



MANAGEMENT'S DISCUSSION AND ANALYSIS

Q2 2020

Extendicare Inc.
Dated: August 13, 2020

Management’s Discussion and Analysis

Three and six months ended June 30, 2020

Dated: August 13, 2020

TABLE OF CONTENTS

Basis of Presentation.....	1	2020 Second Quarter Financial Review.....	14
Additional Information.....	2	2020 Six Month Financial Review.....	17
Forward-looking Statements.....	2	Adjusted Funds from Operations.....	20
Business Strategy.....	3	Liquidity and Capital Resources.....	22
Significant Events.....	3	Other Contractual Obligations and Contingencies.....	25
Business Overview.....	5	Discontinued Operations.....	26
Key Performance Indicators.....	7	Accounting Policies and Estimates.....	26
Select Quarterly Financial Information.....	12	Non-GAAP Measures.....	27
2020 Statement of Earnings (Loss).....	13	Risks and Uncertainties.....	28

BASIS OF PRESENTATION

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

The Company and its predecessors have been in operation since 1968 and is one of the largest private-sector owner/operators of long-term care (LTC) homes in Canada and the largest private-sector provider of publicly funded home health care services in Canada through its wholly owned subsidiary ParaMed Inc. (ParaMed). In addition, the Company owns and operates retirement communities in secondary markets under the Esprit Lifestyle Communities brand. As well, the Company provides business-to-business services through its Extendicare Assist division (contract and consulting) and SGP Purchasing Partner Network (SGP) division (group purchasing). The Company’s qualified and highly trained workforce of approximately 22,800 individuals is passionate about providing high quality services to help people live better.

In June 2020, the Company initiated a wind-up plan to cease operations of its wholly owned Bermuda-based captive insurance company, Laurier Indemnity Company, Ltd. (the “Captive”), which the Company had been presenting as a separate U.S. segment. As a result of the wind-up plan, the Company has classified the U.S. segment as a discontinued operation and re-presented its comparative interim condensed consolidated statement of earnings. Accordingly, the Company is no longer presenting a separate U.S. segment and has re-presented the comparative financial information presented in this MD&A (refer to the discussion under “Discontinued Operations”).

The Company has prepared this MD&A 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, 2020. 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, 2020, and the notes thereto, together with the annual MD&A and the audited consolidated financial statements for the year ended December 31, 2019, and the notes thereto, prepared in accordance with International Financial Reporting Standards (IFRS), found in the Company’s 2019 Annual Report. The accompanying unaudited interim condensed consolidated financial statements for the three and six months ended June 30, 2020, including the notes thereto, have been prepared in accordance with International Accounting Standard (IAS) 34 “Interim Financial Reporting”, as issued by the International Accounting Standards Board (IASB).

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, 2019 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. Please 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 notes thereto 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 13, 2020, 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 Quarterly Report contains certain 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 Quarterly Report 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 indemnification provisions in respect of disposed operations; 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, the impact of COVID-19 on the Company's operating costs, staffing, procurement, occupancy levels (primarily in its retirement communities) and volumes in its home health care business, the impact on the capital and credit markets and the Company's ability to access the credit markets as a result of COVID-19, increased litigation and regulatory exposure and the outcome of any litigation and regulatory proceedings. Forward-looking statements can often be identified by the expressions "anticipate", "believe", "estimate", "expect", "intend", "objective", "plan", "project", "will" or other similar expressions or the negative thereof. These forward-looking statements reflect the Company's current expectations regarding future results, performance or achievements and are based upon information currently available to the Company and on assumptions that the Company believes are reasonable. 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, 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 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 and costs; 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 foreign exchange and 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 dispositions, acquisitions and development projects, including risks relating to completion; and those other risks, uncertainties and other factors identified in the Company's other public filings with the Canadian securities regulators available on SEDAR's website at www.sedar.com under the Company's issuer profile.

In particular, risks and uncertainties related to the effects of COVID-19 on Extendicare include: the length, spread and severity of the pandemic; the nature and extent of the measures taken by all levels of governments and public health officials, both short and long term, in response to COVID-19; domestic and global credit and capital markets; the Company's ability to access capital on favourable terms or at all due to the potential for reduced revenue and increased operating expenses as a result of COVID-19; the availability of insurance on favourable terms; litigation and/or regulatory proceedings against or

involving the Company, regardless of merit; the health and safety of the Company's employees and its residents and clients; and domestic and global supply chains, particularly in respect of personal protective equipment (PPE). Given the evolving circumstances surrounding COVID-19, it is difficult to predict how significant the adverse impact will be on the global and domestic economy and the business operations and financial position of Extencicare.

Readers are cautioned that the preceding list of material factors or assumptions is not exhaustive. Although forward-looking statements contained in this Quarterly Report 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 Quarterly Report. Except as required by applicable securities laws, the Company assumes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

BUSINESS STRATEGY

Our vision is to be the leading provider of care and services to seniors in Canada. We strive to provide quality, person-centred care through compassionate caregivers across the continuum of care – offering the services seniors need wherever they need it as they age and their care needs change – and to be an employer of choice in the communities in which we operate.

Our long-term care business provides high quality care in the homes we own and operate across the country. Capital investment is focused on redeveloping our older LTC homes in the portfolio; the timing and extent of such redevelopment depends primarily upon the government funding available and general development factors, such as construction costs. We also provide contract services and consulting to a growing list of third-party LTC homes and retirement communities through our Extencicare Assist division. Both our operations and those of our Extencicare Assist clients are supported by our SGP Purchasing Partner Network division. We intend to continue to grow our third-party services offerings to gain market share and capitalize on the organic growth in the Canadian seniors care market.

Our core long-term care services are complemented by a market leading home health care platform operating under the ParaMed brand. Demand for home care is growing in tandem with the aging of the population, trending at an average market growth of 4% per year, according to Statistics Canada. Strategic investments in systems and processes are designed to enable volume growth in line with the market, while improving efficiency and resulting profitability.

Our private-pay retirement business operates under the Esprit Lifestyle Communities brand. We continue to grow Esprit through new developments and expansions in secondary markets where supply and demand dynamics are favourable.

We are continually enhancing our operations to provide excellent care to the growing number of Canadian seniors. These enhancements broaden the range of services available to seniors, while driving improved profitability and greater diversification for the Company. We believe that the effective execution of this strategy will provide an appropriate and consistent return to our shareholders who have demonstrated their belief in our mission by investing in the Company.

SIGNIFICANT EVENTS

Impact of COVID-19 Pandemic

Since the beginning of the year, various levels of governments in Canada have enacted emergency protection measures designed to combat the spread of COVID-19. These measures include the implementation of travel bans, self-imposed quarantine periods, social distancing, and a number of changes in the regulatory regimes in which our businesses operate, particularly in respect of health and labour requirements. We are working very closely with all levels of government, health authorities, our industry partners and advocacy groups on various initiatives to help ensure our collective response to the crisis is focused on the protection and care of our residents, clients and staff as we adapt our services and operations to address COVID-19.

As of today, of our 69 long-term care homes and retirement communities, one long-term care home is in outbreak, with one positive staff case of COVID-19. In respect of our Extencicare Assist clients, none are currently in outbreak.

We continue to commit increased resources to prevent the spread of COVID-19, primarily related to increased staff and PPE. We are preparing for a possible "second wave" by enhancing infection prevention to address the unique nature of the COVID-19 virus, including such measures as universal masking, maintaining sufficient levels of PPE, single-site employer policies, limiting LTC occupancy in 4-bed rooms to a maximum of two residents and voluntary testing of staff in our Ontario LTC homes. Staff testing is important to identify positive staff, which in many cases are asymptomatic, to minimize the potential for the virus to enter our homes. We continue to work with the health authorities in other provinces where we operate to introduce similar testing programs. The Federal Government and the provincial governments where we operate have all announced various programs and financial assistance to address the increased costs and other challenges presented

by COVID-19, and we continue to assess our eligibility for and potential of these programs to mitigate the financial impacts of COVID-19. However, the amount and timing of such funding, relative to the additional expenses incurred, has and will continue to cause volatility in our results. In addition, we have taken steps to improve our liquidity in Q2 2020, including securing additional mortgage financings and completing the early renewal and extensions of other mortgages maturing in 2020.

Since the COVID-19 outbreak, our LTC home occupancy has declined from historical levels and dropped below 97% in Ontario in Q2 2020. However, the Ontario government is providing full funding related to occupancy for LTC homes in Ontario for the remainder of the calendar year. Alberta has introduced additional funding for COVID-19 costs, which includes an allocation to address occupancy reductions. We expect similar protocols to be followed in other provinces. Our retirement communities have experienced a decline in occupancy as move-ins and tours have been impacted by COVID-19. In our home health care operations, the cancellation of all elective procedures in acute care hospitals, the adoption of social distancing and self-isolation by clients, restrictions on non-urgent care services and reductions in our workforce capacity, have resulted in a significant drop in our average daily volumes (ADV) and increased the workload of the back-office staff, primarily to manage suspended services and staff scheduling changes due to the impact of COVID-19.

For the six months ended June 30, 2020, we have incurred an estimated \$20.0 million of pandemic-related operating expenses and \$1.2 million in COVID-19 related administrative costs. These costs are partially offset by \$10.2 million in revenue or expense recovery associated with the various provincial government programs, resulting in a reduction of our consolidated net operating income (NOI) and Adjusted EBITDA of approximately \$9.8 million and \$11.0 million, respectively. We have incurred a further estimated \$17.4 million in pandemic pay fully funded by programs announced by the Ontario and Alberta governments to temporarily increase hourly wages for certain eligible front-line employees. We have recorded the pandemic pay in operating expenses and recognized the related offsetting funding for these programs as revenue. In addition, we have purchased an additional \$12.7 million in PPE inventory to ensure that we continue to have sufficient supply to provide the necessary level of protection to our residents, clients and staff, particularly as governments lift restrictions and we resume visitation and move-in activities in our long-term care and retirement residences.

The following table provides a summary of the estimated revenue recognized and the operating and administrative costs incurred related to COVID-19 for the three and six months ended June 30, 2020.

<i>(millions of dollars)</i>	Estimated COVID-19 Revenue, Operating Expenses and Administrative Costs							
	Three months ended June 30, 2020				Six months ended June 30, 2020			
	Long-term Care	Retirement Living	Home Health Care	Total	Long-term Care	Retirement Living	Home Health Care	Total
Revenue	17.6	—	9.6	27.2	18.0	—	9.6	27.6
Operating expenses	26.2	0.5	10.0	36.7	26.9	0.5	10.0	37.4
NOI impact	(8.6)	(0.5)	(0.4)	(9.5)	(8.9)	(0.5)	(0.4)	(9.8)
Administrative costs	—	—	—	1.2	—	—	—	1.2
Adjusted EBITDA impact	(8.6)	(0.5)	(0.4)	(10.7)	(8.9)	(0.5)	(0.4)	(11.0)

We believe that the financial impacts of COVID-19 that we are experiencing will reverse as we emerge from the pandemic. However, due to the uncertainty of its duration and magnitude, as well as the governments' response to it, it is currently not possible to reliably estimate the future impacts to the Company's business, operating results and financial condition. The impacts could be adverse and material.

Financing Activity

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

In April 2020, the Company secured a Canadian Mortgage and Housing Corporation (CMHC) insured mortgage of \$47.8 million, inclusive of fees, on a retirement community. The mortgage matures in June 2030 and has a fixed rate of 2.19% per annum. The previously existing construction loan of \$25.8 million was repaid on closing.

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

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

Ontario Long-Term Care Redevelopment

On July 15, 2020, the Ontario government announced a redesigned construction funding subsidy (CFS) program for long-term care. The program includes a \$1.75 billion investment to redevelop 12,000 beds and add an additional 8,000 beds over the next five years and provides for additional CFS premiums to be added to the existing \$18.03 CFS depending on the size and geography of the LTC home. The program also introduces a new capital development grant of between 10% and 17% of total project costs payable when long-term care operators complete new development or redevelopment projects. This revised program is an important step to address the aging infrastructure within long-term care for which the industry has been advocating for more than a decade. We continue to work closely with our industry partners and the government to finalize the details of the new CFS program and the related approval and licensing processes to expedite our projects that are feasible within this new program. We have recently submitted applications to build over 4,200 beds to replace all of our existing 3,287 C beds and add new LTC beds in keeping with the Ontario government's focus on replacing aging infrastructure and increasing the number of LTC beds in the province.

Ontario Government COVID-19 Long-Term Care Commission

On July 29, 2020, the Ontario government launched an independent commission into COVID-19 and long-term care (the "Ontario LTC Commission"). Led by three commissioners, the Ontario LTC Commission's mandate is to investigate and provide a report of findings and recommendations in respect of how COVID-19 spread within LTC homes, how residents, staff, and families were impacted, and the adequacy of measures taken by the province and other parties to prevent, isolate and contain the virus and the impact of existing physical infrastructure, staffing approaches, labour relations, clinical oversight and other features of the long-term care system. The commissioners are expected to deliver their final report by April 2021.

BUSINESS OVERVIEW

As at June 30, 2020, the Company owned and operated 58 LTC homes and 11 retirement living communities, through its Extencicare and Esprit Lifestyle Communities divisions, respectively, and provided contract services to 53 LTC homes and retirement communities for third parties through Extencicare Assist. In total, Extencicare operated or provided contract services to a network of 122 LTC homes and retirement communities across four provinces in Canada, with capacity for 15,733 residents. The majority of these homes are in Ontario and Alberta, which accounted for approximately 77% and 11% of residents served, respectively.

In addition to providing group purchasing services to the Company's own operations, SGP supports third-party clients representing approximately 75,200 senior residents across Canada, as at June 30, 2020.

With respect to the Company's home health care operations, ParaMed delivered approximately 8.8 million hours of home health care services for the trailing twelve months ended June 30, 2020, excluding the British Columbia (B.C.) operations, from 34 locations across five provinces (29 in Ontario, 2 in Alberta, 1 in Manitoba, 1 in Nova Scotia and 1 in Quebec). As noted in "Significant Events – Impact of COVID-19 Pandemic", business volumes have been significantly impacted in ParaMed. While we are unable to predict with any certainty the extent and duration of these COVID-19 related factors on our volumes, we believe that the impacts we are experiencing will reverse as we emerge from the pandemic.

The Company reports on the following segments: i) long-term care; ii) retirement living; iii) home health care; iv) contract services, consulting and group purchasing as "other operations"; and v) the corporate functions and any intersegment eliminations as "corporate". For financial reporting purposes, the Company's owned and operated homes are reported under the "long-term care" or the "retirement living" operating segment based on the predominant level of care provided. The Company's homes under contract with Extencicare Assist are reported under the "other operations" segment, as the revenue from those operations is earned on a fee-for-service basis.

In June 2020, the Company initiated a wind-up plan to cease operations of the Captive. As a result, the remaining portion of the U.S. segment has been classified as a discontinued operation and is no longer being presented as a separate segment (refer to the discussion under "Discontinued Operations").

The following summarizes the contribution of the business segments to the Company's consolidated revenue and net operating income from total operations, as reported, and from operations excluding the ParaMed B.C. operations for the six months ended June 30, 2020 and 2019.

Six months ended June 30	Total as Reported				Excluding ParaMed B.C. Operations			
	2020		2019		2020		2019	
Operating Segments as % of	Revenue	NOI	Revenue	NOI	Revenue	NOI	Revenue	NOI
Long-term care	61.2 %	58.7 %	56.6 %	55.2 %	61.5 %	58.8 %	59.2 %	54.7 %
Retirement living	4.3 %	14.4 %	3.5 %	8.3 %	4.3 %	14.4 %	3.6 %	8.3 %
Home health care	32.2 %	11.4 %	37.8 %	26.4 %	31.9 %	11.3 %	35.0 %	27.0 %
Other	2.3 %	15.5 %	2.1 %	10.1 %	2.3 %	15.5 %	2.2 %	10.0 %
Total	100.0 %	100.0 %	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 58 LTC homes with capacity for 8,141 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.

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 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 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 expected to be 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 higher accommodation rates that vary according to the structural classification of the LTC home.

Retirement Living

Under the Esprit Lifestyle Communities brand, the Company owns and operates 11 retirement communities with 1,049 suites. Four of these communities (341 suites) are located in Saskatchewan and seven communities (708 suites) are located in Ontario.

The Company's retirement communities provide accommodation and services to private-pay residents at rates set by the Company based on the services provided and market conditions. The monthly fees vary depending on the type of accommodation, level of care and services chosen by the resident and the location of the retirement community. Residents are able to choose the living arrangements best suited to their personal preference and needs, as well as the level of care and support they receive as their needs evolve over time.

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 98% of its revenue from contracts tendered by locally administered provincial agencies, with the remainder coming from private clients.

Other Operations

The Company leverages its size, scale and operational expertise in the senior care industry to provide contract services and consulting to third-parties through other operations, which are composed of its Extencare Assist and SGP divisions.

CONTRACT SERVICES AND CONSULTING

Through its Extencare Assist division, the Company provides a wide range of contract services and consulting to third parties. Extencare Assist partners with not-for-profit and for-profit organizations, hospitals and municipalities seeking to improve their management practices, quality of care practices and operating efficiencies. Extencare Assist provides a broad range of services aimed at meeting the needs of its partners, including: financial administration, record keeping, regulatory compliance and purchasing. In addition, Extencare Assist provides consulting services to third parties for the development and redevelopment of LTC homes. Extencare Assist's contract services portfolio consisted of 53 LTC homes and retirement communities with capacity for 6,543 residents as at June 30, 2020.

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, 2020, SGP provided services to third parties representing approximately 75,200 senior residents 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;

"Occupancy" is measured as the percentage of the number of earned resident days (or the number of occupied suites in the case of a retirement community) relative to the total available resident days. Total available resident days is the number of beds (or suites in the case of a retirement community) available for occupancy multiplied by the number of days in the period;

"Stabilized" is the classification by the Company of an LTC home or retirement community that has achieved and sustained its expected stabilized occupancy level for three consecutive months, which level varies from project to project;

"Lease-up" is any LTC home or retirement community not classified as stabilized;

"Non same-store" or "NSS" generally refers to those homes, communities or businesses that were not continuously operated by the Company since the beginning of the previous fiscal year or have been classified as held for sale; and

"Same-store" or "SS" generally refers to those homes, communities or businesses that were continuously operated by the Company since the beginning of the previous fiscal year, and which are not classified as held for sale.

Long-term Care

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

Long-term Care Homes Average Occupancy (%)	2020		2019				2018	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Total LTC	93.5 %	97.0 %	97.8 %	97.9 %	97.5 %	96.9 %	97.6 %	97.8 %
Change over prior year period	(400) bps	10 bps	20 bps	10 bps	30 bps	50 bps		
Sequential quarterly change	(350) bps	(80) bps	(10) bps	40 bps	60 bps	(70) bps		
Ontario LTC								
Total ON LTC	92.9 %	97.6 %	98.2 %	98.5 %	98.2 %	97.5 %	98.2 %	98.3 %
Preferred Accommodation ⁽¹⁾								
"New" homes – private	91.7 %	95.4 %	95.8 %	95.9 %	96.3 %	95.1 %	96.6 %	97.6 %
"C" homes – private	89.5 %	92.8 %	93.1 %	94.2 %	93.8 %	96.2 %	97.6 %	97.8 %
"C" homes – semi-private	63.5 %	66.3 %	66.7 %	66.5 %	65.6 %	65.3 %	66.1 %	66.5 %

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

The average occupancy at the Company's LTC homes was 93.5% for Q2 2020, down 400 bps from Q2 2019 and by 350 bps from Q1 2020. In terms of the quarterly trends throughout the year, slightly lower occupancy levels are to be expected during the winter months as a result of seasonal influenza outbreaks, which can lead to a temporary freeze on admissions. However, occupancy levels for 2020, and in particular Q2 2020, have been significantly impacted by COVID-19.

In Ontario, overall government funding is occupancy-based, but once the average occupancy level of 97% or higher for the calendar year is achieved, operators receive government funding based on 100% occupancy. In the event of closure to admissions related to an outbreak, full funding is preserved in Ontario. However, in response to COVID-19, the Ontario government is providing full funding for all LTC homes the remainder of the year. Alberta has introduced additional funding for COVID-19 costs, which include an allocation to address occupancy reductions. We expect similar protocols to be followed in other provinces. In 2019, the Company's LTC homes in Ontario achieved an overall average occupancy of 98.1%, with all but one home achieving the 97% occupancy threshold.

Retirement Living

The following table summarizes the composition of the Company's 11 retirement communities in operation as at June 30, 2020. The Barrievue opened in October 2019 and is classified as non same-store and in lease-up. Bolton Mills, which opened at the beginning of 2019, and West Park Crossing remain classified as lease-up.

Retirement Communities	Location	Total	Stabilized	Lease-up	Same Store	Non-Same Store
Cedar Crossing	Simcoe, ON	68	68		68	
Douglas Crossing	Uxbridge, ON	148	148		148	
Empire Crossing	Port Hope, ON	63	63		63	
Harvest Crossing	Tillsonburg, ON	100	100		100	
Riverbend Crossing	Regina, SK	67	67		67	
Stonebridge Crossing	Saskatoon, SK	116	116		116	
Yorkton Crossing	Yorkton, SK	79	79		79	
Lynde Creek Manor	Whitby, ON	93	93		93	
West Park Crossing	Moose Jaw, SK	79		79	79	
The Barrievue	Barrie, ON	124		124		124
Bolton Mills	Bolton, ON	112		112	112	
Total suites		1,049	734	315	925	124
Total communities		11	8	3	10	1

AS AT OCCUPANCY

The following table provides the period end occupancy of the retirement communities in total and for each of the stabilized, lease-up, same-store and non same-store groupings for the past eight quarters, with the prior period information for such groupings restated based on the classifications as at June 30, 2020.

Sequential occupancy declines in stabilized retirement communities are generally to be expected during the winter months; however, this year, occupancy levels were further impacted by COVID-19, which has temporarily restricted move-ins and tours of prospective residents since March 2020. As a result, stabilized occupancy of 91.3% as at June 30, 2020, was down 150 bps from March 31, 2020, and down 120 bps from June 30, 2019. We believe occupancy levels have been and will continue to be impacted temporarily by COVID-19. We have commenced in-person tours for prospective residents in our retirement communities in Ontario and continue to conduct virtual tours in our Saskatchewan communities pending the government's decision to enable in-person tours. Subsequent to June 30, 2020, we have experienced a 50 bps improvement in stabilized occupancy to 91.8% as at July 31, 2020.

Total occupancy levels of 84.1% as at June 30, 2020, represents a slight improvement of 30 bps from June 30, 2019, reflecting the lease-up of Bolton Mills, Douglas Crossing, Yorkton Crossing and West Park Crossing, partially offset by the negative impact of COVID-19 experienced in Q2 2020.

Other factors impacting the trends over the past eight quarters were the completion in November 2018 of the 45-suite addition at Douglas Crossing that resulted in a sequential decline in total and stabilized occupancy levels at the end of 2018; the opening at the beginning of 2019 of Bolton Mills (112 suites) that resulted in a sequential decline in total and lease-up occupancy levels at the end of Q1 2019; and the opening of The Barrievue (124 suites) in October 2019 that resulted in a sequential decline in total occupancy at the end of Q4 2019.

Retirement Communities	2020		2019				2018	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
As at Occupancy (%)								
Total communities	84.1 %	86.0 %	85.6 %	86.6 %	83.8 %	80.9 %	88.6 %	89.5 %
Change over prior year period	30 bps	510 bps	(300) bps	(290) bps	(220) bps	10 bps		
Sequential quarterly change	(190) bps	40 bps	(100) bps	280 bps	290 bps	(770) bps		
Stabilized communities	91.3 %	92.8 %	95.1 %	94.1 %	92.5 %	91.0 %	89.8 %	91.6 %
Change over prior year period	(120) bps	180 bps	530 bps	250 bps	380 bps	780 bps		
Sequential quarterly change	(150) bps	(230) bps	100 bps	160 bps	150 bps	120 bps		
Lease-up communities	67.3 %	70.2 %	63.5 %	57.6 %	50.3 %	41.9 %	77.2 %	70.9 %
SS communities	84.1 %	86.2 %	88.0 %	86.6 %	83.8 %	80.9 %	88.6 %	89.5 %
NSS communities	83.9 %	84.7 %	67.7 %	— %	— %	— %	— %	— %

AVERAGE OCCUPANCY

The following table provides the average occupancy of the retirement communities in total and for each of the same-store, non same-store, stabilized and lease-up groupings for the past eight quarters, with the prior period information for such groupings restated based on the classifications as at June 30, 2020. The same factors discussed above under "As at Occupancy" contributed to the variances in average occupancy.

Retirement Communities	2020		2019				2018	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Average Occupancy (%)								
Total communities	84.4 %	85.7 %	81.7 %	85.5 %	82.0 %	79.3 %	88.4 %	87.9 %
Change over prior year period	240 bps	640 bps	(670) bps	(240) bps	(240) bps	(110) bps		
Sequential quarterly change	(130) bps	400 bps	(380) bps	350 bps	270 bps	(910) bps		
Stabilized communities	91.5 %	93.5 %	94.9 %	94.0 %	91.4 %	90.7 %	89.8 %	90.1 %
Change over prior year period	10 bps	280 bps	510 bps	390 bps	430 bps	810 bps		
Sequential quarterly change	(200) bps	(140) bps	90 bps	260 bps	70 bps	90 bps		
Lease-up communities	67.9 %	67.5 %	50.7 %	52.7 %	45.8 %	35.7 %	76.1 %	69.0 %
SS communities	84.5 %	86.7 %	87.0 %	85.5 %	82.0 %	79.3 %		
NSS communities	84.0 %	77.9 %	41.0 %	— %	— %	— %		

Home Health Care

PARAMED TRANSFORMATION

In 2017, we initiated a \$12.0 million project to transform ParaMed's business (the "ParaMed Transformation"), which includes the implementation of a new cloud-based system to optimize scheduling and automate work processes, in an effort to increase workforce capacity, reduce staff turnover and in turn improve business volumes.

To date we have incurred \$11.6 million of the estimated project costs and have converted 95% of ParaMed's business volumes onto the new cloud-based platform. For the six months ended June 30, 2020, project costs impacted Adjusted EBITDA by \$0.8 million (\$0.8 million at the NOI level), all of which was incurred in Q1 2020. As a result of COVID-19, we have deferred the roll-out of the new platform in Alberta (which represents 5% of ParaMed's business volumes) until business conditions are optimal to complete the work.

PARAMED B.C. CONTRACT EXPIRATION

As previously announced, ParaMed ceased providing services to the B.C. health authorities at the end of January 2020 (the "ParaMed B.C. Contract Expiration"). In connection with the expiration of the contracts, the Company recorded a charge of \$1.4 million in Q1 2019, primarily for facilities related costs.

For the six months ended June 30, 2020, ParaMed's B.C. operations contributed revenue of \$3.0 million and net operating income of less than \$0.1 million, all of which was earned in Q1 2020. For the comparative periods of 2019, ParaMed's B.C. operations contributed revenue of \$12.6 million and a net operating loss of \$0.3 million for Q1 2019, and revenue of \$24.2 million and a net operating loss of \$0.5 million for the six months ended June 30, 2019. For the 2019 year, the B.C. operations represented approximately 12% of ParaMed's annual business volumes, generated \$50.7 million of revenue, incurred a net operating loss of \$0.3 million, and incurred lease costs of approximately \$0.4 million.

AVERAGE DAILY VOLUME

The table set out below provides the service volumes and ADV of the Home Health Care operations, including and excluding volumes related to the B.C. operations, for the past eight quarters.

ParaMed's ADV has declined significantly due to the impact of COVID-19. As reported, overall ADV declined by 30.3% in Q2 2020 as compared to the same prior year period, and sequentially declined by 20.0% as compared to Q1 2020. Excluding the impact of B.C., ParaMed's ADV declined by 20.7% in Q2 2020 as compared to Q2 2019, and sequentially declined by 17.4% as compared to Q1 2020.

Since late May 2020, we have experienced a steady improvement in ParaMed's business volumes, with ADV for the four weeks ending August 9, 2020 increasing to 22,422, up 10.0% from the ADV for Q2 2020. While we are unable to predict the extent or the duration of COVID-19 on the home health care operations, we believe that the negative impact on ADV will continue to reverse as we emerge from the pandemic, particularly as elective health care services resume, the CERB program winds down and staff return to work (refer to the discussion under "Significant Events – Impact of COVID-19 Pandemic").

Subsequent to quarter end, our home health care subsidiary, ParaMed Inc., applied for and received a payment of \$21.0 million under the Canada Emergency Wage Subsidy (CEWS) program in respect of the initial two claims periods of the program. CEWS is a Federal Government program designed to help Canadian employers that have experienced revenue declines to re-hire workers previously laid off as a result of COVID-19, help prevent further job losses and better position to resume normal operations following the crisis. Despite the significant declines in home health care revenue experienced since the onset of the COVID-19 pandemic, we have sought to maintain our front-line and back office staffing levels to ensure we are able to respond quickly to increases in demand for home health care services and resume operating at normalized levels as the pandemic recedes. The subsidy amount will be recorded in Q3 2020 as a reduction in operating expenses of the home health care segment and we anticipate applying for additional funding in the coming weeks.

Home Health Care Service Volumes	2020		2019				2018	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Total Operations								
Hours of service (000's)	1,854.6	2,319.5	2,661.2	2,652.7	2,660.4	2,595.3	2,750.0	2,708.6
ADV	20,380	25,489	28,926	28,834	29,235	28,837	29,891	29,441
Change over prior year period	(30.3)%	(11.6)%	(3.2)%	(2.1)%	(2.7)%	(4.1)%		
Sequential quarterly change	(20.0)%	(11.9)%	0.3 %	(1.4)%	1.4 %	(3.5)%		
Excluding B.C.								
Hours of service (000's)	1,854.6	2,246.1	2,329.2	2,322.6	2,340.0	2,291.9	2,441.6	2,402.0
ADV	20,380	24,682	25,317	25,246	25,714	25,466	26,539	26,109
Change over prior year period	(20.7)%	(3.1)%	(4.6)%	(3.3)%	(3.7)%	(4.8)%		
Sequential quarterly change	(17.4)%	(2.5)%	0.3 %	(1.8)%	1.0 %	(4.0)%		

Other Operations

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, 2020, Extendicare Assist was providing contract services to third-parties representing 53 LTC homes and retirement communities with capacity for 6,543 senior residents. SGP continues to grow its market share, increasing its third-party residents served by 28.1% at June 30, 2020, over June 30, 2019, and by 3.1% since March 31, 2020.

Other Operations	2020		2019				2018	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Extendicare Assist Contract Services								
Homes at period end	53	53	53	53	53	54	53	53
Resident capacity	6,543	6,601	6,601	6,601	6,601	6,661	6,497	6,632
Change over prior year period	(0.9)%	(0.9)%	1.6 %	(0.5)%	(0.5)%	0.4 %		
Sequential quarterly change	(0.9)%	— %	— %	— %	(0.9)%	2.5 %		
SGP Clients								
Third-party senior residents	75,165	72,886	64,762	64,261	58,673	57,050	51,071	50,961
Change over prior year period	28.1 %	27.8 %	26.8 %	26.1 %	16.6 %	24.8 %		
Sequential quarterly change	3.1 %	12.5 %	0.8 %	9.5 %	2.8 %	11.7 %		

SELECT QUARTERLY FINANCIAL INFORMATION

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

<i>(thousands of dollars unless otherwise noted)</i>	2020		2019				2018	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Revenue	281,947	271,818	290,895	282,733	284,053	274,269	288,516	280,264
Net operating income	19,934	30,383	32,877	34,867	35,320	30,386	32,586	35,454
<i>NOI margin</i>	7.1%	11.2%	11.3%	12.3%	12.4%	11.1%	11.3%	12.7%
Adjusted EBITDA	8,167	20,131	23,527	23,846	25,152	19,774	22,600	24,636
<i>Adjusted EBITDA margin</i>	2.9%	7.4%	8.1%	8.4%	8.9%	7.2%	7.8%	8.8%
Earnings (loss) from continuing operations	(8,889)	1,237	4,467	5,353	4,966	13	(8,301)	7,497
per basic and diluted share (\$)	(0.10)	0.01	0.05	0.06	0.06	—	(0.09)	0.08
Earnings from discontinued operations	5,230	4,669	5,621	1,906	3,359	2,945	14,808	1,076
Net earnings	(3,659)	5,906	10,088	7,259	8,325	2,958	6,507	8,573
per basic and diluted share (\$)	(0.04)	0.07	0.11	0.08	0.10	0.03	0.07	0.10
AFFO	2,946	11,630	11,365	13,693	14,927	12,615	12,570	13,379
per basic share (\$)	0.033	0.130	0.127	0.153	0.168	0.142	0.142	0.151
Maintenance Capex	2,157	1,755	6,028	3,056	2,312	916	4,202	3,639
Cash dividends declared	10,743	10,731	10,701	10,680	10,657	10,634	10,612	10,591
per share (\$)	0.120	0.120	0.120	0.120	0.120	0.120	0.120	0.120
Weighted Average Number of Shares								
Basic	89,826	89,644	89,467	89,253	89,039	88,825	88,612	88,412
Diluted	100,177	100,023	99,850	99,614	99,415	99,186	98,962	98,788

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

<i>(thousands of dollars)</i>	2020		2019				2018	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Earnings (loss) from continuing operations before income taxes	(11,907)	1,603	6,452	7,594	7,169	769	(11,573)	10,034
Add (Deduct):								
Depreciation and amortization	9,685	9,853	10,597	9,861	9,705	9,427	10,184	9,014
Net finance costs	7,609	8,675	6,478	6,391	7,303	8,149	7,347	5,588
Other expense	2,780	—	—	—	975	1,429	16,642	—
Adjusted EBITDA	8,167	20,131	23,527	23,846	25,152	19,774	22,600	24,636
Administrative costs	11,767	10,252	9,350	11,021	10,168	10,612	9,986	10,818
Net operating income	19,934	30,383	32,877	34,867	35,320	30,386	32,586	35,454

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. In respect of 2020, COVID-19 has impacted the Company’s quarterly results from continuing operations (refer to “Significant Events – Impact of COVID-19 Pandemic”). 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 the 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 accommodation funding increases effective July 1st, and Alberta long-term care providers generally receive annual inflationary rate increases and acuity-based funding adjustments on April 1st and accommodation funding increases effective July 1st;
- maintenance capex spending, which impacts 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 “foreign exchange and fair value adjustments”.

STATEMENT OF EARNINGS (LOSS)

The following provides the consolidated statement of earnings (loss) for the periods ended June 30, 2020 and 2019.

<i>(thousands of dollars unless otherwise noted)</i>	Three months ended June 30			Six months ended June 30		
	2020	2019	Change	2020	2019	Change
Revenue	281,947	284,053	(2,106)	553,765	558,322	(4,557)
Operating expenses	262,013	248,733	13,280	503,448	492,616	10,832
Net operating income	19,934	35,320	(15,386)	50,317	65,706	(15,389)
Administrative costs	11,767	10,168	1,599	22,019	20,780	1,239
Adjusted EBITDA	8,167	25,152	(16,985)	28,298	44,926	(16,628)
Depreciation and amortization	9,685	9,705	(20)	19,538	19,132	406
Other expense	2,780	975	1,805	2,780	2,404	376
Earnings (loss) before net finance costs and income	(4,298)	14,472	(18,770)	5,980	23,390	(17,410)
Interest expense (net of capitalized interest)	7,187	7,030	157	14,228	13,912	316
Interest revenue	(620)	(901)	281	(1,550)	(1,765)	215
Accretion	307	293	14	611	595	16
Foreign exchange and fair value adjustments	735	881	(146)	2,995	2,710	285
Net finance costs	7,609	7,303	306	16,284	15,452	832
Earnings (loss) from continuing operations before income taxes	(11,907)	7,169	(19,076)	(10,304)	7,938	(18,242)
Income tax expense (recovery)						
Current	(1,848)	3,029	(4,877)	225	4,553	(4,328)
Deferred	(1,170)	(826)	(344)	(2,877)	(1,594)	(1,283)
Total income tax expense (recovery)	(3,018)	2,203	(5,221)	(2,652)	2,959	(5,611)
Earnings (loss) from continuing operations	(8,889)	4,966	(13,855)	(7,652)	4,979	(12,631)
Earnings from discontinued operations	5,230	3,359	1,871	9,899	6,304	3,595
Net earnings (loss)	(3,659)	8,325	(11,984)	2,247	11,283	(9,036)
Earnings (loss) from continuing operations	(8,889)	4,966	(13,855)	(7,652)	4,979	(12,631)
Add (Deduct)⁽¹⁾:						
Foreign exchange and fair value adjustments	574	696	(122)	2,063	2,157	(94)
Other expense	2,029	717	1,312	2,029	2,070	(41)
Earnings (loss) from continuing operations before separately reported items, net of taxes	(6,286)	6,379	(12,665)	(3,560)	9,206	(12,766)

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

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

<i>(thousands of dollars)</i>	Three months ended June 30			Six months ended June 30		
	2020	2019	Change	2020	2019	Change
Earnings (loss) from continuing operations before income taxes	(11,907)	7,169	(19,076)	(10,304)	7,938	(18,242)
Add (Deduct):						
Depreciation and amortization	9,685	9,705	(20)	19,538	19,132	406
Net finance costs (income)	7,609	7,303	306	16,284	15,452	832
Other expense	2,780	975	1,805	2,780	2,404	376
Adjusted EBITDA	8,167	25,152	(16,985)	28,298	44,926	(16,628)
Administrative costs	11,767	10,168	1,599	22,019	20,780	1,239
Net operating income	19,934	35,320	(15,386)	50,317	65,706	(15,389)

2020 SECOND QUARTER FINANCIAL REVIEW

The following is an analysis of the consolidated results from operations for Q2 2020, as compared to Q2 2019. Refer to the discussion that follows under “Summary of Results of Operations by Segment” for an analysis of the revenue and net operating income by operating segment.

Revenue

Revenue of \$281.9 million for Q2 2020 declined by \$2.1 million or 0.7% from Q2 2019. Excluding the year-over-year decline in revenue from the ParaMed B.C. operations (\$12.6 million) and the incremental funding related to Bill 148 recorded (\$2.2 million) in Q2 2019, revenue increased by \$12.7 million or 4.7% to \$281.9 million in Q2 2020 from \$269.2 million in the same prior year period. This increase in revenue was driven primarily by funding related to COVID-19 (\$27.2 million), LTC funding enhancements, expansion of the retirement living operations and growth in other operations, partially offset by a decline in home health care volumes.

Operating Expenses

Operating expenses of \$262.0 million for Q2 2020 increased by \$13.3 million or 5.3% from Q2 2019. Excluding the year-over-year decline in operating expenses from the ParaMed B.C. operations (\$12.9 million) from Q2 2019, operating expenses increased by \$26.2 million or 11.1% in Q2 2020 from \$235.8 million in the same prior year period. The increase in operating expenses was driven by increased estimated costs related to COVID-19 and pandemic pay programs (\$36.7 million), higher costs of resident care, increased back-office costs in home health care operations and expansion of the retirement living operations, partially offset by the impact of lower home health care volumes.

Net Operating Income

Net operating income declined by \$15.4 million to \$19.9 million for Q2 2020 as compared to \$35.3 million for Q2 2019 and represented 7.1% of revenue as compared to 12.4% for Q2 2019. Excluding the loss from the ParaMed B.C. operations (\$0.3 million) and incremental funding related to Bill 148 (\$2.2 million) included in Q2 2019, net operating income declined by \$13.5 million in Q2 2020 from \$33.4 million in the same prior year period, reflecting the impact of the estimated costs of COVID-19 in excess of funding (\$9.5 million) and lower volumes and increased back office costs in the home health care operations, partially offset by funding enhancements, timing of spending under the Ontario flow-through envelopes, and growth in the retirement living and other operations segments.

Administrative Costs

Administrative costs increased by \$1.6 million or 15.7% to \$11.8 million for Q2 2020. Excluding the impact of the ParaMed Transformation costs of \$1.0 million in Q2 2019, administrative costs increased by \$2.6 million for Q2 2020, primarily due to administrative costs related to COVID-19 of \$1.2 million and higher labour costs associated with increased management and support staff of key back office functions.

Adjusted EBITDA

Adjusted EBITDA declined by \$17.0 million to \$8.2 million for Q2 2020 as compared to \$25.2 million for Q2 2019, and represented 2.9% of revenue as compared to 8.9%, respectively, reflecting the decline in net operating income and increased administrative costs, as discussed above.

Depreciation and Amortization

Depreciation and amortization costs were unchanged at \$9.7 million for Q2 2020.

Other Expense

Other expense of \$2.8 million in Q2 2020 related to an impairment charge in respect of certain of the Company’s retirement communities in Saskatchewan. Other expense of \$1.0 million in Q2 2019 related to costs in connection with a representation and standstill agreement (the “Sandpiper Agreement”) entered into with the Sandpiper group.

Net Finance Costs

Net finance costs increased by \$0.3 million for Q2 2020, primarily due to an increase in net interest costs of \$0.4 million, partially offset by a net favourable change in foreign exchange and fair value adjustments related to the Company’s interest rate swaps. Net interest costs were negatively impacted by a reduction in the amount of capitalized interest of \$0.2 million.

Income Taxes

The income tax provision was a recovery of \$3.0 million for Q2 2020, representing an effective tax rate of 25.3%, as compared to a provision of \$2.2 million and an effective tax rate of 30.7% for Q2 2019. Tax rates were impacted by, among other things, the tax impact of foreign exchange and fair value adjustments and the “other expense” items noted above. Excluding the impact of these separately reported items, the effective tax rate was 25.1% for Q2 2020 as compared to 29.3% for Q2 2019, reflecting the impact of the Company’s taxable loss position this period as compared to its taxable income in the same prior period.

Earnings (Loss) from Continuing Operations

The Company reported a loss from continuing operations of \$8.9 million (\$0.10 loss per basic share) for Q2 2020 as compared to earnings of \$5.0 million (\$0.06 per basic share) for Q2 2019, largely driven by COVID-19 costs in excess of funding (estimated \$7.8 million after tax, or \$0.09 per basic share), the decline in net operating income from the home health care operations, increased administrative costs, and the increase in other expense due to the impairment charge taken in Q2 2020.

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.

Three months ended June 30 <i>(thousands of dollars unless otherwise noted)</i>	Long-term Care	Retirement Living	Home Health Care	Other Operations	Total
2020					
Revenue	178,471	11,737	85,467	6,272	281,947
Operating expenses	167,360	8,221	84,048	2,384	262,013
Net operating income	11,111	3,516	1,419	3,888	19,934
<i>NOI margin %</i>	6.2 %	30.0 %	1.7 %	62.0 %	7.1 %
2019					
Revenue	159,936	10,006	108,217	5,894	284,053
Operating expenses	140,506	7,089	98,443	2,695	248,733
Net operating income	19,430	2,917	9,774	3,199	35,320
<i>NOI margin %</i>	12.1 %	29.2 %	9.0 %	54.3 %	12.4 %
Change					
Revenue	18,535	1,731	(22,750)	378	(2,106)
Operating expenses	26,854	1,132	(14,395)	(311)	13,280
Net operating income	(8,319)	599	(8,355)	689	(15,386)

LONG-TERM CARE OPERATIONS

Revenue from long-term care operations grew by \$18.5 million or 11.6% to \$178.5 million for Q2 2020, largely driven by funding of \$17.6 million to support the costs associated with COVID-19 and pandemic pay programs, with the balance primarily due to increases in the Ontario flow-through funding envelopes which are offset by increased operating expenses associated with resident care.

Net operating income from the long-term care operations was \$11.1 million for Q2 2020 as compared to \$19.4 million for Q2 2019, a decrease of \$8.3 million, with NOI margins of 6.2% and 12.1%, respectively. Operating expenses included increased costs associated with COVID-19 and pandemic pay programs, estimated at \$26.2 million and \$8.6 million in excess of COVID-19 related funding of \$17.6 million (refer to “Significant Events – Impact of COVID-19 Pandemic”) which were offset with improvements to net operating income due to the timing of spending under the Ontario flow-through envelopes.

RETIREMENT LIVING OPERATIONS

The following table summarizes the breakdown of the same-store and non same-store operating results of the retirement living operations.

Three months ended June 30 <i>(thousands of dollars unless otherwise noted)</i>					Retirement Living	
	Same-store		Non same-store		Total	
2020						
Revenue	10,272		1,465		11,737	
Operating expenses	7,314		907		8,221	
Net operating income / margin %	2,958	28.8 %	558	38.1 %	3,516	30.0 %
<i>Average occupancy / weighted average available suites</i>	84.5 %	925	84.0 %	124	84.4 %	1,049
2019						
Revenue	10,006		—		10,006	
Operating expenses	6,999		90		7,089	
Net operating income / margin %	3,007	30.1 %	(90)	— %	2,917	29.2 %
<i>Average occupancy / weighted average available suites</i>	82.0 %	925	— %	—	82.0 %	925
Change						
Revenue	266		1,465		1,731	
Operating expenses	315		817		1,132	
Net operating income	(49)		648		599	

Revenue from retirement living operations grew by \$1.7 million or 17.3% to \$11.7 million for Q2 2020, primarily attributable to the contribution from non same-store operations of \$1.5 million, related to the opening of The Barrievue in October 2019. The balance of \$0.3 million was due to organic growth from same-store operations, primarily due to lease-up activity, partially offset by the impact of COVID-19 on occupancy levels of the stabilized communities.

Net operating income from the retirement living operations was \$3.5 million for Q2 2020 as compared to \$2.9 million for Q2 2019, an increase of \$0.6 million or 20.5%, reflecting a contribution from The Barrievue. Net operating income from same-store operations was flat, with growth in occupancy to 84.5% from 82.0%, partially offset by the impact on occupancy levels of the pandemic on stabilized communities and the increased estimated operating expenses related to COVID-19 of \$0.5 million in Q2 2020.

HOME HEALTH CARE OPERATIONS

The following discussion of the home health care operations excludes the following items that impacted Q2 2019: the B.C. operations, which contributed revenue of \$12.6 million and a net operating loss of \$0.3 million, and incremental funding of \$2.2 million related to Bill 148.

Revenue from the home health care operations declined by \$7.9 million to \$85.5 million for Q2 2020 from \$93.4 million for Q2 2019, primarily due to a decline in ADV of 20.7% due to COVID-19, partially offset by funding to support costs of COVID-19 (\$9.6 million) recognized in Q2 2020.

Net operating income from the home health care operations was \$1.4 million for Q2 2020 as compared to \$7.9 million for Q2 2019, a decrease of \$6.5 million, with NOI margins of 1.7% and 8.4%, respectively. The decline in net operating income is largely attributable to lower business volumes, continued higher back office costs and the costs associated with COVID-19 and pandemic pay in excess of funding of an estimated \$0.4 million in Q2 2020, (refer to the discussion under “Significant Events – Impact of COVID-19 Pandemic”).

OTHER OPERATIONS

Revenue from other operations increased by \$0.4 million or 6.4% to \$6.3 million in Q2 2020 compared to Q2 2019, largely due to the increase in group purchasing clients.

Net operating income from other operations increased by \$0.7 million or 21.5% to \$3.9 million for Q2 2020 compared to Q2 2019, due to revenue growth from an increase in clients and lower operating expenses related to reduced travel and business promotion, partially offset by increased staff to support the growth in operations.

2020 SIX MONTH FINANCIAL REVIEW

The following is an analysis of the consolidated results from operations for the six months ended June 30, 2020, as compared to the same period in 2019. Refer to the discussion that follows under “Summary of Results of Operations by Segment” for an analysis of the revenue and net operating income by operating segment, including the components of non same-store revenue and net operating income.

Revenue

Revenue of \$553.8 million for the six months ended June 30, 2020, declined by \$4.6 million or 0.8% from the six months ended June 30, 2019. Excluding the year-over-year decline in revenue from the ParaMed B.C. operations (\$21.2 million) and the incremental funding related to Bill 148 recorded in Q2 2019 (\$2.2 million), revenue increased by \$18.8 million or 3.5% to \$550.8 million this period from \$532.0 million in the same prior year period. This increase in revenue was driven primarily by funding related to COVID-19 (\$27.6 million), LTC funding enhancements, expansion of the retirement living operations growth in other operations and the impact of the leap day in Q1 2020, offset by a decline in home health care volumes.

Operating Expenses

Operating expenses increased by \$10.8 million or 2.2% to \$503.4 million for the six months ended June 30, 2020 compared to the six months ended June 30, 2019. Excluding the year-over-year decline in operating expenses from the ParaMed B.C. operations (\$21.8 million) and ParaMed Transformation costs (\$0.5 million), operating expenses increased by \$32.6 million or 7.0% to \$500.5 million this period from \$467.9 million in the same prior year period. The increase in operating expenses was driven by increased estimated costs related to COVID-19 and pandemic pay programs (\$37.4 million), higher costs of resident care, increased back-office costs in the home health care operations, expansion of the retirement living operations and the impact of the leap day in Q1 2020, offset by the impact of lower home health care volumes.

Net Operating Income

Net operating income declined by \$15.4 million to \$50.3 million for the six months ended June 30, 2020, and represented 9.1% of revenue as compared to 11.8% for the six months ended June 30, 2019. Excluding the year-over-year impact of the incremental funding related to Bill 148 (\$2.2 million) received in 2019, partially offset by the favourable impact of the ParaMed B.C. operations (\$0.6 million), net operating income declined by \$13.8 million to \$50.3 million this period from \$64.1 million in the same prior year period. The decrease in net operating income reflects the impact of the estimated costs of COVID-19 in excess of funding (\$9.8 million) and lower volumes and increased back office costs in the home health care operations, partially offset by long-term care funding enhancements, timing of spending under the Ontario flow-through envelopes, growth in the retirement living and other operations segments, and the impact of the leap day in Q1 2020.

Administrative Costs

Administrative costs declined by \$1.2 million or 6.0% to \$22.0 million for the six months ended June 30, 2020. Excluding the impact of the ParaMed Transformation costs of \$2.0 million, administrative costs increased by \$3.2 million this period, primarily due to administrative costs related to COVID-19 of \$1.2 million and higher labour costs associated with increased management and support staff of key back office functions.

Adjusted EBITDA

Adjusted EBITDA declined by \$16.6 million to \$28.3 million for the six months ended June 30, 2020, as compared to \$44.9 million for the six months ended June 30, 2019, and represented 5.1% of revenue as compared to 8.0%, respectively, reflecting the decline in net operating income and increased administrative costs, as discussed above.

Depreciation and Amortization

Depreciation and amortization costs increased by \$0.4 million to \$19.5 million for the six months ended June 30, 2020, due to higher capital expenditures in prior periods and the impact of the opening of The Barrierview retirement community in October 2019.

Other Expense

Other expense of \$2.8 million recorded in the six months ended June 30, 2020, related to an impairment charge in respect of certain of the Company’s retirement communities in Saskatchewan. Other expense of \$2.4 million recorded in the six months ended June 30, 2019, related to costs associated with the ParaMed B.C. Contract Expiration and the Sandpiper Agreement.

Net Finance Costs

Net finance costs increased by \$0.8 million for the six months ended June 30, 2020, primarily due to an increase in net interest costs of \$0.5 million and a net unfavourable change in foreign exchange and fair value adjustments related to the Company's interest rate swaps. Net interest costs were negatively impacted by a reduction in the amount of capitalized interest of \$0.5 million.

Income Taxes

The income tax provision was a recovery of \$2.7 million for the six months ended June 30, 2020, representing an effective tax rate of 25.7%, as compared to a provision of \$3.0 million and an effective tax rate of 37.3% for the six months ended June 30, 2019. Tax rates were impacted by, among other things, the tax impact of foreign exchange and fair value adjustments and the "other expense" items, as noted above. Excluding the impact of these separately reported items, the effective tax rate was 21.4% for the six months ended June 30, 2020, as compared to 29.5% for the six months ended June 30, 2019, reflecting the impact of the Company's taxable loss position this period as compared to its taxable income in the same prior period.

Earnings (Loss) from Continuing Operations

The Company reported a loss from continuing operations of \$7.7 million (\$0.09 loss per basic share) for the six months ended June 30, 2020, as compared to earnings of \$5.0 million (\$0.06 per basic share) for the six months ended June 30, 2019, largely driven by COVID-19 costs in excess of funding (estimated \$8.1 million after tax, or \$0.09 per basic share), the decline in net operating income of the home health care operations and increased administrative 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.

Six months ended June 30 <i>(thousands of dollars unless otherwise noted)</i>	Long-term Care	Retirement Living	Home Health Care	Other Operations	Total
2020					
Revenue	338,711	23,776	178,567	12,711	553,765
Operating expenses	309,164	16,551	172,831	4,902	503,448
Net operating income	29,547	7,225	5,736	7,809	50,317
<i>NOI margin %</i>	8.7 %	30.4 %	3.2 %	61.4 %	9.1 %
2019					
Revenue	316,157	19,514	210,882	11,769	558,322
Operating expenses	279,889	14,018	193,555	5,154	492,616
Net operating income	36,268	5,496	17,327	6,615	65,706
<i>NOI margin %</i>	11.5 %	28.2 %	8.2 %	56.2 %	11.8 %
Change					
Revenue	22,554	4,262	(32,315)	942	(4,557)
Operating expenses	29,275	2,533	(20,724)	(252)	10,832
Net operating income	(6,721)	1,729	(11,591)	1,194	(15,389)

LONG-TERM CARE OPERATIONS

Revenue from long-term care operations grew by \$22.6 million or 7.1% to \$338.7 million for the six months ended June 30, 2020, largely driven by \$18.0 million related to funding to support the costs associated with COVID-19 and pandemic pay programs, approximately \$3.1 million from increases in the Ontario flow-through funding envelopes which are offset by increased operating expenses associated with resident care, and other funding enhancements, including incremental funding of \$0.8 million in certain provinces for the leap day in Q1 2020.

Net operating income from the long-term care operations was \$29.5 million for the six months ended June 30, 2020, as compared to \$36.3 million for the six months ended June 30, 2019, a decrease of \$6.7 million or 18.5%, with NOI margins of 8.7% and 11.5%, respectively. Operating expenses included increased costs associated with COVID-19 and pandemic pay programs, estimated at \$26.9 million and \$8.9 million in excess of COVID-19 related funding of \$18.0 million (refer to "Significant Events – Impact of COVID-19 Pandemic"). This was partially offset by funding enhancements, timing of spending under the Ontario flow-through envelopes and the leap day in Q1 2020.

RETIREMENT LIVING OPERATIONS

The following table summarizes the breakdown of the same-store and non same-store operating results of the retirement living operations.

Six months ended June 30 <i>(thousands of dollars unless otherwise noted)</i>	Retirement Living					
	Same-store	Non same-store	Total			
2020						
Revenue	20,954	2,822	23,776			
Operating expenses	14,753	1,798	16,551			
Net operating income / margin %	6,201	29.6 %	1,024	36.3 %	7,225	30.4 %
Average occupancy / weighted average available suites	85.6 %	925	81.0 %	124	85.0 %	1,049
2019						
Revenue	19,514	—	19,514			
Operating expenses	13,838	180	14,018			
Net operating income / margin %	5,676	29.1 %	(180)	— %	5,496	28.2 %
Average occupancy / weighted average available suites	80.7 %	925	— %	—	80.7 %	925
Change						
Revenue	1,440	2,822	4,262			
Operating expenses	915	1,618	2,533			
Net operating income	525	1,204	1,729	— %		

Revenue from retirement living operations grew by \$4.3 million or 21.8% to \$23.8 million for the six months ended June 30, 2020, of which non same-store operations contributed \$2.8 million as a result of the opening of The Barrievue in October 2019. Organic growth from same-store operations of \$1.4 million, was primarily due to lease-up activity, partially offset by the impact of COVID-19 on occupancy levels of the stabilized communities.

Net operating income from the retirement living operations was \$7.2 million for the six months ended June 30, 2020, as compared to \$5.5 million for the six months ended June 30, 2019, an increase of \$1.7 million or 31.5%, reflecting a contribution from The Barrievue of \$1.2 million and organic growth from same-store operations of \$0.5 million. The improvement in same-store operations reflected growth in occupancy to 85.6% from 80.7%, partially offset by the impact on occupancy levels of the pandemic on stabilized communities and the increased estimated operating expenses related to COVID-19 of \$0.5 million for the six months ended June 30, 2020.

HOME HEALTH CARE OPERATIONS

The following discussion of the home health care operations excludes the impact of: the B.C. operations, which contributed revenue of \$3.0 million and net operating income of less than \$0.1 million for the six months ended June 30, 2020, as compared to revenue of \$24.2 million and a net operating loss of \$0.5 million for the six months ended June 30, 2019; and incremental funding of \$2.2 million related to Bill 148 received in Q2 2019.

Revenue from the home health care operations declined by \$8.9 million or 4.8% to \$175.6 million for the six months ended June 30, 2020, primarily due to a decline in ADV of 12.0% due to COVID-19, partially offset by funding to support costs of COVID-19 (\$9.6 million) recognized in Q2 2020 and approximately \$1.0 million of incremental leap day revenue in Q1 2020.

Net operating income from the home health care operations was \$5.7 million for the six months ended June 30, 2020, as compared to \$15.7 million for the six months ended June 30, 2019, a decrease of \$10.0 million or 63.6%, with NOI margins of 3.2% and 8.5%, respectively. The decline in net operating income is largely attributable to lower business volumes, continued higher back office costs and the costs associated with COVID-19 and pandemic pay in excess of funding of an estimated \$0.5 million (refer to the discussion under “Significant Events – Impact of COVID-19 Pandemic”).

OTHER OPERATIONS

Revenue from other operations increased by \$0.9 million or 8.0% to \$12.7 million, largely due to an increase in group purchasing clients.

Net operating income from other operations increased by \$1.2 million or 18.0% to \$7.8 million for the six months ended June 30, 2020, due to revenue growth from an increase in clients and lower operating expenses related to reduced travel and business promotion, partially offset by increased staff to support the growth in operations.

ADJUSTED FUNDS FROM OPERATIONS

The following provides a reconciliation of “net earnings” to FFO and AFFO. A reconciliation of “net cash from operating activities” to AFFO is also provided under “Reconciliation of Net Cash from Operating Activities to AFFO”.

<i>(thousands of dollars unless otherwise noted)</i>	Three months ended June 30			Six months ended June 30		
	2020	2019	Change	2020	2019	Change
Earnings (loss) from continuing operations	(8,889)	4,966	(13,855)	(7,652)	4,979	(12,631)
Add (Deduct):						
Depreciation and amortization	9,685	9,705	(20)	19,538	19,132	406
Depreciation for FFEC (maintenance capex) ⁽¹⁾	(1,963)	(1,692)	(271)	(3,803)	(3,333)	(470)
Depreciation for office leases ⁽²⁾	(642)	(656)	14	(1,266)	(1,329)	63
Other expense	2,780	975	1,805	2,780	2,404	376
Foreign exchange and fair value adjustments	735	881	(146)	2,995	2,710	285
Current income tax expense (recovery) on other expense, foreign exchange and fair value adjustments ⁽³⁾	—	(333)	333	—	(280)	280
Deferred income tax expense (recovery)	(1,170)	(747)	(423)	(2,877)	(1,572)	(1,305)
FFO (continuing operations)	536	13,099	(12,563)	9,715	22,711	(12,996)
Amortization of deferred financing costs	525	478	47	966	863	103
Accretion costs	307	293	14	611	595	16
Non-cash share-based compensation	322	305	17	496	524	(28)
Principal portion of government capital funding	1,450	1,372	78	2,897	2,744	153
Additional maintenance capex ⁽¹⁾	(194)	(620)	426	(109)	105	(214)
AFFO	2,946	14,927	(11,981)	14,576	27,542	(12,966)
Per Basic Share (\$)						
FFO	0.006	0.147	(0.141)	0.108	0.255	(0.147)
AFFO	0.033	0.168	(0.135)	0.162	0.310	(0.148)
Per Diluted Share (\$)						
FFO	0.006	0.147	(0.141)	0.108	0.255	(0.147)
AFFO	0.033	0.161	(0.128)	0.162	0.299	(0.137)
Dividends (\$)						
Declared	10,747	10,656	91	21,474	21,290	184
Declared per share (\$)	0.120	0.120	—	0.240	0.240	—
Weighted Average Number of Shares (thousands)						
Basic	89,826	89,039		89,735	88,933	
Diluted	100,177	99,415		100,095	99,312	
Current income tax expense (recovery) included in FFO	(1,848)	3,283	(5,131)	225	4,811	(4,586)
Total maintenance capex⁽¹⁾	2,157	2,312	(155)	3,912	3,228	684

(1) 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.

(2) Represents depreciation related to office leases under IFRS 16.

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

(4) Represents AFFO of the Captive that decreases/(increases) the Captive’s investments held for self-insured liabilities not impacting the Company’s reported cash and cash equivalents.

AFFO 2020 Financial Review

For Q2 2020, AFFO declined by \$12.0 million to \$2.9 million (\$0.033 per basic share) from \$14.9 million (\$0.168 per basic share) for Q2 2019, reflecting the decline in Adjusted EBITDA, partially offset by a reduction in current income taxes. AFFO in Q2 2020 included COVID-19 costs in excess of funding of an estimated \$7.8 million after tax, or \$0.087 per basic share.

For the six months ended June 30, 2020, AFFO declined by \$13.0 million to \$14.6 million (\$0.162 per basic share) from \$27.5 million (\$0.310 per basic share) for the six months ended June 30, 2019, reflecting the decline in Adjusted EBITDA, increase in net interest costs, and higher maintenance CAPEX, partially offset by a reduction in current income taxes. AFFO for the six months ended June 30, 2020, included COVID-19 costs in excess of funding of an estimated \$8.1 million after tax, or \$0.090 per basic share.

Dividends declared of \$21.5 million were in excess of AFFO of \$14.6 million for the six months ended June 30, 2020, representing a payout ratio of 147%, reflecting the impact of COVID-19 on the Company's operations. Dividends declared as a percentage of AFFO for the six months ended June 30, 2019, represented a payout ratio of 77%. In addition to cash generated from operations and cash on hand of \$122.0 million at June 30, 2020, the Company has available undrawn credit facilities totalling \$71.9 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 "2020 Second Quarter Financial Review" and "2020 Six Month Financial Review".

The effective tax rate on FFO from continuing operations was 2.3% for the six months ended June 30, 2020, as compared to 17.5% for the six months ended June 30, 2019. The Company's current income taxes for 2020 have been impacted by the effects of COVID-19, and as a result, the FFO effective tax rate for the balance of the year is difficult to predict. In particular, lower volumes and increased back-office costs in ParaMed as a result of COVID-19 have had an impact on that legal entity's level of taxable income and 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.

Maintenance capex was \$2.2 million for Q2 2020 as compared to \$2.3 million for Q2 2019 and to \$1.8 million for Q1 2020, representing 0.8%, 0.8% and 0.6% of revenue, respectively. Maintenance capex was \$3.9 million for the six months ended June 30, 2020, as compared to \$3.2 million for the six months ended June 30, 2019, representing 0.7% and 0.6% of revenue, respectively. These costs fluctuate on a quarterly and annual basis with the timing of projects and seasonality. Management monitors and prioritizes the capital expenditure requirements of its properties throughout the year, taking into account the urgency and necessity of the expenditure. In 2020, the Company expects to spend in the lower end of the range of \$11.0 million to \$13.0 million in maintenance capex, as compared to \$12.3 million in 2019.

Reconciliations of Net Cash from Operating Activities and Adjusted EBITDA to AFFO

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

<i>(thousands of dollars)</i>	Three months ended June 30		Six months ended June 30	
	2020	2019	2020	2019
Net cash from operating activities	1,608	(680)	20,417	11,832
Add (Deduct):				
Net change in operating assets and liabilities, including interest, taxes and payments for U.S. self-insured liabilities	2,061	17,357	(4,427)	17,402
Current income tax on items excluded from AFFO ⁽¹⁾	—	(333)	10	(280)
Depreciation for office leases ⁽²⁾	(642)	(656)	(1,266)	(1,329)
Depreciation for FFEC (maintenance capex) ⁽³⁾	(1,963)	(1,692)	(3,803)	(3,333)
Additional maintenance capex ⁽³⁾	(194)	(620)	(109)	105
Principal portion of government capital funding	1,450	1,372	2,897	2,744
Amounts offset through investments held for self-insured liabilities ⁽⁴⁾	626	179	857	401
AFFO	2,946	14,927	14,576	27,542

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

(2) Represents depreciation related to office leases under IFRS 16.

(3) 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.

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

The following provides a reconciliation of “Adjusted EBITDA” to AFFO.

<i>(thousands of dollars unless otherwise noted)</i>	Three months ended June 30			Six months ended June 30		
	2020	2019	Change	2020	2019	Change
Adjusted EBITDA	8,167	25,152	(16,985)	28,298	44,926	(16,628)
Add (Deduct):						
Depreciation for FFEC (maintenance capex) ⁽¹⁾	(1,963)	(1,692)	(271)	(3,803)	(3,333)	(470)
Depreciation for office leases ⁽²⁾	(642)	(656)	14	(1,266)	(1,329)	63
Accretion costs	(307)	(293)	(14)	(611)	(595)	(16)
Interest expense	(7,186)	(7,030)	(156)	(14,228)	(13,912)	(316)
Interest revenue	619	901	(282)	1,550	1,765	(215)
	(1,312)	16,382	(17,694)	9,940	27,522	(17,582)
Current income tax expense (recovery) ⁽²⁾	(1,848)	3,283	(5,131)	225	4,811	(4,586)
FFO (continuing operations)	536	13,099	(12,563)	9,715	22,711	(12,996)
Amortization of deferred financing costs	525	478	47	966	863	103
Accretion costs	307	293	14	611	595	16
Non-cash share-based compensation	322	305	17	496	524	(28)
Principal portion of government capital funding	1,450	1,372	78	2,897	2,744	153
Additional maintenance capex ⁽¹⁾	(194)	(620)	426	(109)	105	(214)
AFFO	2,946	14,927	(11,981)	14,576	27,542	(12,966)

(1) 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.

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

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

LIQUIDITY AND CAPITAL RESOURCES

Sources and Uses of Cash

The following summarizes the sources and uses of cash between continuing and discontinued operations for 2020 and 2019.

<i>(thousands of dollars unless otherwise noted)</i>	Six months ended June 30, 2020			Six months ended June 30, 2019		
	Continuing	Discontinued	Total	Continuing	Discontinued	Total
Net cash from (used in) operating activities	26,033	(5,616)	20,417	24,609	(12,777)	11,832
Net cash from investing activities	2,871	5,616	8,487	751	12,777	13,528
Net cash used in financing activities	(2,065)	—	(2,065)	(6,193)	—	(6,193)
Foreign exchange gain (loss) on U.S. cash held	673	—	673	(654)	—	(654)
Increase in cash and cash equivalents	27,512	—	27,512	18,513	—	18,513
Cash and cash equivalents at beginning of year	94,457	—	94,457	65,893	—	65,893
Cash and cash equivalents at end of period	121,969	—	121,969	84,406	—	84,406

As at June 30, 2020, the Company had cash and cash equivalents on hand of \$122.0 million, reflecting an increase in cash of \$27.5 million from the beginning of the year. Cash flow generated from operating activities of the continuing operations of \$26.0 million was in excess of cash dividends paid of \$19.8 million.

Net cash from operating activities of the continuing operations was a source of cash of \$26.0 million in the first six months of 2020, up \$1.4 million or 5.8% as compared to a source of cash of \$24.6 million in the first six months of 2019, with the decline in earnings offset by a favourable net change in working capital between periods. Accounts payable and accrued liabilities increased by \$24.5 million from the beginning of the year, primarily due to deferred funding related to COVID-19 and timing of payroll cycles. This was partially offset by an increase in other assets of \$13.8 million from the beginning of the year, primarily due to an increase in PPE inventory and accounts receivable related to the funding for the pandemic pay programs in Ontario and Alberta.

Net cash from investing activities of the continuing operations was a source of cash of \$2.9 million in the first six months of 2020 as compared to a source of cash of \$0.8 million in the first six months of 2019. The 2020 activity included the repatriation of \$9.9 million (US\$7.0 million) from the Captive and collection of other assets of \$2.9 million, partially offset by purchases of property, equipment and other intangible assets of \$9.9 million. The 2019 activity included the repatriation of cash of \$13.4 million (US\$10.0 million) from the Captive and collection of other assets, partially offset by purchases of property, equipment and other intangible assets of \$15.4 million. The table that follows summarizes the capital expenditures. Growth capex relates to the construction of new beds, building improvements or other capital projects, all of which are aimed at earnings growth. Maintenance capex relates to the actual capital expenditures incurred to sustain and upgrade existing property and equipment. Management monitors and prioritizes the capital expenditure requirements of its properties throughout the year, taking into account the urgency and necessity of the expenditure.

<i>(thousands of dollars)</i>	Six months ended June 30	
	2020	2019
Growth capex	6,017	12,657
Deduct: capitalized interest	—	(459)
Growth capex, excluding capitalized interest	6,017	12,198
Maintenance capex	3,912	3,228
	9,929	15,426

Net cash from financing activities of the continuing operations was a use of cash of \$2.1 million for the first six months of 2020, an improvement of \$4.1 million, as compared to a use of cash of \$6.2 million for the first six months of 2019. The 2020 activity included new debt of \$62.4 million, which includes the refinancing of a \$25.8 million construction loan, and draws on construction financing of \$4.3 million, offset by debt repayments of \$40.6 million, cash dividends paid of \$19.8 million and financing costs. The 2019 activity included debt repayments of \$14.0 million, cash dividends paid of \$18.7 million, partially offset by a new \$16.0 million mortgage on a retirement community and draws on construction financing of \$11.8 million.

Discontinued operations reflect the payment of claims for U.S. self-insured liabilities and the Captive’s costs to administer and manage the settlement of the claims as a component of net cash from operating activities, which payments and costs are funded by the Captive. Changes in the Captive’s investments are reported as a component of net cash from investing activities, as those invested funds are not included in cash and cash equivalents.

Capital Structure

SHAREHOLDERS’ EQUITY

Total shareholders’ equity as at June 30, 2020, was \$95.6 million as compared to \$115.4 million at December 31, 2019. The decline was primarily attributable to dividends declared of \$21.5 million, partially offset by contributions from net earnings and dividend reinvestments pursuant to the Company’s Dividend Reinvestment Plan (the “DRIP”).

As at June 30, 2020, the Company had 89.5 million Common Shares issued and outstanding (carrying value – \$500.6 million) as compared to 89.2 million Common Shares (carrying value – \$498.1 million) as at December 31, 2019. The increase in Common Shares was attributable to dividend reinvestments pursuant to the DRIP (231,813 Common Shares) and shares issued under the Company’s equity-based compensation plan (74,760 Common Shares).

Share Information <i>(thousands)</i>	August 12, 2020	June 30, 2020	December 31, 2019
Common Shares (TSX symbol: EXE) ⁽¹⁾	89,539.1	89,539.1	89,232.5

(1) Closing market value per the TSX on August 12, 2020, was \$5.88.

As at August 13, 2020, the Company had an aggregate of 4,264,152 Common Shares reserved and available for issuance pursuant to the Company’s long-term incentive plan, of which there were in aggregate 977,325 performance share units and deferred share units outstanding as at June 30, 2020 (refer to *Note 8* of the unaudited interim condensed consolidated financial statements).

As at August 13, 2020, the Company had \$126.5 million in aggregate principal amount of convertible subordinate debentures outstanding that mature in April 2025 (the “2025 Debentures”), which in the aggregate are convertible into 10,326,531 Common Shares.

Dividend Reinvestment Plan

The Company has a DRIP pursuant to which shareholders who are Canadian residents may elect to reinvest their cash distributions in additional Common Shares at a 3% discount. During the six months ended June 30, 2020, pursuant to the DRIP, the Company issued Common Shares at a value of \$1.7 million as compared with \$2.6 million in the same prior year period.

On March 19, 2020, the Company announced the suspension of the DRIP in respect of any future declared dividends until further notice, as the Company believes it is in the best interests of the Company and its shareholders to not issue shares at current prices. Accordingly, the dividend paid on April 15, 2020 to shareholders of record on March 31, 2020, was the last dividend payment eligible for reinvestment by participating shareholders under the DRIP. Subsequent dividends will be paid only in cash.

Dividends

The Company declared cash dividends of \$0.24 per share in the six months ended June 30, 2020, consistent with that declared in the same 2019 period, representing dividends declared of \$21.5 million and \$21.3 million in each period respectively.

Normal Course Issuer Bid (NCIB)

In January 2020, the Company received approval from the TSX to renew its NCIB to purchase for cancellation up to 8,000,000 Common Shares (representing approximately 10% of its public float) through the facilities of the TSX, and through alternative Canadian trading systems, in accordance with TSX rules. The NCIB commenced on January 15, 2020, and provides the Company with flexibility to purchase Common Shares for cancellation until January 14, 2021, or on such earlier date as the NCIB is complete. The actual number of Common Shares purchased under the NCIB and the timing of any such purchases will be at the Company's discretion. Subject to the TSX's block purchase exception, on any trading day, purchases under the NCIB will not exceed 42,703 Common Shares. As at August 13, 2020, the Company has not acquired any Common Shares under its NCIB.

Long-term Debt

Long-term debt totalled \$577.3 million as at June 30, 2020, as compared to \$556.3 million as at December 31, 2019, representing an increase of \$21.0 million, due to new debt of \$62.4 million, which included the refinancing of a \$25.8 million construction loan, draws on construction loans of \$4.3 million and an increase in lease liabilities, partially offset by debt repayments of \$40.6 million and an increase in deferred financing costs. The current portion of long-term debt as at June 30, 2020, was \$69.0 million and included \$43.1 million drawn on demand construction loans. The Company intends to fund repayments of construction loans from proceeds of permanent mortgage financing upon occupancy stabilization. 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, 2020. Details of the components, maturities dates, terms and conditions of long-term debt are provided in *Note 6* of the unaudited interim condensed consolidated financial statements.

CREDIT FACILITIES

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

LONG-TERM DEBT KEY METRICS

Management has limited the amount of debt that may be subject to changes in interest rates, with only \$23.2 million of mortgage debt and \$43.1 million of construction loans at variable rates. The Company's other variable-rate mortgages and term loan aggregating \$89.6 million as at June 30, 2020, have effectively been converted to fixed rate financings with interest rate swaps over the full term. As at June 30, 2020, the interest rate swaps were valued as a liability of \$2.9 million.

The following summarizes key metrics of consolidated long-term debt as at June 30, 2020, and December 31, 2019.

<i>(thousands of dollars unless otherwise noted)</i>	June 30, 2020	December 31, 2019
Weighted average interest rate of long-term debt outstanding	4.4 %	4.7 %
Weighted average term to maturity of long-term debt outstanding	6.9 yrs	6.7 yrs
Trailing twelve months consolidated net interest coverage ratio ⁽¹⁾	2.9X	3.5 X
Trailing twelve months consolidated interest coverage ratio ⁽²⁾	2.6X	3.1 X
Debt to Gross Book Value (GBV)		
Total assets (carrying value)	908,596	888,800
Accumulated depreciation on property and equipment	258,363	251,403
Accumulated amortization on other intangible assets	27,291	23,738
GBV	1,194,250	1,163,941
Debt ⁽³⁾	593,887	570,536
Debt to GBV	49.7 %	49.0 %

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

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

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

Future Liquidity and Capital Resources

The Company's consolidated cash and cash equivalents on hand was \$122.0 million as at June 30, 2020, as compared with \$94.4 million as at December 31, 2019, representing an increase of \$27.5 million. In addition, the Company has access to a further \$71.9 million in undrawn demand credit facilities. Cash and cash equivalents exclude restricted cash of \$16.8 million, of which \$14.1 million is held by the Captive pending the completion of the regulatory approval of its deregistration application, following which the restricted cash will be released to the Company (refer to the discussion under "Discontinued Operations").

As discussed under "Significant Events – Financing Activity", during the six months ended June 30, 2020, the Company renewed and extended non-CMHC mortgages on three long-term care homes and finalized new non-CMHC mortgages on two retirement communities. The Company also renewed one CMHC mortgage on a long-term care home and finalized a new CMHC mortgage on a retirement community to replace a construction loan. As a result of these financing activities, the Company does not have any scheduled debt maturities until Q1 2022.

Management believes that cash from operating activities and future debt financings will be sufficiently available to support the Company's ongoing business operations, maintenance capex and debt repayment obligations. Growth through redevelopment of the LTC homes over the next few years, strategic acquisitions and developments will necessitate the raising of funds through debt, equity financings and/or among other means. Decisions will be made on a specific transaction basis and will depend on market and economic conditions at the time. However, given COVID-19's potential impact on the Company's financial performance and operations, as well as on the economy such that capital and credit markets and industry sentiment are adversely affected, it may be 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 the impact of COVID-19 may result in reductions or early prepayments of existing financings if covenants contained therein are unable to be met (refer to "Risks and Uncertainties").

OTHER CONTRACTUAL OBLIGATIONS AND CONTINGENCIES

There were no material changes to the Company's other contractual obligations and contingencies, which are detailed in the Company's 2019 Annual Report.

Legal Proceedings, Claims and Regulatory Actions

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

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

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

DISCONTINUED OPERATIONS

Prior to the sale of its U.S. business in 2015 (the "U.S. Sale Transaction"), the Company self-insured certain risks related to general and professional liability of its disposed U.S. operations through the Captive. After the U.S. Sale Transaction, the Company retained the Captive, which, along with third-party insurers, insured the Company's U.S. general and professional liability risks up to the date of the U.S. Sale Transaction, and was reported as the U.S. segment.

As at June 30, 2020, there were no open general and professional liability claims remaining and the updated actuarial valuation of incurred but not reported claims as at June 30, 2020 was immaterial. As a result, the Board of Directors of the Captive approved a wind up plan to deregister the Captive with the Bermuda Monetary Authority and subsequently dissolve the Captive, ceasing the operations of the U.S. segment. Concurrently, the Company entered into a termination agreement with the Captive to assume the remaining obligations and certain liabilities of the Captive effective June 30, 2020.

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

As at June 30, 2020, the accrual for self-insured general and professional liabilities was reduced to \$nil as compared to \$12.2 million (US\$9.4 million) at the beginning of the year as a result of claims settlements, transfer of certain remaining obligations of the Captive to the Company in accordance with a termination agreement and a release of the balance of the accrued self-insured liabilities.

The Company held investments within the Captive for settlement of the U.S. self-insured liabilities that are subject to insurance regulatory requirements. These investments totalled \$14.1 million as at June 30, 2020 (December 31, 2019 – \$27.6 million) and have been reclassified to restricted cash pending the completion of the regulatory approval to deregister the Captive. During Q1 2020, the Captive transferred \$9.9 million (US\$7.0 million) of cash previously held to the Company for general corporate use.

Earnings from Discontinued Operations

Earnings from discontinued operations were \$5.2 million for Q2 2020, and \$9.9 million for the six months ended June 30, 2020, and included a release of reserves of \$5.5 million and \$9.5 million, respectively. In comparison, earnings were \$3.4 million for Q2 2019, and \$6.3 million for the six months ended June 30, 2019, and included a release of reserves of \$2.5 million and \$4.4 million, respectively. The balance of the earnings were impacted by administrative costs, and foreign exchange and fair value adjustments. Further details are provided in *Note 14* of the unaudited interim condensed consolidated financial statements.

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, 2019, contained in the Company's 2019 Annual Report. The disclosures in such report have not materially changed since that report was filed, with the exception of the new accounting policies adopted as described below under "New Accounting Policies Adopted", and to the extent there have been any changes in management's estimates, they are discussed under "Significant Events".

New Accounting Policies Adopted

The following new standard was adopted effective January 1, 2020, and has been applied in preparing the financial results for the three and six months ended June 30, 2020, the nature and effect of which is provided in *Note 2* of the unaudited interim condensed consolidated financial statements, and described below:

DEFINITION OF A BUSINESS

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

NON-GAAP MEASURES

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

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

References to “EBITDA” in this document are to earnings (loss) from continuing operations before net finance costs, income taxes, depreciation and amortization. References to “Adjusted EBITDA” in this document are to EBITDA adjusted to exclude the line item “other expense”, and as a result, is equivalent to the line item “earnings before depreciation, amortization, and other expense” reported on the consolidated statements of earnings. References to “Adjusted EBITDA Margin” are to Adjusted EBITDA as a percentage of revenue. Management believes that certain lenders, investors and analysts use EBITDA, 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.

References to “earnings (loss) from continuing operations before separately reported items, net of tax” in this document are to earnings (loss) from continuing operations, excluding the following separately reported line items: “foreign exchange and 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. They relate to the change in the fair value of or gains and losses on termination of convertible debentures and interest rate agreements, as well as gains or losses on the disposal or impairment of assets and investments, and foreign exchange gains or losses on capital items. In addition, these line items may include acquisition related costs, restructuring charges, proxy related costs and the write-off of unamortized deferred financing costs on early retirement of debt. The above separately reported line items are reported on a pre-tax and on an after-tax basis as a means of deriving earnings (loss) from operations and related earnings per share excluding such items.

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

“Adjusted Funds from Operations”, or “AFFO”, is defined as FFO plus: i) the reversal of non-cash 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 are funded through investments held for 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 believes that AFFO is a relevant measure of the ability of the Company to earn cash and pay cash dividends to shareholders.

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

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

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

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

Reconciliations of "earnings (loss) from continuing operations before income taxes" to "Adjusted EBITDA" and "net operating income" are provided under "Select Quarterly Financial Information", "2020 Second Quarter Financial Review" and "2020 Six Month Financial Review".

Reconciliations of "earnings from continuing operations" to "FFO" and "AFFO" are provided under "Adjusted Funds from Operations".

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

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 2019 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 Liability and Insurance" and "Risks Related to Government 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 Events".