew its 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. The Company has entered into an automatic purchase plan with its designated broker in connection with its NCIB to facilitate the purchase of Common Shares during times when the Company would ordinarily not be active in the market. The Board authorized the NCIB because it believes that, from time to time, the market price of the Common Shares may be such that their purchase may be an attractive and appropriate use of corporate funds. Decisions regarding the quantity and timing of purchases of Common Shares are based on market conditions, share price, the outlook for capital needs, including LTC redevelopment needs and other factors. As at August 9, 2023, the Company had not acquired any Common Shares under its renewed NCIB.

Under its prior NCIB that expired 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 in 2023 at a cost of $4.1 million, representing a weighted average price per share of $6.53 (refer to “Significant Developments – Normal Course Issuer Bid”).

Long-term Debt

Long-term debt totalled $400.0 million as at June 30, 2023, as compared to $384.0 million as at December 31, 2022, representing an increase of $16.0 million, reflecting draws on construction loans of $23.7 million, new lease liabilities and changes in accretion and deferred financing costs, partially offset by regular debt and lease liability repayments of $10.2 million. The current portion of long-term debt as at June 30, 2023, was $19.5 million. The Company is subject to debt service coverage covenants on certain of its loans and was in compliance with all of these covenants as at June 30, 2023. Details of the components, maturities dates, terms and conditions of long-term debt are provided in *Note 5* of the unaudited interim condensed consolidated financial statements.

LTC CONSTRUCTION FINANCING

As at June 30, 2023, $56.9 million was drawn on the Company’s LTC redevelopment construction facilities, aggregating $156.6 million in connection with the Sudbury, Kingston and Stittsville LTC projects. These financings include $54.7 million for Sudbury, $41.1 million for Kingston and $60.7 million for Stittsville, and mature on the earlier of 42 months from closing or the date of refinancing following completion of construction or lease up of the applicable project. Interest rates are prime plus 1.25% or CDOR plus 2.75% with standby fees of 0.55%. The facilities also provide for an aggregate $6.0 million in letter of credit facilities. Interest is capitalized during construction and is payable following completion of construction until maturity.

CREDIT FACILITIES

The Company has two demand credit facilities totalling $112.3 million. One is secured by 13 Class C 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 legacy defined benefit pension plan obligations and $4.8 million was used in connection with obligations relating to LTC homes, leaving $80.2 million available.

Management has limited the amount of debt that may be subject to changes in interest rates, with $20.8 million of mortgage debt and $56.9 million of construction loans in connection with the LTC projects at variable rates. The Company’s term loan aggregating $29.1 million as at June 30, 2023, has effectively been converted to fixed-rate financings with interest rate swaps over the full term. As at June 30, 2023, the interest rate swaps were valued as an asset of $0.7 million.

The following summarizes key metrics of consolidated long-term debt as at June 30, 2023, and December 31, 2022.

(thousands of dollars unless otherwise noted)	**June 30, 2023**	**December 31, 2022**
Weighted average interest rate of long-term debt outstanding	**5.8 %**	5.5 %
Weighted average term to maturity of long-term debt outstanding	**5.1 yrs**	5.8 yrs
Trailing twelve months consolidated interest coverage ratio(i) (1)	**2.7 X**	2.6 X
Debt to Gross Book Value (GBV)		
Total assets (carrying value)	**764,931**	781,579
Accumulated depreciation on property and equipment	**300,008**	287,890
Accumulated amortization on other intangible assets	**37,060**	35,228
GBV	**1,101,999**	1,104,697
Debt(ii)	**405,875**	391,157
Debt to GBV	**36.8 %**	35.4 %

(i) Capitalized interest included in the calculation of the interest coverage ratio was $3.0 million for the trailing twelve months ended June 30, 2023 ($2.1 million for the six months ended June 30, 2023), and $1.5 million for the year ended December 31, 2022.

(ii) Debt includes convertible debentures at face value of $126.5 million and excludes deferred financing costs.

Future Liquidity and Capital Resources

The Company's consolidated cash and cash equivalents on hand was $89.3 million as at June 30, 2023, as compared with $167.3 million as at December 31, 2022, representing a decrease of $78.0 million. In addition, the Company has access to a further $80.2 million in undrawn demand credit facilities. Cash and cash equivalents exclude restricted cash of $3.0 million.

The Company had a working capital deficiency (current liabilities less current assets) of $54.8 million as at June 30, 2023, including the current portion of long-term debt of $19.5 million.

The Company has construction facilities in connection with three LTC projects in the aggregate of $156.6 million, of which $56.9 million was drawn as at June 30, 2023. For more information refer to the discussion under "Liquidity and Capital Resources – Long-term Debt – LTC Construction Financing".

Subsequent to quarter end, the Revera and Axium transactions received approval from the Ontario and Manitoba governments. Refer to "Subsequent Events – Strategic Transactions With Revera and Axium" for more details.

On August 1, 2023, Extendicare completed the Revera Transactions, with aggregate cash consideration paid, net of holdbacks, of approximately $32.6 million, plus the assumption of approximately $37.1 million in debt (Extendicare's share of the joint venture partnership debt), subject to customary post-closing adjustments. The purchase price was funded from cash on hand.

The cash consideration paid on closing of the Revera Transactions is anticipated to be offset by the estimated net proceeds expected from closing the Axium Transaction by the end of Q3 2023. In addition, the Axium Transaction includes assumption of all LTC redevelopment construction financing facilities and related construction contracts.

Management believes that the current cash and cash equivalents on hand, cash from operating activities, available funds from credit facilities and future debt financings will be sufficiently available to support the Company's ongoing business operations, including required working capital, maintenance capex and debt repayment obligations and fund the Company's capital requirements, in partnership with Axium, to support our long-term care redevelopment program (refer to "Subsequent Events – Strategic Transactions With Revera and Axium"). Growth through redevelopment of the LTC homes over the next few years, strategic acquisitions and developments may necessitate the raising of funds through debt, equity financings and/or other means. Decisions will be made on a specific transaction basis and will depend on market and economic conditions at the time.

Inflationary impacts on operating costs, rising interest rates such that capital and credit markets and industry sentiment are adversely affected, ongoing pressures of funding and rate increases not keeping pace with cost increases, health care staffing constraints and the potential for another pandemic, epidemic or outbreak may make it more difficult for the Company to access the necessary capital or credit markets or if able to do so, at a higher cost or less advantageous terms than existing borrowings. In addition, reduced revenue and higher operating costs due to inflationary impacts and rising interest rates may result in reductions or early prepayments of existing financings if covenants are unable to be met (refer to "Risks and Uncertainties").

OTHER CONTRACTUAL OBLIGATIONS AND CONTINGENCIES

Commitments

As at June 30, 2023, the Company has outstanding commitments of $96.1 million in connection with construction contracts for four LTC redevelopment projects, of which $37.8 million is estimated to be payable in 2023, $40.5 million in 2024 and the balance in 2025 and thereafter, based on the anticipated construction schedules. The Company also has outstanding commitments of $24.6 million 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 (refer to *Note 12* of the unaudited interim condensed consolidated financial statements).

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 (refer to the discussion under "Subsequent Events – Strategic Transactions With Revera and Axium".

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 (see "Risks and Uncertainties").

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 and it could have a materially adverse impact on the Company's business, results of operations and financial condition.

DISCONTINUED OPERATIONS

The following describes those operations affecting the results for discontinued operations impacting 2022, which include the impact of COVID-19 funding and related costs (refer to "Select Quarterly Financial Information – COVID-19 and Related Expenses and Funding"). Further details are provided in *Note 11* of the unaudited interim condensed consolidated financial statements.

Sale of Retirement Living Portfolio

On May 16, 2022, the Company completed the sale of its retirement living operations composed of 11 retirement communities (1,050 suites), located in Ontario and Saskatchewan, to Sienna-Sabra LP, for an aggregate purchase price of $307.5 million, representing an implied realized capitalization rate on the stabilized NOI of approximately 6.0%. The Company recorded a gain on sale of $67.9 million net of taxes, other adjustments and transaction costs, through discontinued operations. For the year ended December 31, 2022, these operations generated revenue of $18.9 million, NOI[(1)] of $3.9 million, and AFFO[(1)] of $0.9 million ($0.01 per basic share).

Sale of Saskatchewan LTC Homes

On October 9, 2022, the SHA and the Company completed the transition of operations and ownership of the Company's five LTC homes located in Saskatchewan to the SHA, including certain other assets and the assumption of certain liabilities by the SHA, for an aggregate purchase price of $13.1 million and recorded a gain on sale of $6.3 million net of taxes, other adjustments and transaction costs, through discontinued operations. For the year ended December 31, 2022, these operations generated revenue of $40.9 million, a net operating loss of $3.1 million, and an AFFO loss of $2.3 million ($0.02 loss per basic share).

Earnings (Loss) from Discontinued Operations

The following table provides the results of discontinued operations and a calculation of AFFO for the three and six months ended June 30, 2022

Discontinued Operations	Three months ended June 30, 2022			Six months ended June 30, 2022		
(thousands of dollars unless otherwise noted)	Retirement Living	SK LTC Homes	Total	Retirement Living	SK LTC Homes	Total
Revenue	6,272	13,010	19,282	18,937	26,370	45,307
Operating expense	5,202	13,810	19,012	15,058	29,200	44,258
Net operating income (loss)	1,070	(800)	270	3,879	(2,830)	1,049
Reconciliation to AFFO						
Earnings (loss) from operating activities of discontinued operations	551	(588)	(37)	2,118	(2,080)	38
Add (Deduct):						
Depreciation and amortization	—	—	—	565	—	565
Depreciation for FFEC (maintenance capex)	(1)	—	(1)	(74)	—	(74)
Fair value adjustments	(432)	—	(432)	(1,627)	—	(1,627)
Deferred income tax expense	74	—	74	468	—	468
FFO from discontinued operations	192	(588)	(396)	1,450	(2,080)	(630)
Amortization of deferred financing	96	—	96	263	—	263
Accretion costs	—	—	—	(74)	—	(74)
Additional maintenance capex	(696)	(16)	(712)	(727)	(16)	(743)
AFFO from discontinued operations	(408)	(604)	(1,012)	912	(2,096)	(1,184)
AFFO per basic share *($)*	—	(0.01)	(0.01)	0.01	(0.02)	(0.01)
Total maintenance capex	697	16	713	801	16	817

ACCOUNTING POLICIES AND ESTIMATES

Critical Accounting Policies and Estimates

A full discussion of the Company's critical accounting policies and estimates was provided in the MD&A and the accompanying notes to the audited consolidated financial statements for the year ended December 31, 2022, contained in the Company's 2022 Annual Report. The disclosures in such report have not materially changed since that report was filed, and to the extent there have been any changes in management's estimates, they are discussed under "Significant Developments".

NON-GAAP MEASURES

Certain measures used in this MD&A listed below, including any related per share amounts, used by management to measure, compare and explain the operating results and financial performance of the Company, are not measures recognized under GAAP and do not have standardized meanings prescribed by GAAP. These measures may differ from similar computations as reported by other issuers and, accordingly, may not be comparable to similarly titled measures as reported by such issuers. These measures are not intended to replace earnings (loss) from continuing operations, net earnings (loss), cash flow, or other measures of financial performance and liquidity reported in accordance with GAAP. Such measures are presented in this document because management believes that they are a relevant measure of Extendicare's operating performance and ability to pay cash dividends.

Management uses these measures to exclude the impact of certain items, because it believes doing so provides investors a more effective analysis of underlying operating and financial performance and improves comparability of underlying financial performance between periods. The exclusion of certain items does not imply that they are non-recurring or not useful to investors.

These measures are defined below and reconciliations to the most comparable GAAP measure are referenced, as applicable.

"**Net operating income**", or "**NOI**", is defined as revenue less operating expenses, and this value represents the underlying performance of the operating business segments.

"**NOI margin**" is defined as NOI as a percentage of revenue.

"**EBITDA**" is defined as earnings (loss) from continuing operations before net finance costs, income taxes, depreciation and amortization.

“**Adjusted EBITDA**” is defined as EBITDA adjusted to exclude the line item “other expense”, and as a result, is equivalent to the line item “earnings before depreciation, amortization, and other expense” reported on the consolidated statements of earnings. Management believes that certain lenders, investors and analysts use EBITDA, Adjusted EBITDA and Adjusted EBITDA margin to measure a company’s ability to service debt and meet other payment obligations, and as a common valuation measurement.

“**Adjusted EBITDA Margin**” is defined as Adjusted EBITDA as a percentage of revenue.

Reconciliations of “net operating income” and “Adjusted EBITDA” to “earnings (loss) from continuing operations before income taxes” are provided under “Select Quarterly Financial Information – Reconciliations of Adjusted EBITDA and Net Operating Income”.

“**Earnings (loss) from continuing operations before separately reported items, net of tax**” is defined as earnings (loss) from continuing operations, excluding the following separately reported line items: “fair value adjustments” and “other expense”. These line items are reported separately and excluded from certain performance measures, because they are transitional in nature and would otherwise distort historical trends. “Fair value adjustments” relate to the change in the fair value of or gains and losses on interest rate agreements. “Other expense”, or “other income”, relates to gains or losses on the disposal or impairment of assets and early retirement of debt, transaction and integration costs in connection with acquisitions, restructuring and transformation charges, and proxy related costs. The above separately reported line items are reported on a pre-tax and on an after-tax basis as a means of deriving earnings (loss) from operations and related earnings per share excluding such items.

Reconciliations of “earnings (loss) from continuing operations before separately reported items” to “earnings (loss) from continuing operations” are provided under “Statement of Earnings”.

“**Funds From Operations**”, or “**FFO**”, is defined as net earnings before income taxes, depreciation and amortization and fair value adjustments, and the line item “other expense” (otherwise referred to as “Adjusted EBITDA”) less depreciation for furniture, fixtures, equipment and computers, or “depreciation for FFEC”, depreciation for office leases, accretion costs, net interest expense and current income taxes (excluding current income taxes in respect of “fair value adjustments” and “other expense” that are not otherwise included in FFO). Depreciation for FFEC is considered representative of the amount of maintenance (non-growth) capital expenditures, or “maintenance capex”, to be used in determining FFO, as the depreciation term is generally in line with the life of these assets. FFO is a recognized earnings measure that is widely used by public real estate entities, particularly by those entities that own and/operate income-producing properties. Management believes that certain investors and analysts use FFO, and as such has included FFO to assist with their understanding of the Company’s operating results.

Reconciliations of FFO to “earnings from continuing operations” are provided under “Funds From Operations and Adjusted Funds From Operations – Reconciliations of FFO to Net Earnings”.

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

“**Payout ratio**” is defined as the ratio of dividends declared to AFFO. Management considers this a useful metric to evaluate the Company’s dividend capacity.

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

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

“**Interest coverage ratio**” and “**net interest coverage ratio**” are defined as the ratio of Adjusted EBITDA to interest expense with interest capitalized included and financing prepayment costs and the amortization of deferred financing costs excluded, and in the case of ‘net interest’ with interest revenue included. Management considers these relevant measures as they indicate the Company’s ability to meet its interest cost obligations on a trailing twelve-month basis.

“**NOI Yield**” is defined as the estimated stabilized NOI of a development property in the first year it achieves expected stabilized occupancy, plus the annual construction funding subsidy, or CFS, for certain LTC homes, if applicable, divided by the estimated Adjusted Development Costs, as defined below. Management considers this a relevant measure of the Company’s total economic return of a development project.

“**Adjusted Development Costs**” is defined as development costs on a GAAP basis (which includes the cost of land, hard construction and soft development costs, furniture, fixtures and equipment) plus/minus cumulative net operating losses/earnings generated by the development property prior to achieving expected stabilized occupancy, plus an estimated imputed cost of capital during the development period through to the expected stabilized occupancy, net of any capital development government grant receivable on substantial completion of construction for certain LTC homes, if applicable.

RISKS AND UNCERTAINTIES

There are certain risks inherent in an investment in securities and activities of the Company, which investors should carefully consider before investing in the Company. Risks and uncertainties are disclosed in the Company's 2022 Annual Information Form, including without limitation, "Risks Related to a Pandemic, Epidemic or Outbreak of a Contagious Illness, such as COVID-19", "Risks Related to Inflationary Pressures and Supply Chain Interruptions", "Risks Related to Liability and Insurance" and "Risks Related to Government Oversight, Funding and Regulatory Changes" found under the section "Risk Factors – Risks Related to the Business". To the extent there have been any changes to those risks or uncertainties as of the date of this MD&A, they are discussed under "Forward-looking Statements" and "Significant Developments".

Endnotes

(1) This is a non-GAAP financial measure. Refer to the discussion under "Non-GAAP Measures".

(2) Certain prior period figures in Q1 2022 and Q2 2022 have been re-presented to conform with the Q3 2022 presentation in connection with the classification of strategic transformation costs as "other expense". Refer to the discussion under *Note 9* of the unaudited interim condensed consolidated financial statements.

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)

		Three months ended June 30,		Six months ended June 30,	
(thousands of dollars except for per share amounts)	***notes***	**2023**	**2022[(i)]**	**2023**	**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)

(thousands of dollars)	***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)]**
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*).