

EXTENDICARE[®]

... helping people live better

MANAGEMENT'S DISCUSSION AND ANALYSIS

Q2 2021

Extendicare Inc.

Dated: August 5, 2021

Management’s Discussion and Analysis

Three and six months ended June 30, 2021

Dated: August 5, 2021

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BASIS OF PRESENTATION

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

Extendicare is a recognized leader in the delivery of quality health care services to Canadians across the continuum of seniors’ care. In operation since 1968, it is 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, provides business-to-business contract and consulting services through its Extendicare Assist division and services its homes and communities and those of its clients through its group purchasing division SGP Purchasing Partner Network (SGP).

Extendicare proudly employs more than 23,500 qualified, highly trained and dedicated individuals who are passionate about providing high quality care and services to help people live better.

Extendicare completed the dissolution of its wholly owned Bermuda-based captive insurance company, Laurier Indemnity Company, Ltd. (the “Captive”) in Q1 2021. As a result of the initiation of the wind-up plan, the Company classified the formerly separate U.S. segment as a discontinued operation in Q2 2020 and re-presented its comparative 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”).

In This MD&A

This MD&A has been prepared to provide information to current and prospective investors of the Company to assist them to understand the Company’s financial results for the three and six months ended June 30, 2021. 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, 2021, and the notes thereto, together with the annual MD&A and the audited consolidated financial statements for the year ended December 31, 2020, and the notes thereto, prepared in accordance with International Financial Reporting Standards (IFRS). The accompanying unaudited interim condensed consolidated financial statements for the three and six months ended June 30, 2021, 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, 2020, 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 other materials are available on the Company’s website at www.extendicare.com. All currencies are in Canadian dollars unless otherwise indicated.

This MD&A is dated as of August 5, 2021, 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 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 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 availability and ability of the Company to attract and retain qualified personnel; changes in the health care industry in general and the long-term care industry in particular because of political, legal and economic influences; changes in applicable accounting policies; changes in regulations governing the health care and long-term care industries and the compliance by the Company with such regulations; changes in government funding levels for health care services; the ability of the Company to renew its government licenses and customer contracts; changes in labour relations 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 Extendicare.

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.

SIGNIFICANT DEVELOPMENTS

Strong Vaccine Effectiveness and Broad National Uptake Results in Dramatic Decline in COVID Cases; Remaining Vigilant

Due to the efficacy of available vaccines, the number of active COVID-19 infections in Canada has dropped dramatically since the beginning of May. Similarly, we experienced a very limited number of COVID-19 cases across our network in the quarter. The continuing progress we made in our vaccine program during Q2 2021 contributed to a significant reduction in COVID-19 outbreaks within our homes and staff and marked a greatly enhanced level of protection from the virus for those in our care. As of August 5, 2021, none of our 69 LTC homes and retirement communities were in outbreak.

While we are very encouraged by the dramatic decrease in COVID-19 cases within our LTC homes and retirement communities, we remain vigilant in our ongoing efforts to protect our residents, clients and staff. As restrictions lift across the country, we are eagerly welcoming families and visitors back to our LTC homes and retirement communities, enabling our residents to re-gain a sense of normalcy. However, we continue to closely monitor the evolution of the pandemic and remain vigilant with protection efforts, especially in light of "variants of concern", both at home and abroad. The recent resurgence in cases elsewhere in the world, including in the United Kingdom and the United States, serves as an important reminder that subsequent waves are still possible. As we have seen over the last several months, vaccination is a highly effective preventive measure, and we remain committed to doing our part to drive vaccination rates ever higher. We continue to provide paid time off and reimbursement of travel expenses to remove barriers for staff to get vaccinated. Where enabled by public health partners, we host on-site vaccination clinics and make them available not only to our residents and staff, but also to essential caregivers who visit our homes. To complement our vaccination program, we are maintaining elevated staffing within our LTC homes to address the continued need for screening, testing and prevention protocols; supporting staff required to isolate (for example, meals, hotel stays and paid sick time); and providing access to enhanced PPE.

Emergency measures enacted by Canada's federal and provincial governments to combat COVID-19 are changing rapidly and we continue to work 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 continues to focus on the protection and care of our residents, clients and staff. While we all hope for a continued reduction in the impact of COVID-19 on our daily lives, we will remain vigilant until we are confident the risk the virus poses to those in our care has subsided.

COVID-19 IMMUNIZATION POLICY ACROSS EXTENDICARE GENERATING CONTINUED VACCINATION PROGRESS

Our team member vaccination campaign is one of our key objectives in fighting COVID-19 and preventing outbreaks, and will remain our priority until the pandemic fully subsides. Vaccinations have clearly demonstrated their vital role in reducing the impact of COVID-19 and the severity of the illness for those infected.

We continue to vaccinate residents, staff and essential caregivers at our homes and are encouraged by the significant progress made during Q2 2021, with hundreds of doses administered weekly. As of August 5, 2021, approximately 92% of our LTC and 90% of our retirement residents have been fully vaccinated. Our extensive education and awareness campaign for staff, along with the provision of paid time off and reimbursement of travel expenses for vaccination, have resulted in approximately 86% of our LTC staff, 80% of our retirement staff and 86% of our ParaMed staff having received at least their first dose, and more than 77% of our LTC staff being fully vaccinated. We continue to invest in our vaccine programs to drive further improvements in the level of fully vaccinated staff across all of our lines of business.

TESTING CONTINUES TO PLAY AN IMPORTANT ROLE

As was evident throughout the pandemic, routine staff testing enables us to identify COVID-19 positive individuals who may be asymptomatic or pre-symptomatic and remove them from the home before the virus can be transmitted. This early detection has been a critical tool in helping to keep COVID-19 out of our LTC homes and retirement communities. In concert with health authorities in all provinces, we continue to monitor evolving virus variants and adapt our surveillance testing programs accordingly. Testing will continue to play an important role in preventing the virus from entering and being transmitted within our LTC homes and retirement communities until the threat of the pandemic recedes.

ONGOING RECRUITMENT EFFORTS TO SUPPORT CARE TEAMS

We continue to experience significant challenges recruiting new staff as the shortage of health care workers has been exacerbated by the increase in demand for caregivers caused by the pandemic. Many of our LTC homes, retirement communities and ParaMed districts still have numerous vacancies they are trying to fill. In addition to the personal support worker (PSW) college partnerships and in-house home support worker (HSW) training programs we launched in 2020 in support of our home health care operations, we are participating in various new federal and provincial programs introduced to educate new employees for the seniors' care workforce. We currently have 250 students enrolled in various government sponsored internships to whom we plan to offer employment upon graduation.

COVID-19 Related Expenses and Funding

As COVID-19 cases within the broader population and outbreaks within our LTC homes and retirement communities have decreased, so have our COVID-19 related expenses. In Q2 2021 our aggregate COVID-19 related expenses decreased by \$15.3 million to \$42.8 million as compared to Q1 2021. We continue to invest the resources required to help protect our residents, clients and staff and we continue to receive financial support for our LTC operations from provincial governments to address our COVID-19 related expenses.

During the six months ended June 30, 2021, we incurred an estimated \$75.7 million of pandemic-related operating expenses, excluding the costs associated with government funded pandemic pay programs, and \$2.0 million in COVID-19 related administrative costs. These costs were partially offset by funding of \$65.9 million from various provincial governments year to date, resulting in reductions in our consolidated net operating income (NOI) and Adjusted EBITDA of approximately \$9.8 million and \$11.8 million, respectively. This funding included \$18.8 million received in Q1 2021 related to COVID-19 costs incurred in our LTC operations in 2020, reducing the impact of the pandemic on our reported NOI and Adjusted EBITDA for the six months ended June 30, 2021.

Since the beginning of the pandemic, we have incurred estimated cumulative pandemic-related operating expenses and administrative costs of \$146.7 million and \$5.5 million, respectively, and have received offsetting revenue or expense recovery from government programs of \$110.3 million, resulting in cumulative reductions in our consolidated NOI and Adjusted EBITDA of approximately \$36.4 million and \$41.9 million, respectively.

We have also provided approximately \$23.2 million in temporary funded pandemic pay premiums for eligible front-line staff in the six months ended June 30, 2021, with cumulative \$67.1 million paid since Q1 2020, offset by funded programs announced in Ontario and Alberta. We record the pandemic pay in operating expenses and recognize the related offsetting funding for these programs as revenue.

The following table provides a summary of the estimated revenue recognized and the operating and administrative costs incurred related to COVID-19 on a quarterly and year-to-date basis for 2021 and 2020.

Estimated COVID-19 Revenue, Operating Expenses and Administrative Costs									
<i>(millions of dollars)</i>	2021						2020		
	Q2	Q1	YTD Q2	Q4	Q3	Q2	Q1	YTD Q2	Year
Revenue									
Long-term care	25.5	47.0	72.5	25.6	21.1	17.6	0.4	18.0	64.7
Retirement living	—	—	—	—	—	—	—	—	—
Home health care	7.8	8.8	16.6	6.4	7.6	9.6	—	9.6	23.6
Revenue impact	33.3	55.8	89.1	32.0	28.7	27.2	0.4	27.6	88.3
Operating Expenses									
Long-term care	32.7	48.1	80.8	34.3	27.7	26.2	0.7	26.9	88.9
Retirement living	0.2	0.1	0.3	0.1	0.5	0.5	—	0.5	1.1
Home health care	8.8	9.0	17.8	7.2	7.7	10.0	—	10.0	24.9
Operating expenses impact	41.7	57.2	98.9	41.6	35.9	36.7	0.7	37.4	114.9
NOI									
Long-term care	(7.2)	(1.1)	(8.3)	(8.7)	(6.6)	(8.6)	(0.3)	(8.9)	(24.2)
Retirement living	(0.2)	(0.1)	(0.3)	(0.1)	(0.5)	(0.5)	—	(0.5)	(1.1)
Home health care	(1.0)	(0.2)	(1.2)	(0.8)	(0.1)	(0.4)	—	(0.4)	(1.3)
NOI impact	(8.4)	(1.4)	(9.8)	(9.6)	(7.2)	(9.5)	(0.3)	(9.8)	(26.6)
Administrative costs	1.1	0.9	2.0	0.7	1.6	1.2	—	1.2	3.5
Adjusted EBITDA impact	(9.5)	(2.3)	(11.8)	(10.3)	(8.8)	(10.7)	(0.3)	(11.0)	(30.1)

The Federal Government and the provincial governments where we operate have all announced various programs and financial assistance to address the challenges presented by COVID-19 and continue to evolve these programs to mitigate the financial impacts of the pandemic. However, the amount and timing of announcements and payment of these programs do not always correlate to the period in which the additional expenses are incurred. In the Government of Ontario's 2021 Budget announced on March 24, 2021, the Ontario Ministry of Long-Term Care (MLTC) provided for an additional \$600.0 million in COVID-19 response funding for their 2021-22 fiscal year commencing April 1, 2021. This continued support is critical as it helps enable ongoing prevention protocols, including ongoing point of care and PCR testing programs, increased staffing needs, and paid time off related to obtaining vaccinations and dealing with any related side-effects.

In Q2 2021, we did not receive any funding related to prior period COVID-19 costs, but do anticipate receiving additional funding in subsequent quarters for costs incurred in the first half of 2021. Any such funding will be recorded when the amounts and timing are known. As a result, we expect ongoing volatility in our operating and financial results until the effects of COVID-19 are behind us as the unknown amounts of additional COVID-19 related funding cannot always be estimated at the time the expenses are incurred. While we believe the financial impacts of COVID-19 will largely reverse as we emerge from the pandemic, there is no guarantee as to how soon that may be or that any other pandemic, epidemic or outbreak will not have a material adverse effect on the business, results of operations and financial condition of the Company.

LTC and Retirement Occupancy Improving

The Ontario 2021 Budget provided an extension of LTC occupancy protection to the end of August 2021, as discussed below, which ensures the sector can maintain its critical focus on preventing transmission of the virus in LTC homes and supports the measured admission of new residents from hospitals and the community. To date, each of the western provinces where we operate LTC homes have provided additional funding to support COVID-19 costs. In certain provinces, this funding includes a portion of funding related to occupancy.

As a result of the substantial decrease in COVID-19 cases within the broader population and increased vaccination rates, restrictions on admissions to our LTC homes have been lifted. Consequently, we experienced an increase in admissions in Q2 2021, resulting in an average LTC occupancy of 85.4%, up 250 bps from Q1 2021. With lengthy waitlists for LTC in many of the communities where we operate, we expect average occupancy levels to continue to increase as long as rates of COVID-19 in the community remain low.

We will not return to full occupancy levels in homes with ward-style, three or four bed rooms, as these will be limited to a maximum of two residents per room. We expect funding in Ontario to continue at the current level for these ward-style rooms beyond August 2021; however, no formal announcement has been made to this effect.

While we are encouraged by the improvements in our LTC occupancy, we anticipate that not all of our Ontario LTC homes will return to levels above 97% before occupancy protection expires. As a result, we may experience some reduction in funding for Ontario LTC homes that do not achieve the required occupancy.

Throughout the pandemic our retirement communities have also seen declines in occupancy and slower growth in lease-up communities as move-ins and tours have been impeded by COVID-19 protocols. Notwithstanding these impacts, our stabilized communities have maintained an average occupancy of more than 90% throughout the pandemic, with average stabilized occupancy of 90.2% in Q2 2021, down from a peak of 94.9% in Q4 2019. The easing of restrictions during the latter half of the second quarter saw average lease-up occupancy improve by 210 bps to 70.9% in Q2 2021 from Q1 2021.

Home Health Care Volumes Recovered to Pre-Pandemic Levels

Home health care operations were significantly impacted at the onset of the pandemic. Cancellations and disruption of elective procedures in hospitals, lock-down measures and the resulting impacts on our workforce capacity resulted in a significant drop in our average daily volumes (ADV) in Q2 2020 and increased the workload of the back-office staff, primarily to manage suspended services and staff scheduling changes due to the impact of the pandemic.

We have experienced steady recovery in our ADV since Q2 2020, as demand for our home health care services has increased. ParaMed's ADV for Q2 2021 was 25,264, up 3.7% from Q1 2021 and 24.0% higher than Q2 2020 and recovered to pre-pandemic levels.

While we anticipate ADV to continue to grow as the pandemic recedes, workforce capacity constraints will continue to impede the pace of growth. Workforce limitations are due to various pandemic-related factors, including increased demand for health care workers from hospitals and LTC, competition for nurses throughout the health care system, challenges securing child care when schools have closed to in-person learning, and the availability of federal income support programs. We remain focused on our PSW college partnerships and in-house HSW training programs, graduating and hiring more than 300 new caregivers through these programs in the first half of 2021, in addition to our ongoing focus on encouraging employees who have been on leave to return to work.

With the improvements in ADV and our focus on realizing efficiency gains in our back-office processes and costs, NOI margins in our home health care operations continue to improve with Q2 2021 at 7.9%, as compared to 7.3% in Q1 2021 and 5.8% in Q4 2020, excluding the impact of the Canada Emergency Wage Subsidy (CEWS), net COVID-19 costs and the one-time costs of \$6.1 million recorded in Q4 2020. Automation has made it possible for our back office to support further volume growth without increasing costs, enabling further margin improvements as volume increases.

Long-term Care Redevelopment Progressing

During 2020, the MLTC announced a new Long-Term Care Home Capital Development Funding program (New Funding Program) for the development of new and replacement LTC beds. The program was funded in March 2021 with \$2.68 billion to support the construction of 30,000 new and upgraded LTC beds by 2028. This New Funding 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 advance our 22 applications with the MLTC to replace our older Class C LTC beds in Ontario. These projects propose to build more than 4,200 new LTC beds, 3,285 of them replacing Class C beds. We are working closely with industry partners and the government to enhance the New Funding Program to expedite all feasible projects. In addition to the two LTC redevelopment projects currently under construction, we have an additional seven projects in advanced stages of approvals with the MLTC in respect of which we hope to begin construction before the end of 2023.

Construction is under way on our first two LTC redevelopment projects in Sudbury and Kingston, Ontario (the "Sudbury and Kingston LTC Projects"). These projects will replace 384 Class C LTC beds with 448 new beds and are targeted to be completed in Q4 2022 and Q1 2023, respectively, at an estimated net investment of \$107.7 million. Both homes are being constructed exclusively with private and semi-private rooms, the latter of which accommodate two residents in separate bedrooms with a shared bathroom. For more information refer to the discussion under "Key Performance Indicators – LTC Projects Under Construction".

In May 2021, the Company closed \$95.9 million in committed construction financing to support the construction of the Sudbury and Kingston LTC Projects. For more information refer to the discussion under "Liquidity and Capital Resources – Long-term Debt – LTC Construction Financing".

Ontario's Long-Term Care COVID-19 Commission

On April 30, 2021, the independent Commission (the "Commission") struck by the Government of Ontario delivered their final report, including 85 recommendations for improvement to the LTC system. The Commission's mandate was to investigate, report on findings and provide insight on 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 examined the impact of existing physical infrastructure, staffing approaches, labour relations, clinical oversight and other features of the LTC system.

Extendicare thanks the Commission for its work, and welcomes the report's call for greater attention and resources to seniors care and long-term care in particular. Extendicare looks forward to continuing to work with the government and the Company's other partners across the health system to address the Commission's recommendations and advance system improvements.

Saskatchewan Ombudsman Long-term Care Investigation

On February 8, 2021, the Company received formal notification that the Saskatchewan Ombudsman was commencing an investigation into the COVID-19 outbreak at the Extendicare Parkside LTC home in Regina, which began in late November 2020. On August 5, 2021, the Ombudsman issued her report. We thank the Ombudsman for her efforts and will carefully consider the report's findings and recommendations. The pandemic has exposed issues and structural challenges that have burdened the LTC sector for decades. Extendicare has been working closely with the Saskatchewan Health Authority (SHA) to address these issues to ensure our seniors have the services and support they require to meet their needs in the years ahead. In connection with the issuance of the report, the SHA has been appointed administrator in respect of the five Company LTC homes located in Saskatchewan for a period of 30 days, after which the SHA is to submit a report to the Ministry of Health regarding compliance with the ombudsman's recommendations and the care requirements stipulated under the *Program Guidelines for Special Care Homes*.

BUSINESS OVERVIEW

As at June 30, 2021, the Company owned and operated 58 LTC homes and 11 retirement communities, through its Extendicare and Esprit Lifestyle Communities divisions, respectively, and provided contract services to 51 LTC homes and retirement communities for third parties through Extendicare Assist. In total, Extendicare operated or provided contract services to a network of 120 LTC homes and retirement communities across four provinces in Canada, with capacity for 15,547 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 83,500 senior residents across Canada, as at June 30, 2021.

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, 2021. The majority of ParaMed's volumes are generated in Ontario and Alberta, representing 94% and 4%, respectively.

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 Extendicare Assist are reported under the "other operations" segment, as the revenue from those operations is earned on a fee-for-service basis.

The following table summarizes the contribution of the business segments to the Company's consolidated revenue and NOI for the six months ended June 30, 2021 and 2020. The impact of COVID-19 on all segments and the impact of CEWS on the home health care segment impacts the comparability of the contributions of the business segments to the Company's consolidated revenue and NOI. Refer to "Significant Developments – COVID-19 Related Expenses and Funding", "Key Performance Indicators – Home Health Care – ParaMed Canada Emergency Wage Subsidy" and "2021 Second Quarter Financial Review" for additional details to understand the impacts on the business segments.

Operating Segments as % of	Six months ended June 30				Year ended December 31	
	2021		2020		2020	
	Revenue	NOI	Revenue	NOI	Revenue	NOI
Long-term care	62.3 %	36.4 %	61.2 %	58.7 %	61.8 %	28.4 %
Retirement living	3.9 %	10.0 %	4.3 %	14.4 %	4.1 %	7.6 %
Home health care	31.5 %	42.0 %	32.2 %	11.4 %	31.8 %	54.9 %
Other	2.3 %	11.6 %	2.3 %	15.5 %	2.3 %	9.1 %
Total	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %

The following describes the operating segments of the Company.

Long-term Care

The Company owns and operates 58 LTC homes with capacity for 8,138 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 LTC residents who are unable to afford the resident co-payment. Long-term care funding in Ontario is provided in four envelopes allocated to personal care, programming, food and accommodation, respectively. The first three envelopes must be spent entirely on residents and are independently audited with any surplus funding returned to the government. The additional COVID-19 pandemic related funding being provided in Ontario is subject to this same reconciliation process. In Alberta, designated supportive living homes provide an alternative setting for residents not yet requiring the needs of a more expensive LTC home. Such homes are licensed, regulated and funded by Alberta Health Services (AHS) in a similar manner to LTC homes, including a government-determined fee structure.

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

The following summarizes the government funding rate changes announced for LTC during 2020 and 2021 in Ontario and Alberta, the Company's largest LTC markets, exclusive of one-time funding in respect of COVID-19 (refer to the discussion under "Significant Developments – COVID-19 Related Expenses and Funding").

Ontario LTC Funding Changes

As at August 5, 2021, there have been no announced changes related to annual inflationary increases on accommodation and flow-through funding envelopes for Ontario LTC which typically are effective for April 1 each year.

Effective April 1, 2020, the MLTC implemented a global inflationary funding increase across the accommodation and flow-through envelopes of 1.5% for Ontario LTC providers. This represents incremental annual revenue for the Company of approximately \$5.1 million, of which approximately \$1.6 million applies to the accommodation envelope (non flow-through).

In addition, effective April 1, 2020, the MLTC eliminated structural compliance premium (SCP) funding for eligible Class A, B and C beds and replaced it with a new LTC minor capital funding program to be phased in over three years. For the first year under the new program, the Company's funding remains unchanged at \$1.3 million, with modest increases during the phase in period.

In respect of the annual inflationary rate increases for preferred accommodation premiums paid for by residents to LTC providers for private and semi-private accommodation, the MLTC implemented a 1.9% increase effective July 1, 2020. However, to provide relief to families experiencing challenges due to COVID-19, this increase in rates for residents has been deferred until January 1, 2022, and LTC providers are instead being compensated directly by the MLTC. For older LTC beds that are not classified as "New" or "A" beds, the maximum daily preferred accommodation premiums increased to \$8.69 and \$19.54 for semi-private and private rooms, respectively. For newer LTC beds that are classified as "New" or "A" beds, the maximum daily preferred accommodation premiums increased to \$13.02 and \$27.15 for semi-private and private rooms, respectively.

Alberta LTC Funding Changes

In March 2021, AHS announced a 0.6% annual inflationary increase for the portion of the accommodation rates paid directly by residents of LTC and designated supportive living homes to providers effective July 1, 2021, representing additional annual revenue for the Company of approximately \$0.2 million (2020 – 2.5% effective October 1, \$0.7 million).

In September 2020, AHS announced adjustments to the government funding for providers of LTC and designated supportive living homes retroactive to April 1, 2020, representing additional annual revenue for the Company of approximately \$0.3 million.

Retirement Living

Under the Esprit Lifestyle Communities brand, the Company owns and operates 11 retirement communities with 1,050 suites. Four of these communities (341 suites) are located in Saskatchewan and seven communities (709 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 99% 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 51 LTC homes and retirement communities with capacity for 6,359 residents as at June 30, 2021.

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, 2021, SGP provided services to third parties representing approximately 83,500 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	2021				2020		2019	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Average Occupancy (%)								
Total LTC	85.4 %	82.9 %	87.7 %	90.0 %	93.5 %	97.0 %	97.8 %	97.9 %
Change over prior year period (bps)	(810)	(1,410)	(1,010)	(790)	(400)	10	20	10
Sequential quarterly change (bps)	250	(480)	(230)	(350)	(350)	(80)	(10)	40
Ontario LTC								
Total ON LTC	82.8 %	80.3 %	85.3 %	87.9 %	92.9 %	97.6 %	98.2 %	98.5 %
Preferred Accommodation ⁽¹⁾								
"New" homes – private	83.6 %	82.6 %	88.4 %	88.0 %	91.7 %	95.4 %	95.8 %	95.9 %
"C" homes – private	77.6 %	76.6 %	80.7 %	86.5 %	89.5 %	92.8 %	93.1 %	94.2 %
"C" homes – semi-private	48.8 %	50.0 %	54.6 %	58.6 %	63.5 %	66.3 %	66.7 %	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 85.4% for Q2 2021, down from 93.5% in Q2 2020. In terms of the quarterly trends, occupancy softness is to be expected during the winter months as a result of seasonal influenza outbreaks, which can lead to a temporary freeze on admissions; however, COVID-19 has negatively impacted occupancy levels since March 2020.

With the success of the vaccines driving significant reductions in COVID-19 outbreaks and easing of restrictions on LTC homes, average occupancy improved to 85.4% in Q2 2021, up 250 bps from Q1 2021. 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, otherwise referred to as occupancy protection funding. The Company’s Ontario LTC homes generally average above the 97% occupancy threshold, with all but one having done so in 2019. However, as indicated above, such occupancy levels have not been sustained as a result of COVID-19. In response, the Government of Ontario provided basic occupancy protection funding for all LTC homes for 2020 and through to August 31, 2021. However, occupancy protection does not compensate for the loss of preferred accommodation premiums from private and semi-private room vacancies. The reduction in preferred accommodation premiums for the six months ended June 30,

2021, was approximately \$1.0 million, as compared to the same prior year period (for the year ended December 31, 2020, preferred accommodation premiums were down \$0.7 million from 2019 levels).

To date, each of the western provinces in which we operate LTC homes have provided additional funding to support COVID-19 costs. In certain provinces, this funding includes specific funding to address occupancy shortfalls.

LTC Projects Under Construction

The following table summarizes the LTC projects that are under construction:

LTC Project	# of Beds	Expected Opening Date	Estimated Adjusted Development Costs ⁽¹⁾ (\$ millions)	Adjusted Development Costs ⁽¹⁾		Annual CFS ⁽¹⁾ (\$ millions)	Estimated Stabilized NOI ⁽¹⁾ (\$ millions)	Expected NOI Yield ⁽¹⁾
				Incurring as at June 30, 2021	(\$ millions)			
Sudbury	256	Q4-22	62.3	9.3	1.9	3.1	8.0 %	
Kingston	192	Q1-23	45.4	5.2	1.4	2.3	8.1 %	
	448		107.7	14.5	3.3	5.4	8.1 %	

(1) Refer to the discussion under “Non-GAAP Measures” in respect of references to “Adjusted Development Costs” and “NOI Yield”.

Construction of the Sudbury LTC Project commenced in Q4 2020 under a fixed-price construction agreement (\$47.3 million) and is anticipated to be completed in Q4 2022. Total Adjusted Development Costs are estimated at \$62.3 million and the NOI Yield of the project is anticipated to be approximately 8.0%.

Construction of the Kingston LTC Project commenced in Q2 2021 under a fixed-price construction agreement (\$33.2 million) and is anticipated to be completed in Q1 2023. Total Adjusted Development Costs are estimated at \$45.4 million and the NOI Yield of the project is anticipated to be approximately 8.1%.

Retirement Living

The following table summarizes the composition of the Company’s 11 retirement communities in operation as at June 30, 2021. Three communities remain in lease-up, The Barrievue, which opened in October 2019, Bolton Mills, which opened at the beginning of 2019, and West Park Crossing. All retirement communities are classified as same-store as at June 30, 2021.

Retirement	Location	Total	Stabilized	Lease-up
Cedar Crossing	Simcoe, ON	69	69	
Douglas Crossing	Uxbridge, ON	148	148	
Empire Crossing	Port Hope, ON	63	63	
Harvest Crossing	Tillsonburg, ON	100	100	
Riverbend Crossing	Regina, SK	67	67	
Stonebridge Crossing	Saskatoon, SK	116	116	
Yorkton Crossing	Yorkton, SK	79	79	
Lynde Creek Manor	Whitby, ON	93	93	
West Park Crossing	Moose Jaw, SK	79		79
The Barrievue	Barrie, ON	124		124
Bolton Mills	Bolton, ON	112		112
Total suites		1,050	735	315
Total communities		11	8	3

AS AT OCCUPANCY

The following table provides the period end occupancy of the retirement communities in total and for each of the stabilized and lease-up groupings for the past eight quarters based on the classifications as at June 30, 2021.

Sequential occupancy declines in stabilized retirement communities are generally to be expected during the winter months. As well, the opening of The Barrievue (124 suites) in October 2019 resulted in a sequential decline in total occupancy at the end of Q4 2019. However, occupancy levels have been negatively impacted by COVID-19, resulting in periods of restricted move-ins and in-person tours by prospective residents since March 2020. As a result, stabilized occupancy of 89.5% as at June 30, 2021, was down 180 bps from June 30, 2020 and down 150 bps from March 31, 2021. However, occupancy in our lease-up communities was 73.0% as at June 30, 2021, up 570 bps from June 30, 2020 and up 350 bps from March 31, 2021,

due to the resumption of in-person tours and the relaxation of certain move-in conditions during the latter half of the second quarter. Overall, total occupancy was 84.6% as at June 30, 2021, down 50 bps from June 30, 2020, and unchanged from March 31, 2021.

Retirement Communities As at Occupancy (%)	2021		2020				2019	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Total communities	84.6 %	84.6 %	84.6 %	85.6 %	84.1 %	86.0 %	85.6 %	86.6 %
Change over prior year period (bps)	50	(140)	(100)	(100)	30	510	(300)	(290)
Sequential quarterly change (bps)	—	—	(100)	150	(190)	40	(100)	280
Stabilized communities	89.5 %	91.0 %	90.7 %	93.1 %	91.3 %	92.8 %	95.1 %	94.1 %
Change over prior year period (bps)	(180)	(180)	(440)	(100)	(120)	180	530	250
Sequential quarterly change (bps)	(150)	30	(240)	180	(150)	(230)	100	160
Lease-up communities	73.0 %	69.5 %	70.2 %	68.3 %	67.3 %	70.2 %	63.5 %	57.6 %

AVERAGE OCCUPANCY

The following table provides the average occupancy of the retirement communities in total and for each of the stabilized and lease-up groupings for the past eight quarters based on the classifications as at June 30, 2021. The same factors discussed above under “As at Occupancy” contributed to the variances in average occupancy.

Retirement Communities Average Occupancy (%)	2021		2020				2019	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Total communities	84.4 %	84.1 %	84.6 %	84.4 %	84.4 %	85.7 %	81.7 %	85.5 %
Change over prior year period (bps)	—	(160)	290	(110)	240	640	(670)	(240)
Sequential quarterly change (bps)	30	(50)	20	—	(130)	400	(380)	350
Stabilized communities	90.2 %	90.7 %	91.3 %	91.9 %	91.5 %	93.5 %	94.9 %	94.0 %
Change over prior year period (bps)	(130)	(280)	(360)	(210)	10	280	510	390
Sequential quarterly change (bps)	(50)	(60)	(60)	40	(200)	(140)	90	260
Lease-up communities	70.9 %	68.8 %	69.0 %	67.0 %	67.9 %	67.5 %	50.7 %	52.7 %

Home Health Care

AVERAGE DAILY VOLUME

The table set out below provides the service volumes and ADV of the home health care operations for the past eight quarters, including and excluding volumes related to the B.C. contracts. At the end of January 2020, ParaMed ceased providing services to the B.C. health authorities, which contracts had contributed revenue of \$3.0 million and NOI of less than \$0.1 million in Q1 2020.

Excluding the impact of the B.C. contracts noted above, the peak impact of COVID-19 on ParaMed’s ADV occurred in April 2020, and since that time, we have seen a gradual recovery in our ADV levels despite seasonal holiday softness in December 2020 and the resurgence of COVID-19 lockdown measures in Q1 2021, which negatively impacted our workforce capacity. During Q2 2021, our ADV recovered further to reach pre-pandemic levels, and at 25,264, was up 3.7% from Q1 2021 and 24.0% higher than Q2 2020, the quarter most impacted by the pandemic. Referral activity continues to be above pre-COVID-19 levels, but ongoing workforce capacity constraints are resulting in lower referral acceptance levels and a continued drag on the pace of growth in our home health care volumes (refer to the discussion under “Significant Developments – Home Health Care Volumes Recovered to Pre-Pandemic Levels”).

Home Health Care Service Volumes	2021		2020				2019	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Total Operations								
Hours of service (000's)	2,299.0	2,191.7	2,202.7	2,093.2	1,854.6	2,319.5	2,661.2	2,652.7
ADV	25,264	24,352	23,943	22,752	20,380	25,489	28,926	28,834
Change over prior year period	24.0 %	(4.5)%	(17.2)%	(21.1)%	(30.3)%	(11.6)%	(3.2)%	(2.1)%
Sequential quarterly change	3.7 %	1.7 %	5.2 %	11.6 %	(20.0)%	(11.9)%	0.3 %	(1.4)%
Excluding B.C.								
Hours of service (000's)	2,299.0	2,191.7	2,202.7	2,093.2	1,854.6	2,246.1	2,329.2	2,322.5
ADV	25,264	24,352	23,943	22,752	20,380	24,682	25,318	25,245
Change over prior year period	24.0 %	(1.3)%	(5.4)%	(9.9)%	(20.7)%	(3.1)%	(4.6)%	(3.3)%
Sequential quarterly change	3.7 %	1.7 %	5.2 %	11.6 %	(17.4)%	(2.5)%	0.3 %	(1.8)%

PARAMED CANADA EMERGENCY WAGE SUBSIDY

On April 11, 2020, the Government of Canada enacted the CEWS program, which was designed to help Canadian employers that have experienced revenue declines to re-hire workers laid off as a result of COVID-19, help prevent further job losses and better position the employers to resume normal operations after the COVID-19 pandemic. Various changes have been made to the CEWS program since the original announcement, including extending the program until September 2021. We have remained focused on maintaining our workforce capacity 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 (refer to “Significant Developments – Home Health Care Volumes Recovered to Pre-Pandemic Levels”).

As a result of the revenue declines experienced by ParaMed, the Company’s home health care subsidiary, ParaMed applied for and received CEWS funding. For the six months ended June 30, 2021, ParaMed recognized \$17.4 million in CEWS (\$9.7 million in Q1 2021, in respect of the claims periods between December 20, 2020 and March 13, 2021, and \$7.7 million in Q2 2021, in respect of the claims periods between March 14, 2021 and June 5, 2021). During 2020, ParaMed recognized \$91.2 million in CEWS in respect of all claims periods in 2020 from inception of the program to December 19, 2020. Payments under the CEWS program are accounted for as government grants under IAS 20 and are recorded on a net basis as a reduction to operating expenses of the home health care segment, thereby impacting the home health care segment’s NOI. Given the run rate of ParaMed ADV, we do not anticipate qualifying for CEWS in future quarters.

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, 2021, Extendicare Assist was providing contract services to third-parties representing 51 LTC homes and retirement communities with capacity for 6,359 senior residents. SGP continues to grow its market share, increasing its third-party residents served by 11.1% at June 30, 2021, over June 30, 2020, and by 3.0% from Q1 2021.

Other Operations	2021		2020				2019	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Extendicare Assist Contract Services								
Homes at period end	51	51	52	53	53	53	53	53
Resident capacity	6,359	6,359	6,379	6,543	6,543	6,601	6,601	6,601
Change over prior year period	(2.8)%	(3.7)%	(3.4)%	(0.9)%	(0.9)%	(0.9)%	1.6 %	(0.5)%
Sequential quarterly change	— %	(0.3)%	(2.5)%	— %	(0.9)%	— %	— %	— %
SGP Clients								
Third-party senior residents	83,511	81,110	78,937	79,372	75,165	72,886	64,762	64,261
Change over prior year period	11.1 %	11.3 %	21.9 %	23.5 %	28.1 %	27.8 %	26.8 %	26.1 %
Sequential quarterly change	3.0 %	2.8 %	(0.5)%	5.6 %	3.1 %	12.5 %	0.8 %	9.5 %

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>	2021		2020				2019	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Revenue	307,449	322,381	307,742	296,786	281,947	271,818	290,895	282,733
Net operating income	31,251	40,264	55,804	75,976	19,934	30,383	32,877	34,867
<i>NOI margin</i>	10.2%	12.5%	18.1%	25.6%	7.1%	11.2%	11.3%	12.3%
Adjusted EBITDA	17,817	27,723	41,046	63,794	8,167	20,131	23,527	23,846
<i>Adjusted EBITDA margin</i>	5.8%	8.6%	13.3%	21.5%	2.9%	7.4%	8.1%	8.4%
Earnings (loss) from continuing operations	960	8,323	15,594	34,644	(8,889)	1,237	4,467	5,353
per basic share (\$)	0.01	0.09	0.17	0.39	(0.10)	0.01	0.05	0.06
per diluted share (\$)	0.01	0.09	0.17	0.36	(0.10)	0.01	0.05	0.06
Earnings (loss) from discontinued operations	—	—	1,882	(178)	5,230	4,669	5,621	1,906
Net earnings (loss)	960	8,323	17,476	34,466	(3,659)	5,906	10,088	7,259
per basic share (\$)	0.01	0.09	0.19	0.38	(0.04)	0.07	0.11	0.08
per diluted share (\$)	0.01	0.09	0.19	0.36	(0.04)	0.07	0.11	0.08
AFFO	8,073	19,545	21,804	42,787	2,946	11,630	11,365	13,693
per basic share (\$)	0.09	0.22	0.24	0.48	0.03	0.13	0.13	0.15
per diluted share (\$)	0.09	0.21	0.23	0.44	0.03	0.13	0.12	0.15
Maintenance capex	3,854	1,033	7,573	2,381	2,157	1,755	6,028	3,056
Cash dividends declared	10,744	10,752	10,743	10,746	10,743	10,731	10,701	10,680
per share (\$)	0.120	0.120	0.120	0.120	0.120	0.120	0.120	0.120
Weighted Average Number of Shares (000's)								
Basic	89,980	89,929	89,898	89,864	89,826	89,644	89,467	89,253
Diluted	100,615	100,520	100,362	100,223	100,177	100,023	99,850	99,614

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>	2021		2020				2019	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Earnings (loss) from continuing operations before income taxes	1,741	11,753	21,717	47,457	(11,907)	1,603	6,452	7,594
Add (Deduct):								
Depreciation and amortization	9,307	9,855	9,884	9,373	9,685	9,853	10,597	9,861
Net finance costs	6,769	6,115	6,959	6,964	7,609	8,675	6,478	6,391
Other expense	—	—	2,486	—	2,780	—	—	—
Adjusted EBITDA	17,817	27,723	41,046	63,794	8,167	20,131	23,527	23,846
Administrative costs	13,434	12,541	14,758	12,182	11,767	10,252	9,350	11,021
Net operating income	31,251	40,264	55,804	75,976	19,934	30,383	32,877	34,867

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 Developments – COVID-19 Related Expenses and Funding” and “Key Performance Indicators – Home Health Care – ParaMed Canada Emergency Wage Subsidy”). 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 increases in preferred accommodation premiums effective July 1st, and Alberta long-

term care providers generally receive annual inflationary rate increases and acuity-based funding adjustments on April 1st and accommodation funding increases effective July 1st;

- maintenance capex spending, which impacts AFFO, fluctuates on a quarterly basis with the timing of projects and seasonality and is generally at its lowest in Q1 and its highest in Q4;
- utility costs are generally at their highest in Q1 and their lowest in Q2 and Q3; and
- certain line items that are reported separately due to their transitional nature that would otherwise distort the comparability of the historical trends, being “other expense” and “foreign exchange and fair value adjustments”.

STATEMENT OF EARNINGS

The following provides the consolidated statement of earnings for the periods ended June 30, 2021 and 2020.

<i>(thousands of dollars unless otherwise noted)</i>	Three months ended June 30			Six months ended June 30		
	2021	2020	Change	2021	2020	Change
Revenue	307,449	281,947	25,502	629,830	553,765	76,065
Operating expenses	276,198	262,013	14,185	558,315	503,448	54,867
Net operating income	31,251	19,934	11,317	71,515	50,317	21,198
Administrative costs	13,434	11,767	1,667	25,975	22,019	3,956
Adjusted EBITDA	17,817	8,167	9,650	45,540	28,298	17,242
Depreciation and amortization	9,307	9,685	(378)	19,162	19,538	(376)
Other expense	—	2,780	(2,780)	—	2,780	(2,780)
Earnings (loss) before net finance costs and income taxes	8,510	(4,298)	12,808	26,378	5,980	20,398
Interest expense (net of capitalized interest)	6,938	7,187	(249)	13,758	14,228	(470)
Interest revenue	(450)	(620)	170	(965)	(1,550)	585
Accretion	320	307	13	637	611	26
Foreign exchange and fair value adjustments	(39)	735	(774)	(546)	2,995	(3,541)
Net finance costs	6,769	7,609	(840)	12,884	16,284	(3,400)
Earnings (loss) from continuing operations before income taxes	1,741	(11,907)	13,648	13,494	(10,304)	23,798
Income tax expense (recovery)						
Current	2,091	(1,848)	3,939	4,918	225	4,693
Deferred	(1,310)	(1,170)	(140)	(707)	(2,877)	2,170
Total income tax expense (recovery)	781	(3,018)	3,799	4,211	(2,652)	6,863
Earnings (loss) from continuing operations	960	(8,889)	9,849	9,283	(7,652)	16,935
Earnings from discontinued operations	—	5,230	(5,230)	—	9,899	(9,899)
Net earnings (loss)	960	(3,659)	4,619	9,283	2,247	7,036
Earnings (loss) from continuing operations	960	(8,889)	9,849	9,283	(7,652)	16,935
Add (Deduct)⁽¹⁾:						
Foreign exchange and fair value adjustments	(7)	574	(581)	(309)	2,063	(2,372)
Other expense	—	2,029	(2,029)	—	2,029	(2,029)
Earnings (loss) from continuing operations before separately reported items, net of taxes	953	(6,286)	7,239	8,974	(3,560)	12,534

(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		
	2021	2020	Change	2021	2020	Change
Earnings (loss) from continuing operations before income taxes	1,741	(11,907)	13,648	13,494	(10,304)	23,798
Add (Deduct):						
Depreciation and amortization	9,307	9,685	(378)	19,162	19,538	(376)
Net finance costs	6,769	7,609	(840)	12,884	16,284	(3,400)
Other expense	—	2,780	(2,780)	—	2,780	(2,780)
Adjusted EBITDA	17,817	8,167	9,650	45,540	28,298	17,242
Administrative costs	13,434	11,767	1,667	25,975	22,019	3,956
Net operating income	31,251	19,934	11,317	71,515	50,317	21,198

2021 SECOND QUARTER FINANCIAL REVIEW

The following is an analysis of the consolidated results from operations for Q2 2021, as compared to Q2 2020. 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 \$307.4 million for Q2 2021 increased by \$25.5 million or 9.0% from \$281.9 million in Q2 2020. The increase in revenue was driven primarily by a 24.0% increase in home health care volumes, funding related to COVID-19 (\$6.1 million), LTC funding enhancements and growth in retirement living and other operations, partially offset by timing of flow-through funding and lower preferred accommodation revenue in the LTC operations.

Operating Expenses

Operating expenses of \$276.2 million for Q2 2021 increased by \$14.2 million or 5.4% from Q2 2020. Excluding the year-over-year impact on operating expenses from CEWS (\$7.7 million) received by the home health care segment in Q2 2021, operating expenses increased by \$21.9 million or 8.4% to \$283.9 million in Q2 2021 from \$262.0 million in the same prior year period. The increase in operating expenses was driven by increased estimated costs related to COVID-19 and funded pandemic pay programs (\$5.0 million), the impact of higher home health care volumes and increased costs of resident care in the LTC and retirement living operations, partially offset by back-office efficiencies in the home health care operations.

Net Operating Income

Net operating income improved by \$11.3 million to \$31.3 million for Q2 2021 as compared to \$19.9 million for Q2 2020 and represented 10.2% of revenue as compared to 7.1% for Q2 2020. Excluding the impact of CEWS (\$7.7 million) received by the home health care segment in Q2 2021, NOI increased by \$3.6 million to \$23.6 million in Q2 2021 from \$19.9 million in the same prior year period, representing 7.7% and 7.1% of revenue, respectively. Improvements in NOI from the home health care operations and a reduction in the net impact of estimated costs of COVID-19 in excess of funding (\$1.1 million), were partially offset by increased costs of resident care and lower preferred accommodation revenue in the LTC operations.

Administrative Costs

Administrative costs increased by \$1.7 million or 14.2% to \$13.4 million for Q2 2021 and included a reduction in costs related to COVID-19 of \$0.1 million, with the balance primarily due to higher labour costs associated with increased management and support staff, and increased costs for information technology, professional fees and travel.

Adjusted EBITDA

Adjusted EBITDA increased by \$9.7 million to \$17.8 million for Q2 2021 as compared to \$8.2 million for Q2 2020, and represented 5.8% of revenue as compared to 2.9%, respectively, reflecting the increase in NOI, partially offset by increased administrative costs, as discussed above.

Depreciation and Amortization

Depreciation and amortization costs declined by \$0.4 million to \$9.3 million for Q2 2021.

Other Expense

Other expense of \$2.8 million recorded in Q2 2020 related to an impairment charge in respect of certain of the Company's retirement communities in Saskatchewan.

Net Finance Costs

Net finance costs decreased by \$0.8 million for Q2 2021, primarily due to a net favourable change of \$0.8 million in foreign exchange and fair value adjustments related to the Company's interest rate swaps and lower interest expense, partially offset by lower interest revenue. Interest expense of \$6.9 million declined by \$0.2 million, reflecting a lower weighted average interest rate, partially offset by increased debt levels.

Income Taxes

The income tax provision was \$0.8 million for Q2 2021, representing an effective tax rate of 44.9%, as compared to a recovery of \$3.0 million and an effective tax rate of 25.3% for Q2 2020. The Q2 2021 income tax provision includes \$2.0 million of current income taxes payable on CEWS (\$7.7 million) received by the home health care segment, partially offset by a decline in taxable income in the other operating segment legal entities.

Earnings (Loss) from Continuing Operations

Earnings from continuing operations increased by \$9.8 million to \$1.0 million (\$0.01 per basic share) for Q2 2021 from a loss of \$8.9 million (\$0.10 loss per basic share) for Q2 2020, largely driven by the impact of CEWS (\$7.7 million) received by the home health care segment (\$5.7 million net of tax, or \$0.06 per basic share) and the reduction in the net impact of estimated costs of COVID-19 in excess of funding (\$0.8 million net of tax, or \$0.01 per basic share). The balance of the increase in earnings from continuing operations of \$3.2 million was primarily due to the impairment charge booked in Q2 2020, the net favourable change in foreign exchange and fair value adjustment and the improvement in NOI from the home health care operations, partially offset by the increase in 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.

Three months ended June 30 <i>(thousands of dollars unless otherwise noted)</i>	Long-term Care	Retirement Living	Home Health Care	Other Operations	Total
2021					
Revenue	187,166	12,301	101,097	6,885	307,449
Operating expenses	177,388	8,601	87,056	3,153	276,198
Net operating income	9,778	3,700	14,041	3,732	31,251
NOI margin %	5.2 %	30.1 %	13.9 %	54.2 %	10.2 %
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
NOI margin %	6.2 %	30.0 %	1.7 %	62.0 %	7.1 %
Change					
Revenue	8,695	564	15,630	613	25,502
Operating expenses	10,028	380	3,008	769	14,185
Net operating income	(1,333)	184	12,622	(156)	11,317

LONG-TERM CARE OPERATIONS

Revenue from the LTC operations grew by \$8.7 million or 4.9% to \$187.2 million for Q2 2021, largely driven by increased funding of \$7.9 million to support the costs associated with COVID-19 and pandemic pay programs, as well as other funding enhancements, partially offset by timing of flow-through funding and lower preferred accommodation revenue due to the impact of COVID-19.

Net operating income from the LTC operations was \$9.8 million for Q2 2021 as compared to \$11.1 million for Q2 2020, a decrease of \$1.3 million or 12.0%, with NOI margins of 5.2% and 6.2%, respectively. Operating expenses were \$10.0 million higher than the same prior year period and included increased estimated costs associated with COVID-19 and funded pandemic pay programs of \$6.5 million. Funding to support the costs associated with COVID-19 increased by \$7.9 million, resulting in a \$1.4 million reduction in unfunded COVID-19 costs year over year (refer to “Significant Developments – COVID-19 Related Expenses and Funding”). Excluding the net impact of the change in COVID-19 funding and expenses, the decline in NOI in Q2 2021 as compared to Q1 2020 was \$2.7 million due to increased costs of resident care in excess of funding, primarily related to lower preferred accommodation revenue and higher costs of labour, utilities and insurance.

RETIREMENT LIVING OPERATIONS

Revenue from retirement living operations grew by \$0.6 million or 4.8% to \$12.3 million for Q2 2021, primarily attributable to increased care services and rates, while average occupancy remained unchanged between periods.

Net operating income from the retirement living operations was \$3.7 million for Q2 2021 as compared to \$3.5 million for Q2 2020, an increase of \$0.2 million or 5.2%, reflecting improvement in revenue and lower estimated net COVID-19 costs, partially offset by increased labour and promotional costs.

HOME HEALTH CARE OPERATIONS

The following discussion of the home health care operations excludes CEWS received in Q2 2021 of \$7.7 million (refer to “Key Performance Indicators – Home Health Care – ParaMed Canada Emergency Wage Subsidy”).

Revenue from the home health care operations increased by \$15.6 million or 18.3% to \$101.1 million for Q2 2021 from \$85.5 million for Q2 2020, reflecting growth in ADV of 24.0%, partially offset by a decrease in funding of \$1.8 million to support the costs associated with COVID-19 and pandemic pay programs as compared to Q2 2020.

Net operating income from the home health care operations increased by \$4.9 million to \$6.3 million for Q2 2021 from \$1.4 million for Q2 2020, with NOI margins of 6.3% and 1.7%, respectively. The improvement in NOI was largely due to growth in ADV of 24.0% and lower back-office costs, partially offset by a \$0.6 million increase in net costs associated with COVID-19 in excess of funded pandemic pay programs and other COVID assistance (refer to the discussion under “Significant Developments – COVID-19 Related Expenses and Funding”).

OTHER OPERATIONS

Revenue from other operations increased by \$0.6 million or 9.8% to \$6.9 million in Q2 2021 compared to Q2 2020, largely due to the increase in group purchasing clients.

Net operating income from other operations declined by \$0.2 million or 4.0% to \$3.7 million for Q2 2021 compared to Q2 2020, reflecting revenue growth from an increase in group purchasing clients, offset by higher operating expenses due to increased staff in connection with growth initiatives and increased travel and business promotion compared to Q2 2020.

2021 SIX MONTH FINANCIAL REVIEW

The following is an analysis of the consolidated results from operations for the six months ended June 30, 2021, as compared to the same period in 2020. 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 \$629.8 million for the six months ended June 30, 2021, increased by \$76.1 million or 13.7% from the six months ended June 30, 2020. This increase in revenue was driven primarily by funding related to COVID-19 (\$61.5 million), a 10.1% increase in home health care volumes, LTC funding enhancements and growth in retirement living and other operations, partially offset by timing of flow-through funding and lower preferred accommodation revenue in the LTC operations.

Operating Expenses

Operating expenses of \$558.3 million for the six months ended June 30, 2021, increased by \$54.9 million or 10.9% from the six months ended June 30, 2020. Excluding the year-over-year impact on operating expenses from CEWS (\$17.4 million) received by the home health care segment in 2021, operating expenses increased by \$72.3 million or 14.4% to \$575.7 million for the six months ended June 30, 2021, from \$503.4 million in the same prior year period. The increase in operating expenses was driven by increased estimated costs related to COVID-19 and funded pandemic pay programs (\$61.5 million), the impact of higher home health care volume and increased costs of resident care in the LTC and retirement living operations, partially offset by back-office efficiencies in the home health care operations.

Net Operating Income

Net operating income improved by \$21.2 million to \$71.5 million for the six months ended June 30, 2021, and represented 11.4% of revenue as compared to 9.1% for the six months ended June 30, 2020. Excluding the year-over-year impact of CEWS (\$17.4 million) received by the home health care segment in 2021, NOI increased by \$3.8 million or 7.6% to \$54.1 million for the six months ended June 30, 2021, from \$50.3 million in the same prior year period, representing 8.6% and 9.1% of revenue, respectively. Improvements in NOI from the home health care and other operations segments was partially offset by increased costs of resident care and lower preferred accommodation revenue in the LTC operations.

Administrative Costs

Administrative costs increased by \$4.0 million or 18.0% to \$26.0 million for the six months ended June 30, 2021 and included increased administrative costs related to COVID-19 of \$0.8 million, with the balance primarily due to higher labour costs associated with increased management and support staff and higher costs for information technology, professional fees, travel, insurance and claims reserves.

Adjusted EBITDA

Adjusted EBITDA increased by \$17.2 million to \$45.5 million for the six months ended June 30, 2021, as compared to \$28.3 million for the six months ended June 30, 2020, and represented 7.2% of revenue as compared to 5.1%, respectively, reflecting the increase in NOI, partially offset by increased administrative costs, as discussed above.

Depreciation and Amortization

Depreciation and amortization costs declined by \$0.4 million to \$19.2 million for the six months ended June 30, 2021.

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 recorded in Q2 2020.

Net Finance Costs

Net finance costs decreased by \$3.4 million for the six months ended June 30, 2021, primarily due to a net favourable change of \$3.5 million in foreign exchange and fair value adjustments related to the Company’s interest rate swaps and lower interest expense, partially offset by lower interest revenue. Interest expense of \$13.8 million declined by \$0.5 million, reflecting a lower weighted average interest rate, partially offset by increased debt levels.

Income Taxes

The income tax provision was \$4.2 million for the six months ended June 30, 2021, representing an effective tax rate of 31.2%, as compared to recovery of \$2.7 million and an effective tax rate of 25.7% for the six months ended June 30, 2020. The income tax provision for the six months ended June 30, 2021, includes \$4.6 million of current income taxes payable on CEWS (\$17.4 million) received by the home health care segment, partially offset by a decline in taxable income of the other operating segment legal entities.

Earnings (Loss) from Continuing Operations

Earnings from continuing operations increased by \$16.9 million to \$9.3 million (\$0.10 per basic share) for the six months ended June 30, 2021, from a loss of \$7.7 million (\$0.09 loss per basic share) for the six months ended June 30, 2020, largely driven by the impact of CEWS (\$17.4 million) received by the home health care segment (\$12.8 million net of tax, or \$0.14 per basic share), partially offset by the increase in estimated costs of COVID-19 in excess of funding (\$0.6 million net of tax, or \$0.01 loss per basic share). The balance of the increase in earnings from continuing operations of \$4.7 million was primarily due to the impairment charge booked in Q2 2020, the net favourable change in foreign exchange and fair value adjustment and the improvement in NOI from the home health care and other operations segments, partially offset by the increase in 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
2021					
Revenue	392,301	24,475	198,764	14,290	629,830
Operating expenses	366,234	17,328	168,761	5,992	558,315
Net operating income	26,067	7,147	30,003	8,298	71,515
NOI margin %	6.6 %	29.2 %	15.1 %	58.1 %	11.4 %
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
NOI margin %	8.7 %	30.4 %	3.2 %	61.4 %	9.1 %
Change					
Revenue	53,590	699	20,197	1,579	76,065
Operating expenses	57,070	777	(4,070)	1,090	54,867
Net operating income	(3,480)	(78)	24,267	489	21,198

LONG-TERM CARE OPERATIONS

Revenue from LTC operations grew by \$53.6 million or 15.8% to \$392.3 million for the six months ended June 30, 2021, largely driven by increased funding of \$54.5 million to support the costs associated with COVID-19 and pandemic pay programs and other funding enhancements, partially offset by timing of flow-through funding and lower preferred accommodation revenue due to the impact of COVID-19.

Net operating income from the LTC operations was \$26.1 million for the six months ended June 30, 2021, as compared to \$29.5 million for the six months ended June 30, 2020, a decrease of \$3.5 million or 11.8%, with NOI margins of 6.6% and 8.7%, respectively. Operating expenses were \$57.1 million higher than the same prior year period and included increased estimated costs associated with COVID-19 and funded pandemic pay programs of \$53.9 million. Funding to support the costs associated with COVID-19 increased by \$54.5 million, resulting in a \$0.6 million reduction in unfunded COVID-19 costs year over year (refer to "Significant Developments – COVID-19 Related Expenses and Funding"). Excluding the net impact of the change in COVID-19 funding and expenses, the decline in NOI of \$4.1 million for the six months ended June 30, 2021 as compared to the same prior year period, was due to increased costs of resident care in excess of funding, primarily related to lower preferred accommodation revenue and higher costs of labour, utilities and insurance.

RETIREMENT LIVING OPERATIONS

Revenue from retirement living operations grew by \$0.7 million or 2.9% to \$24.5 million for the six months ended June 30, 2021, primarily attributable to increased care services and rates, partially offset by lower average occupancy as a result of the impact of COVID-19.

Net operating income from the retirement living operations was \$7.1 million for the six months ended June 30, 2021, as compared to \$7.2 million for the six months ended June 30, 2020, a decrease of \$0.1 million or 1.1%, reflecting increased costs of labour, business promotion, insurance and utilities, partially offset by growth in revenue and lower estimated net COVID-19 costs.

HOME HEALTH CARE OPERATIONS

The following discussion of the home health care operations excludes CEWS received of \$17.4 million for the six months ended June 30, 2021 (refer to “Key Performance Indicators – Home Health Care – ParaMed Canada Emergency Wage Subsidy”).

Revenue from the home health care operations increased by \$20.2 million or 11.3% to \$198.8 million for the six months ended June 30, 2021, from \$178.6 million in the same prior year period, reflecting growth in ADV of 10.1% and increased funding of \$7.0 million to support the costs associated with COVID-19 and pandemic pay programs, partially offset by \$3.0 million of revenue in Q1 2020 related to the expired B.C. contracts.

Net operating income from the home health care operations increased by \$6.9 million to \$12.6 million for the six months ended June 30, 2021, from \$5.7 million for the six months ended June 30, 2020, with NOI margins of 6.3% and 3.2%, respectively. The improvement in NOI was largely due to growth in ADV of 10.1% and lower back-office costs, including costs incurred in 2020 associated with the ParaMed transformation project, partially offset by a \$0.8 million increase in net costs associated with COVID-19 in excess of funded pandemic pay programs and other COVID assistance (refer to the discussion under “Significant Developments – COVID-19 Related Expenses and Funding”).

OTHER OPERATIONS

Revenue from other operations increased by \$1.6 million or 12.4% to \$14.3 million for the six months ended June 30, 2021, largely due to an increase in group purchasing clients.

Net operating income from other operations increased by \$0.5 million or 6.3% to \$8.3 million for the six months ended June 30, 2021, due to revenue growth from an increase in group purchasing clients and lower operating expenses related to reduced travel and business promotion due to COVID-19, partially offset by increased staff in connection with growth initiatives.

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		
	2021	2020	Change	2021	2020	Change
Earnings (loss) from continuing operations	960	(8,889)	9,849	9,283	(7,652)	16,935
Add (Deduct):						
Depreciation and amortization	9,307	9,685	(378)	19,162	19,538	(376)
Depreciation for FFEC (maintenance capex) ⁽¹⁾	(1,916)	(1,963)	47	(3,881)	(3,803)	(78)
Depreciation for office leases ⁽²⁾	(623)	(642)	19	(1,350)	(1,266)	(84)
Other expense	—	2,780	(2,780)	—	2,780	(2,780)
Foreign exchange and fair value adjustments	(39)	735	(774)	(546)	2,995	(3,541)
Current income tax expense (recovery) on other expense, foreign exchange and fair value adjustments ⁽³⁾	—	—	—	—	—	—
Deferred income tax expense (recovery)	(1,310)	(1,170)	(140)	(707)	(2,877)	2,170
FFO (continuing operations)	6,379	536	5,843	21,961	9,715	12,246
Amortization of deferred financing costs	502	525	(23)	1,037	966	71
Accretion costs	320	307	13	637	611	26
Non-cash share-based compensation	1,166	322	844	1,824	496	1,328
Principal portion of government capital funding	1,536	1,450	86	3,057	2,897	160
Additional maintenance capex ⁽¹⁾	(1,830)	(194)	(1,636)	(898)	(109)	(789)
AFFO	8,073	2,946	5,127	27,618	14,576	13,042
Per Basic Share (\$)						
FFO	0.07	0.01	0.06	0.24	0.11	0.13
AFFO	0.09	0.03	0.06	0.31	0.16	0.15
Per Diluted Share (\$)						
FFO	0.07	0.01	0.06	0.24	0.11	0.13
AFFO	0.09	0.03	0.06	0.30	0.16	0.14
Dividends (\$)						
Declared	10,744	10,747	(3)	21,496	21,474	22
Declared per share (\$)	0.12	0.12	—	0.24	0.24	—
Weighted Average Number of Shares (thousands)						
Basic	89,980	89,826		89,954	89,735	
Diluted	100,615	100,177		100,672	100,095	
Current income tax expense (recovery) included in FFO	2,091	(1,848)	3,939	4,918	225	4,693
Total maintenance capex⁽¹⁾	3,746	2,157	1,589	4,779	3,912	867

(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.

AFFO 2021 Financial Review

For Q2 2021, AFFO improved by \$5.1 million to \$8.1 million (\$0.09 per basic share) from \$2.9 million (\$0.03 per basic share) for Q2 2020, reflecting the increase in Adjusted EBITDA and higher non-cash share-based compensation, partially offset by higher current income taxes and increased maintenance capex. AFFO in Q2 2021 included CEWS received by the home health care segment of \$5.7 million net of tax (\$0.06 per basic share) and a decline in estimated COVID-19 related costs in excess of funding, net of tax, which were \$7.0 million (\$0.08 loss per basic share) in Q2 2021 in comparison to \$7.8 million (\$0.09 loss per basic share) in Q2 2020.

For the six months ended June 30, 2021, AFFO improved by \$13.0 million to \$27.6 million (\$0.31 per basic share) from \$14.6 million (\$0.16 per basic share) for six months ended June 30, 2020, reflecting the increase in Adjusted EBITDA and higher non-cash share-based compensation, partially offset by higher current income taxes and increased maintenance

CAPEX. AFFO for the six months ended June 30, 2021, included CEWS received by the home health care segment of \$12.8 million net of tax (0.14 per basic share) and an increase in estimated COVID-19 related costs in excess of funding, net of tax, which were \$8.7 million (\$0.10 loss per basic share) for the six months ended June 30, 2021, in comparison to \$8.1 million (\$0.09 loss per basic share) in the same prior year period.

Dividends declared as a percentage of AFFO for the six months ended June 30, 2021, represented a payout ratio of 78%. In addition to cash generated from operations and cash on hand of \$132.5 million at June 30, 2021, the Company has available undrawn credit facilities totalling \$73.2 million (refer to the discussion under “Liquidity and Capital Resources”).

A discussion of the factors impacting net earnings and Adjusted EBITDA can be found under “2021 Second Quarter Financial Review” and “2021 Six Month Financial Review”.

The effective tax rate on FFO from continuing operations was 18.3% for the six months ended June 30, 2021, as compared to 2.3% for the six months ended June 30, 2020. The Company’s current income taxes for both periods have been impacted by the effects of COVID-19 and the impact of CEWS received by the home health care segment. In particular, increased costs as a result of COVID-19 and CEWS received by ParaMed have had an impact on the level of taxable income in our various legal entities and the resulting effective tax rate on the Company’s FFO. The determination of FFO includes a deduction for current income tax expense and does not include deferred income tax expense. As a result, the effective tax rates on FFO can be impacted by: adjustments to estimates of annual deferred timing differences, particularly when dealing with cash-based tax items versus accounting accruals; changes in the proportion of earnings between taxable and non-taxable entities; book-to-file adjustments for prior year filings; and the ability to utilize loss carryforwards. For 2021, the Company expects the effective tax rate on FFO will be in the range of 13% to 15%. However, the continuing impact of the COVID-19 pandemic on the Company’s operations and financial results may impact the effective tax rate on FFO.

Maintenance capex was \$3.7 million for Q2 2021 as compared to \$2.2 million for Q2 2020 and to \$1.0 million for Q1 2021, representing 1.2%, 0.8% and 0.3% of revenue, respectively. For the six months ended June 30, 2021, maintenance capex was \$4.8 million as compared to \$3.9 million in the same prior year period, representing 0.8% and 0.7% of revenue, respectively. These costs fluctuate on a quarterly and annual basis with the timing of projects and seasonality.

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	
	2021	2020	2021	2020
Net cash from operating activities	22,254	1,608	9,107	20,417
Add (Deduct):				
Net change in operating assets and liabilities, including interest, taxes and payments for U.S. self-insured liabilities	(11,348)	2,061	21,583	(4,427)
Current income tax on items excluded from AFFO ⁽¹⁾	—	—	—	10
Depreciation for office leases ⁽²⁾	(623)	(642)	(1,350)	(1,266)
Depreciation for FFEC (maintenance capex) ⁽³⁾	(1,916)	(1,963)	(3,881)	(3,803)
Additional maintenance capex ⁽³⁾	(1,830)	(194)	(898)	(109)
Principal portion of government capital funding	1,536	1,450	3,057	2,897
Amounts offset through investments held for self-insured liabilities ⁽⁴⁾	—	626	—	857
AFFO	8,073	2,946	27,618	14,576

(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		
	2021	2020	Change	2021	2020	Change
Adjusted EBITDA	17,817	8,167	9,650	45,540	28,298	17,242
Add (Deduct):						
Depreciation for FFEC (maintenance capex) ⁽¹⁾	(1,916)	(1,963)	47	(3,881)	(3,803)	(78)
Depreciation for office leases ⁽²⁾	(623)	(642)	19	(1,350)	(1,266)	(84)
Accretion costs	(320)	(307)	(13)	(637)	(611)	(26)
Interest expense	(6,938)	(7,186)	248	(13,758)	(14,228)	470
Interest revenue	450	619	(169)	965	1,550	(585)
	8,470	(1,312)	9,782	26,879	9,940	16,939
Current income tax expense (recovery) ⁽³⁾	2,091	(1,848)	3,939	4,918	225	4,693
FFO (continuing operations)	6,379	536	5,843	21,961	9,715	12,246
Amortization of deferred financing costs	502	525	(23)	1,037	966	71
Accretion costs	320	307	13	637	611	26
Non-cash share-based compensation	1,166	322	844	1,824	496	1,328
Principal portion of government capital funding	1,536	1,450	86	3,057	2,897	160
Additional maintenance capex ⁽¹⁾	(1,830)	(194)	(1,636)	(898)	(109)	(789)
AFFO	8,073	2,946	5,127	27,618	14,576	13,042

(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) 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.

LIQUIDITY AND CAPITAL RESOURCES

Sources and Uses of Cash

The following summarizes the sources and uses of cash between continuing and discontinued operations for 2021 and 2020.

<i>(thousands of dollars unless otherwise noted)</i>	Six months ended June 30, 2021			Six months ended June 30, 2020		
	Continuing	Discontinued	Total	Continuing	Discontinued	Total
Net cash from (used in) operating activities	9,107	—	9,107	26,033	(5,616)	20,417
Net cash from (used in) investing activities	(18,307)	—	(18,307)	2,871	5,616	8,487
Net cash used in financing activities	(38,188)	—	(38,188)	(2,065)	—	(2,065)
Foreign exchange gain (loss) on U.S. cash held	(117)	—	(117)	673	—	673
Increase (decrease) in cash and cash equivalents	(47,505)	—	(47,505)	27,512	—	27,512
Cash and cash equivalents at beginning of year	179,956	—	179,956	94,457	—	94,457
Cash and cash equivalents at end of period	132,451	—	132,451	121,969	—	121,969

As at June 30, 2021, the Company had cash and cash equivalents on hand of \$132.5 million, reflecting a decrease in cash of \$47.5 million from the beginning of the year. Cash flow from operating activities of the continuing operations was \$9.1 million for the six months ended June 30, 2021.

Dividends paid of \$21.5 million for the six months ended June 30, 2021, were \$12.4 million in excess of cash flow from operating activities during the same period, primarily attributable to the timing of income taxes paid in 2021 related to CEWS received in 2020.

Net cash from operating activities of the continuing operations was a source of cash of \$9.1 million for the six months ended June 30, 2021, down \$16.9 million as compared to \$26.0 million for the six months ended June 30, 2020, with the increase in earnings offset primarily by a use of cash to support the increase in income taxes paid in Q1 2021 resulting from CEWS recognized in 2020 and timing of related payments. Income taxes paid in 2021 of \$23.6 million were \$21.6 million higher than taxes paid in the same prior period. Fluctuations in operating assets and liabilities between periods is primarily attributable to the volatility and timing of cash receipts related to COVID-19, the timing of payroll cycles and the impact on other assets of an increase in PPE inventory in 2020.

Net cash from investing activities of the continuing operations was a use of cash of \$18.3 million for the six months ended June 30, 2021 as compared to a source of cash of \$2.9 million for the six months ended June 30, 2020. The 2021 activity included purchases of property, equipment and other intangible assets of \$21.4 million, partially offset by the collection of other assets of \$3.1 million. The 2020 activity included the repatriation of cash 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 table that follows summarizes the capital expenditures. Growth capex relates to the LTC redevelopment projects, building improvements, IT projects, or other capital projects, all of which are aimed at earnings growth. Maintenance capex relates to the actual capital expenditures incurred to sustain and upgrade existing property and equipment.

<i>(thousands of dollars)</i>	Six months ended June 30	
	2021	2020
Growth capex	16,585	6,017
Maintenance capex	4,779	3,912
	21,364	9,929

Management monitors and prioritizes the capital expenditure requirements of its properties throughout the year, taking into account the urgency and necessity of the expenditure. For 2021, the Company expects to spend in the range of \$14.0 million to \$16.0 million in maintenance capex and in the range of \$60.0 million to \$70.0 million in growth capex related primarily to the construction of the Sudbury and Kingston LTC Projects, redevelopment activities and investments in technology as part of our ongoing strategy of transitioning our key IT platforms to the cloud to support our growth initiatives. Depending on the timing of further announcements of our LTC redevelopment projects during 2021 the level of our growth capex could change (refer to “Key Performance Indicators – LTC Projects Under Construction”).

Net cash from financing activities of the continuing operations was a use of cash of \$38.2 million for the six months ended June 30, 2021, an increase of \$36.1 million from \$2.1 million for the six months ended June 30, 2020. The 2021 activity included debt repayments of \$15.7 million, cash dividends paid of \$21.5 million and financing costs. The 2020 activity included new debt of \$62.4 million, which included 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.

Discontinued operations in 2020 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 were funded by the Captive, prior to its deregistration in September 2020. Changes in the Captive’s investments held for U.S. self-insured liabilities, prior to its deregistration, were reported as a component of net cash from investing activities, as those invested funds were not included in the Company’s cash and cash equivalents (refer to “Discontinued Operations”).

Capital Structure

SHAREHOLDERS’ EQUITY

Total shareholders’ equity as at June 30, 2021, was \$119.7 million as compared to \$128.2 million at December 31, 2020, reflecting the contributions from net earnings and comprehensive income offset by dividends declared of \$21.5 million.

As at June 30, 2021, the Company had 89,562,499 Common Shares issued and outstanding (carrying value – \$500.9 million) as compared to 89,539,085 Common Shares (carrying value – \$500.6 million) as at December 31, 2020. The increase in Common Shares was attributable to shares issued under the Company’s equity-based compensation plan (23,414 Common Shares).

Share Information <i>(thousands)</i>	August 4, 2021	June 30, 2021	December 31, 2020
Common Shares (TSX symbol: EXE) ⁽¹⁾	89,562.5	89,562.5	89,539.1

(1) Closing market value per the TSX on August 4, 2021, was \$8.19.

As at August 5, 2021, the Company had an aggregate of 4,240,738 Common Shares reserved and available for issuance pursuant to the Company's long-term incentive plan, of which there were in aggregate 1,582,917 performance share units and deferred share units outstanding as at June 30, 2021 (refer to *Note 9* of the unaudited interim condensed consolidated financial statements).

As at August 5, 2021, 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.

Dividends

The Company declared cash dividends of \$0.24 per share or \$21.5 million in the six months ended June 30, 2021, consistent with that declared in the same 2020 period.

Long-term Debt

Long-term debt totalled \$551.2 million as at June 30, 2021, as compared to \$564.6 million as at December 31, 2020, representing a decrease of \$13.4 million, due to debt repayments of \$15.7 million, partially offset by new lease liabilities and changes in accretion and deferred financing costs. The current portion of long-term debt as at June 30, 2021, was \$111.9 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, 2021. Details of the components, maturities dates, terms and conditions of long-term debt are provided in *Note 7* of the unaudited interim condensed consolidated financial statements.

LTC CONSTRUCTION FINANCING

In May 2021, the Company secured construction financing in connection with the Sudbury and Kingston LTC Projects. The facilities include \$54.7 million for Sudbury and \$41.1 million for Kingston, and each construction loan matures on the earlier of 42 months from closing or the date that the construction loans are refinanced following completion of construction. Interest rates are prime plus 1.25% or CDOR plus 2.75% with standby fees of 0.55%. The facilities also provide for an additional \$4.0 million in letter of credit facilities. Interest is capitalized during construction and is payable following completion of construction until maturity. As at June 30, 2021, no amounts were drawn on these LTC redevelopment construction financings.

CREDIT FACILITIES

The Company has two demand credit facilities totalling \$112.3 million, one of which is secured by 13 Class C LTC homes in Ontario and the other is secured by the assets of the home health care business. Neither of these facilities has financial covenants but do contain normal and customary terms. As at June 30, 2021, \$33.7 million of the facilities secure the Company's defined benefit pension plan obligations and \$5.4 million was used in connection with obligations relating to LTC homes and retirement communities, leaving \$73.2 million available.

LONG-TERM DEBT KEY METRICS

Management has limited the amount of debt that may be subject to changes in interest rates, with only \$22.4 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 \$86.8 million as at June 30, 2021, have effectively been converted to fixed-rate financings with interest rate swaps over the full term. As at June 30, 2021, the interest rate swaps were valued as a liability of \$1.5 million.

The following summarizes key metrics of consolidated long-term debt as at June 30, 2021, and December 31, 2020.

<i>(thousands of dollars unless otherwise noted)</i>	June 30, 2021	December 31, 2020
Weighted average interest rate of long-term debt outstanding	4.3 %	4.3 %
Weighted average term to maturity of long-term debt outstanding	6.0 yrs	6.4 yrs
Trailing twelve months consolidated net interest coverage ratio ⁽¹⁾	5.8 X	5.2 X
Trailing twelve months consolidated interest coverage ratio ⁽²⁾	5.4 X	4.7 X
Debt to Gross Book Value (GBV)		
Total assets (carrying value)	908,066	963,127
Accumulated depreciation on property and equipment	283,439	269,947
Accumulated amortization on other intangible assets	30,235	30,445
GBV	1,221,740	1,263,519
Debt ⁽³⁾	565,434	579,654
Debt to GBV	46.3 %	45.9 %

(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 \$132.5 million as at June 30, 2021, as compared with \$180.0 million as at December 31, 2020, representing a decrease of \$47.5 million. In addition, the Company has access to a further \$73.2 million in undrawn demand credit facilities. Cash and cash equivalents exclude restricted cash of \$2.8 million.

In May 2021, the Company secured construction financing for the Sudbury and Kingston LTC Projects in the aggregate of \$95.9 million, for which nothing was drawn as at June 30, 2021. For more information refer to the discussion under "Liquidity and Capital Resources – Long-term Debt – LTC Construction Financing".

In addition to the Sudbury and Kingston LTC Projects currently under construction, we have a further seven LTC redevelopment projects in advanced stages of approvals with the MLTC that we anticipate having under construction by the end of 2023. We intend to leverage our strong liquidity as at June 30, 2021 and pursue competitive construction financing options for these projects as required based on the timing of the construction costs of approved projects and the anticipated timing of additional future approvals from the MLTC.

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 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 COVID-19 may result in reductions or early prepayments of existing financings if covenants are unable to be met (refer to "Risks and Uncertainties").

OTHER CONTRACTUAL OBLIGATIONS AND CONTINGENCIES

Commitments

As at June 30, 2021, the Company has outstanding commitments of \$77.1 million in connection with contracts for two LTC redevelopment projects under construction, of which \$30.0 million is estimated to be payable in 2021, \$42.8 million in 2022 and the balance in 2023, based on the anticipated construction schedules. The Company also has outstanding commitments of \$19.8 million in connection with a five-year agreement for a finance and human resources cloud-based IT platform as part of its ongoing strategy of transitioning key IT platforms to the cloud to support growth initiatives. Payments under the agreement are due annually in advance and the agreement expires in 2025.

Legal Proceedings and Regulatory Actions

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

In June 2020, the Company was served with an amended statement of claim filed in the Ontario Superior Court of Justice (“Ontario Superior Court”) 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 Extencicare Assist division. The claim seeks an order certifying 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.

In October 2020, the Company was served with a statement of claim filed in Ontario Superior Court alleging negligence, breach of contract, breach of certain statutory duties and Human Rights Code breaches in respect of all residents of a Company LTC home as well as their family members. In January 2021, the claim was amended to include further allegations of gross negligence and claim against 35 Company LTC homes and 36 LTC homes to which the Company provides contract services. The claim seeks an order certifying the action as a class action and damages in the aggregate amount of \$210.0 million.

In October 2020, the Company was served with a statement of claim filed in Ontario Superior Court naming it and multiple other defendants, including multiple LTC homes and their respective owners and operators, the Government of Ontario and several Ontario cities, including the City of Toronto. The claim seeks an order certifying the action as a class action and alleges negligence, breach of fiduciary duty and breach of section 7 of the *Canadian Charter of Rights and Freedoms* by the multiple defendants, including the Company, in the operation of certain LTC homes and provision of care to residents. The claim seeks aggregate damages of \$600.0 million from the multiple defendants.

In December 2020, the Company was served with a statement of claim filed in Ontario Superior Court naming the Company and the owner of a LTC home to which the Company provides contracted services, as well as certain entities related to the owner. The claim seeks an order certifying the claim as a class action and alleges negligence, gross negligence, breach of fiduciary duty, breach of contract and wrongful death 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.

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

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

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

DISCONTINUED OPERATIONS

After the sale of its U.S. business in 2015 (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 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 (BMA) and subsequently dissolve the Captive,

thereby 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.

In September 2020, the BMA approved the deregistration of the Captive. 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.

Effective June 30, 2020, the accrual for self-insured general and professional liabilities was reduced to \$nil from \$12.2 million (US\$9.4 million) at the beginning of the year as a result of claims settlements, the 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. Any expense incurred or release of reserves for U.S. self-insured liabilities are presented as discontinued operations.

Following the receipt of approval by the BMA to deregister the Captive, the remaining balance of restricted cash held in investments was released to the Company. During 2020, the Captive transferred \$23.3 million (US\$17.0 million) of cash previously held for investment 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. Further details are provided in *Note 15* 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, 2020, contained in the Company's 2020 Annual Report. The disclosures in such report have not materially changed since that report was filed, and to the extent there have been any changes in management's estimates, they are discussed under "Significant Developments".

Future Changes in Accounting Policies

The following accounting standards, amendments and interpretations will take effect for the Company after December 31, 2021, the nature and effect of which are provided in *Note 2* of the unaudited interim condensed consolidated financial statements, and described below:

DERECOGNITION OF FINANCIAL LIABILITIES

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

DEFINITIONS OF ACCOUNTING ESTIMATES

Beginning on January 1, 2023, the Company will adopt the IASB amendments *Definition of Accounting Estimates (Amendments to IAS 8)*. These amendments introduce a new definition for accounting estimates, clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy. The adoption of these amendments is not expected to have a material impact on the financial statements.

DISCLOSURE INITIATIVE – ACCOUNTING POLICIES

Beginning on January 1, 2023, the Company will adopt the IASB amendments *Disclosure Initiative - Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements)*. The key amendments include: requiring companies to disclose their material accounting policies rather than their significant accounting policies; clarifying that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and as such need not be disclosed; and clarifying that not all accounting policies that relate to material transactions, other events or conditions are themselves material to a company's financial statements. The adoption of these amendments is not expected to have a material impact on the 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, plus the annual construction funding subsidy (CFS) for certain LTC homes, if applicable, 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, net of any capital development government grant receivable on substantial completion of construction for certain LTC homes, if applicable.

Reconciliations of "earnings (loss) from continuing operations before income taxes" to "Adjusted EBITDA" and "net operating income" are provided under "Select Quarterly Financial Information", "2021 Second Quarter Financial Review" and "2021 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 2020 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 Developments".