



MANAGEMENT'S DISCUSSION AND ANALYSIS

Q2 2022

Extendicare Inc.

Dated: August 9, 2022

Management's Discussion and Analysis

Three and six months ended June 30, 2022

Dated: August 9, 2022

TABLE OF CONTENTS			
Basis of Presentation	1	2022 Six Month Financial Review	19
Additional Information	2	Adjusted Funds from Operations	21
Forward-looking Statements	2	Liquidity and Capital Resources	23
Significant Developments	3	Other Contractual Obligations and Contingencies	26
Business Overview	8	Discontinued Operations	28
Key Performance Indicators	11	Accounting Policies and Estimates	30
Select Quarterly Financial Information	14	Non-GAAP Measures	31
Statement of Earnings	16	Risks and Uncertainties	33
2022 Second Quarter Financial Review	16		

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 provides business-to-business management 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").

In May 2022, the Company completed the previously announced sale of its retirement living operations composed of 11 retirement communities (1,050 suites), located in Ontario and Saskatchewan, to Sienna-Sabra LP, a partnership formed between Sienna Senior Living Inc. and SABRA Healthcare REIT, for an aggregate purchase price of \$307.5 million (the "Retirement Living Sale") (refer to discussion under "Significant Developments – Completed Sale of Retirement Living Portfolio"). The definitive agreement was entered into in February 2022, accordingly, the Company classified its retirement living segment as discontinued in Q1 2022 and re-presented its comparative consolidated statement of earnings, including the comparative financial information presented in this MD&A (refer to the discussion under "Discontinued Operations – Retirement Living Sale" and *Note 14* of the unaudited interim condensed consolidated financial statements).

In October 2021, the Company announced it is in the process of transitioning the delivery of long-term care services operated at the Company's five LTC homes in Saskatchewan (the "Saskatchewan LTC Homes") to the Saskatchewan Health Authority ("SHA"). The timing of the transfer of the operations, and potentially the related assets, is anticipated to be completed in 2022 (the "Saskatchewan LTC Home Transition"). Accordingly, the Company classified its Saskatchewan LTC Homes as discontinued in Q4 2021 and re-presented its comparative consolidated statement of earnings, including the comparative financial information presented in this MD&A (refer to the discussion under "Discontinued Operations – Saskatchewan LTC Home Transition" and *Note 14* of the unaudited interim condensed consolidated financial statements).

In This MD&A

This MD&A has been prepared to provide information to current and prospective investors of the Company to assist them to understand the Company's financial results for the three and six months ended June 30, 2022. 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, 2022, and the notes thereto, together with the annual MD&A and the audited consolidated financial statements for the year ended December 31, 2021, 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, 2022 have been prepared in accordance with the 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, 2022, or December 31 of the year referenced.

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

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

This MD&A is dated as of August 9, 2022, the date this report was approved by the Company’s board of directors (the “Board of Directors” or “Board”), and is based upon information available to management as of that date. This MD&A should not be considered all-inclusive, as it does not include all changes that may occur in general economic, political and environmental conditions. Additionally, other events may or may not occur, which could affect the Company in the future.

ADDITIONAL INFORMATION

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

FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking statements within the meaning of applicable Canadian securities laws (“forward-looking statements” or “forward-looking information”). Statements other than statements of historical fact contained in this MD&A may be forward-looking statements, including, without limitation, management’s expectations, intentions and beliefs concerning anticipated future events, results, circumstances, economic performance or expectations with respect to the Company, including, without limitation: statements regarding its business operations, business strategy, growth strategy, results of operations and financial condition; statements relating to the expected annual revenue, net operating income yield (“NOI Yield”) and adjusted funds from operations (“AFFO”) to be derived from development projects; statements relating to the agreements entered into with Revera Inc. and its affiliates (“Revera”) and Axium Infrastructure Inc. and its affiliates (“Axium”) in respect of the ownership, operation and redevelopment of LTC homes in Ontario and Manitoba; statements relating to the Saskatchewan LTC Home Transition; 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, employee costs and pay equity; changes in tax laws; resident care and class action litigation, including the Company's exposure to punitive damage claims, increased insurance costs and other claims; the ability of the Company to maintain and increase resident occupancy levels and business volumes; changes in competition; changes in demographics and local environment economies; changes in interest rates; changes in the financial markets, which may affect the ability of the Company to refinance debt; and the availability and terms of capital to the Company to fund capital expenditures and acquisitions; changes in the anticipated outcome and benefits of proposed or actualized dispositions, acquisitions and development projects, including risks relating to the actual completion of proposed transactions; 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 MD&A are based upon what management believes are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements. Accordingly, readers should not place undue reliance on such forward-looking statements and assumptions as management cannot provide assurance that actual results or developments will be realized or, even if substantially realized, that they will have the expected consequences to, or effects on, the Company. The forward-looking statements speak only as of the date of this MD&A. Except as required by applicable securities laws, the Company assumes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

SIGNIFICANT DEVELOPMENTS

New COVID-19 Variants Driving Resurgence In Outbreaks and COVID-related Staff Absenteeism Exiting Q2 2022; Prevention Measures Still Critical

The significant impact of the COVID-19 Omicron variant experienced in Q1 2022 largely abated during Q2 2022, with the level of new infections and outbreaks in our LTC homes dropping significantly and the level of staff absenteeism improving through most of the quarter. However, late in Q2 2022 and continuing through to today, the emergence of the BA.4 and BA.5 sub-variants has resulted in a resurgence of the virus in the community leading to new outbreaks in our LTC homes and rising levels of staff absenteeism due to illness or isolation requirements, particularly in our home health segment. As at August 8, 2022, 15 of our owned LTC homes are in outbreak.

Vaccinations and boosters continue to reduce the incidence of serious illness and hospitalization among our residents and have generally led to milder symptoms in caregivers and those we employ. We continue to focus on our key prevention and containment measures to minimize the spread of the virus, with the knowledge that even milder variants pose a serious risk to the most vulnerable members of our community, particularly among LTC residents.

While we continue to evolve our response to incorporate the latest public health guidance, vaccinations remain a top priority with a renewed emphasis on vaccination boosters. In addition, we continue to employ the use of testing, active screening and appropriate PPE as the situation warrants.

LTC Occupancy Improved in Q2 2022; Resurgence in Outbreaks May Impact Occupancy Recovery in Q3 2022

As community infections and LTC home outbreaks subsided through much of Q2 2022 our LTC homes experienced a sequential improvement in average occupancy of 160 bps to 90.2% in Q2 2022, up from 88.6% in Q1 2022. Average occupancy increased by 450 bps from the same prior year period.

Throughout the pandemic, the sector has received full funding for the third and fourth ward beds no longer in service. In April 2022, the Ontario Ministry of Long-Term Care (“MLTC”) confirmed that the sector will not be returning to ward-style rooms and that funding will continue to support this decision until further notice.

Occupancy targets were reinstated on February 1, 2022, requiring LTC homes in Ontario to achieve average occupancy of 97%, adjusted to exclude the third and fourth beds in ward rooms, in order to maintain full funding. The average occupancy of our Ontario LTC homes, adjusted to exclude 185 ward-style beds not in use, was 96.6% and 96.0% for the three and five months ended June 30, 2022, respectively, up from 94.9% for the two months ended March 31, 2022. We do not anticipate any funding shortfalls as a result of not achieving the occupancy threshold to be significant. The increase in community infection rates and LTC outbreaks in the latter part of Q2 2022 and continuing subsequent to the end of the quarter, may impact our occupancy recovery progress and ability to achieve the required 97% occupancy in all of our Ontario LTC homes.

Health Workforce Shortages Weighing on Home Health Care Volumes

Record low unemployment in Canada is leading to labour shortages that are constraining growth in many sectors of the economy. The situation in healthcare is particularly challenging, as hospitals, long-term care and home care organizations experience staffing shortages that are causing widespread service reductions. Staffing challenges across the Company are contributing to increased labour costs and labour shortages, most acutely impacting our home health care segment, with caregiver shortages continuing to make it difficult to grow average daily volume (“ADV”) despite the continued strong demand for services.

Staff absenteeism in the home health care segment peaked in Q1 2022 and improved throughout Q2 2022. Our Q2 2022 ADV of 25,174 was up 2.5% from Q1 2022 and down modestly from Q2 2021 ADV by 0.4%. The significant increase in the level of infection and community transmission driven by the newer Omicron sub-variants drove up the level of COVID-related staff absenteeism again as we exited Q2 2022, and has continued to impact ADV subsequent to quarter end.

We continue to focus on building staffing capacity through large scale recruiting and retention efforts, safe return to work protocols for staff impacted by COVID-19 and hiring through our personal support worker (“PSW”) college partnerships and in-house home support working training programs. We anticipate ADV recovery resuming as the effects of the pandemic recede and labour market conditions improve.

COVID-19 Related Expenses and Funding

We continue to invest the resources required to help protect our residents, clients and staff and are grateful to receive the ongoing financial support for our LTC operations from provincial governments to offset some of our COVID-19 related expenses.

Our aggregate COVID-19 expenses from continuing operations declined by \$20.1 million to \$22.1 million in Q2 2022 as compared to Q1 2022.

The timing of COVID-19 funding announcements and receipt of any reimbursements continue to create volatility in our financial results. For the six months ended June 30, 2022, our LTC operations recognized \$14.9 million in prevention and containment funding related to previously unfunded COVID-19 costs incurred in 2021, of which \$1.6 million was recognized in Q2 2022.

As summarized in the table below, during the six months ended June 30, 2022, we incurred an estimated \$48.7 million of pandemic-related operating expenses, another \$15.4 million associated with government funded temporary pandemic pay programs and \$0.2 million in COVID-19 related administrative costs. These costs were offset by funding of \$72.2 million from various provincial governments, resulting in improvements in our consolidated NOI⁽¹⁾ and Adjusted EBITDA⁽¹⁾ of approximately \$8.1 million and \$7.9 million, respectively. Excluding the impact of \$14.9 million in funding received in the six months ended June 30, 2022, related to costs incurred in 2021, we incurred unfunded COVID costs of \$6.8 million and \$7.0 million, impacting consolidated NOI and Adjusted EBITDA respectively, for the six months ended June 30, 2022. Additionally, our discontinued operations were impacted by an estimated \$4.2 million of unfunded COVID-19 costs for the six months ended June 30, 2022.

Since the beginning of the pandemic in Q1 2020, we have incurred estimated cumulative pandemic-related operating expenses of \$222.1 million, another \$106.2 million associated with government funded temporary pandemic pay programs and \$6.6 million in COVID-19 related administrative costs. These costs were partially offset by funding of \$206.3 million from various provincial governments, resulting in cumulative reductions in our consolidated NOI and Adjusted EBITDA of approximately \$15.8 million and \$22.4 million, respectively. In addition, our discontinued operations realized an estimated \$12.3 million of cumulative unfunded COVID-19 costs.

In April 2022, the MLTC announced additional COVID-19 prevention and containment funding of \$278.0 million for April 1, 2022 through to March 31, 2023, of which \$130.0 million was allocated to Q2 2022. Details of the allocation of the remaining funds have yet to be announced. The Alberta and Manitoba governments have indicated their intention to continue to provide funding support. Although we are encouraged by the ongoing support, we expect timing of costs and funding relating to the pandemic will continue to cause volatility in our operating and financial results. The financial impacts of COVID-19 will largely subside as we emerge from the pandemic; however, there is no guarantee as to how soon that may be or that another pandemic, epidemic or outbreak will not have a material adverse effect on the business, results of operations and financial condition of the Company.

The following table provides a summary of the estimated revenue recognized and the operating and administrative costs incurred related to COVID-19 for the past eight quarters, year-to-date and annually since the start of the pandemic in Q1 2020. The temporary pandemic pay premiums funded by the Ontario and Alberta governments are included in operating expenses and the related offsetting funding for these programs is recognized as revenue.

Estimated COVID-19 Revenue, Operating Expenses and Administrative Costs												
<i>(millions of dollars)</i>	2022			2021						2020		
	Q2	Q1	YTD Q2	Q4	Q3	Q2	Q1	YTD Q2	Year	Q4	Q3	Year
Revenue												
Long-term care ⁽ⁱ⁾	17.0	43.1	60.1	27.4	23.3	24.7	45.8	70.5	121.2	24.1	20.4	62.5
Home health care	4.5	7.6	12.1	8.7	7.7	7.8	8.8	16.6	33.0	6.4	7.6	23.6
Revenue impact	21.5	50.7	72.2	36.1	31.0	32.5	54.6	87.1	154.2	30.5	28.0	86.1
Operating Expenses												
Long-term care	16.1	32.3	48.4	21.3	21.9	30.1	44.9	75.0	118.2	31.9	27.1	85.3
Home health care	5.9	9.8	15.7	9.8	8.2	8.8	9.0	17.8	35.8	7.2	7.7	24.9
Operating expenses impact	22.0	42.1	64.1	31.1	30.1	38.9	53.9	92.8	154.0	39.1	34.8	110.2
NOI												
Long-term care	0.9	10.8	11.7	6.1	1.4	(5.4)	0.9	(4.5)	3.0	(7.8)	(6.7)	(22.8)
Home health care	(1.4)	(2.2)	(3.6)	(1.1)	(0.5)	(1.0)	(0.2)	(1.2)	(2.8)	(0.8)	(0.1)	(1.3)
NOI impact	(0.5)	8.6	8.1	5.0	0.9	(6.4)	0.7	(5.7)	0.2	(8.6)	(6.8)	(24.1)
Administrative costs	0.1	0.1	0.2	0.1	0.8	1.1	0.9	2.0	2.9	0.7	1.6	3.5
Adjusted EBITDA impact	(0.6)	8.5	7.9	4.9	0.1	(7.5)	(0.2)	(7.7)	(2.7)	(9.3)	(8.4)	(27.6)
Discontinued operations impact	(1.0)	(3.2)	(4.2)	(0.7)	(0.8)	(2.0)	(2.1)	(4.1)	(5.6)	(1.0)	(0.4)	(2.5)
Total impact	(1.6)	5.3	3.7	4.2	(0.7)	(9.5)	(2.3)	(11.8)	(8.3)	(10.3)	(8.8)	(30.1)

(i) Q2 2022 includes \$1.6 million in funding for Alberta towards costs incurred in 2021; Q1 2022 includes \$13.3 million in funding for Ontario towards costs incurred in 2021. Q1 2021 includes funding of \$18.8 million (\$18.2 million for Ontario) towards costs incurred in 2020; Q3 2021 and Q4 2021 include Ontario funding of \$5.1 million and \$11.9 million, respectively, towards costs incurred in Q1 2021.

Committed to Long-term Care Redevelopment; Inflation and other Challenges Impeding Progress

Since the introduction of the Long-Term Care Home Capital Development Funding program in 2020 (the “New Funding Program”), the MLTC has awarded more than 58,000 new and redeveloped beds, taking steps to address the aging infrastructure within long-term care and improving the quality of care for our LTC residents. We have been awarded 4,248 new or replacement beds across 20 redevelopment projects, which would replace all of our 3,285 existing Class C beds, including the three projects currently under construction. We are actively engaged with our industry partners and the government to identify and implement necessary enhancements to the New Funding Program to make these projects economically feasible given the current level of inflation, rising interest rates, labour disruptions and supply chain issues, particularly in respect of construction costs, being experienced by all operators. We continue to work through the MLTC and municipal approval processes and anticipate having six more projects ready for construction before the end of 2023.

The Company’s three homes under construction in Sudbury, Kingston and Stittsville, Ontario continue to progress. The three projects will replace a total of 624 Class C LTC beds with 704 new beds and represent a net investment of \$180.7 million. The 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”.

Completed Sale of Retirement Living Portfolio

On May 16, 2022, the Company completed the previously announced sale of its retirement living operations composed of 11 retirement communities (1,050 suites), located in Ontario and Saskatchewan, to Sienna-Sabra LP, a partnership formed between Sienna Senior Living Inc. and SABRA Healthcare REIT, for an aggregate purchase price of \$307.1 million, net of an initial working capital adjustment of \$0.4 million, representing an implied realized capitalization rate on the stabilized net operating income (“NOI”) of approximately 6.0%.

The purchase price was settled in cash of \$253.6 million and assumption of mortgages by Sienna-Sabra of \$53.5 million on certain retirement communities. Cash proceeds were used to repay all remaining outstanding indebtedness related to the retirement living operations of \$117.9 million, inclusive of debt settlement fees. The proceeds realized on the sale, net of debt repayments, taxes, certain closing adjustments and transactions costs, is approximately \$128.0 million, subject to customary post-closing working capital adjustments. The estimated gain, net of taxes, other adjustments and transaction costs of \$67.9 million is recognized through discontinued operations. These operations contributed \$0.9 million to AFFO⁽¹⁾ (\$0.01 AFFO per basic share) for the six months ended June 30, 2022 and \$7.1 million (\$0.08 AFFO per basic share) for the year ended December 31, 2021 (refer to the discussion under “Discontinued Operations”).

The sale repositions Extencicare to focus on growth opportunities in our LTC and home health care segments where we will leverage our deep expertise and scale to drive performance and high-quality care for seniors across Canada.

Strategic Transactions with Revera and Axium to Expand Long-term Care

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

HIGHLIGHTS OF THE TRANSACTIONS

- Adds 56 LTC homes to the Extencicare Assist portfolio of managed homes, bringing the total homes owned and/or managed to 164
- Extencicare to acquire Revera’s 15% managed interest in a portfolio of 24 LTC homes owned in partnership with Axium, and an opportunity to purchase future Revera redevelopment projects
- The 56 LTC homes will also join SGP, bringing the total participating beds to over 108,000
- Revera’s LTC operations team to join Extencicare to advance the delivery of high-quality care and services across all of our homes
- Extencicare to form a joint venture with Axium for the redevelopment of “Class C” homes owned by Extencicare

These transactions, combined with the Retirement Living Sale, transition Extencicare’s strategy to focus on long-term care and home health care using a less capital-intensive business model. The Company will focus its growth on operating and building new LTC homes, while substantially reducing the amount of its own capital required to redevelop its “Class C” portfolio, providing the Company to deploy capital more efficiently and provide greater flexibility for growth initiatives, including acquisitions.

THE REVERA TRANSACTIONS

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

On closing of the Revera Acquisition, the Company will enter into management contracts with Revera to manage all of Revera’s other LTC homes, which comprise 31 Class C homes located in Ontario and one personal care home located in Manitoba, and will offer employment to Revera’s head office LTC personnel. These 32 homes consist of approximately 3,700 funded LTC beds and 760 private pay assisted living beds. The management agreements are on customary terms for agreements of this type. In addition, the Company will enter into development arrangement agreements with Revera in respect of the potential redevelopment of the Revera managed Class C homes in Ontario into new homes (collectively with the Revera Acquisition, the “Revera Transactions”).

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

development and construction management fees. Upon completion of any approved redevelopment project, the home would be acquired by Extencicare (either alone or with Axiom) and Extencicare would operate the homes on the same terms as it will operate the homes to be acquired in the Revera Acquisition. There are currently four Class C homes comprising an aggregate of approximately 700 funded LTC beds that are in advanced stages of redevelopment, one of which is currently under construction, that Extencicare expects it will participate in along with Axiom, subject to customary conditions. However, no assurance can be given as to whether those projects, or any other redevelopment projects, will ultimately proceed or be acquired by Extencicare.

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

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

Based on the anticipated revenue of the 56 managed LTC homes and the Company's incremental costs in respect of such management, the Revera Transactions would have generated for 2022 approximately \$17.0 million in incremental annual revenue in our Other Operations segment and, excluding integration costs, NOI and AFFO of approximately \$7.6 million and \$4.3 million (\$0.042 AFFO per basic share), respectively. In addition, an estimated \$1.0 million in AFFO (\$0.01 AFFO per basic share) would have been received in 2022 through distributions in respect of our 15% interest in the 26 LTC homes to be jointly owned with Axiom.

THE AXIUM TRANSACTION

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

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

Pursuant to the Axiom MDA and the Limited Partnership Agreement between affiliates and/or subsidiaries of Extencicare and Axiom, the parties entered into a Purchase and Sale Agreement ("Axiom PSA") whereby the limited partnership has agreed to purchase three Class C home redevelopment projects from the Company comprising an aggregate of 704 funded LTC beds currently under construction in Sudbury, Kingston and Stittsville, Ontario. Based upon the estimated Stabilized NOI, annual construction funding subsidy and estimated Adjusted Development Costs of the three Class C home redevelopment projects the estimated implied realized capitalization rate on the sale is approximately 6.75%-7.0% (see "Key Performance Indicators – LTC Projects Under Construction").

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

Regulatory Developments

On May 31, 2022, the Government of Alberta's *Continuing Care Act* (formerly Bill 11) received Royal Assent. The *Continuing Care Act* replaces multiple acts with one piece of streamlined legislation and establishes authority and oversight for licensing, accommodations and the delivery of publicly funded health care in the continuing care system, including home and community care, supportive living accommodations, palliative and end-of-life care and long-term care and designated supportive living. The act introduces a licensing framework for continuing care home operators and also enhances administrative penalties and fines for contravention of the act and regulations. The regulations are under development and

are anticipated to include items related to accountability for staffing levels, such as hours of care and skill mix. The *Continuing Care Act* is expected to come into force by mid-2023 after the approval of regulations and standards.

On May 1, 2022, Ontario's *Home Care and Community Services Act, 1994* and its regulations were repealed and Bill 175, *Connecting People to Home and Community Care Act, 2020* and a first set of new home and community care regulations was proclaimed into force. This new legislation and regulations seek to provide a modernized framework for the delivery of home and community care services within an integrated health care system.

On April 28, 2022, as part of the Ontario government's *A Plan to Stay Open*, the Ontario government announced in its budget an additional \$1.0 billion in funding over the next three years to expand home care in an effort to help seniors and recovering patients stay in their homes. The funding will seek to benefit the nearly 700,000 families who rely on home care annually, prevent unnecessary hospital and long-term care admissions and shorten hospital stays. This funding will support expanded home care services, including the recruiting and training of more home care workers, and builds on the \$548.5 million over three years to expand home care services that was announced in Ontario's 2021 Fall Economic Statement. As part of this initiative, the government implemented billing rate increases retroactive to April 1, 2022, for personal support and professional services contracts (refer to the discussion under "Business Overview – Home Health Care – Home Health Care Funding Changes").

On April 14, 2022, the Government of Ontario's *Pandemic and Emergency Preparedness Act, 2022* (formerly Bill 106), received Royal Assent. As part of the province's *A Plan to Stay Open*, introduced in March 2022, Bill 106, among other things, made permanent the \$3/hour wage enhancement that PSWs providing publicly funded services in hospitals, LTC, home and community care have been receiving since October 1, 2020. The new legislation will also make it easier for foreign-credentialed health workers to begin practicing in Ontario and commits to recruiting and retaining more healthcare staff through a \$142 million grant.

The *Fixing Long-Term Care Act, 2021* (formerly Bill 37), received Royal Assent on December 9, 2021 and came into effect on April 11, 2022, along with the first tranche of accompanying regulations. The act replaces the *Long-Term Care Homes Act, 2007* and emphasizes improving staffing and care; protecting residents through better accountability, enforcement and transparency; and building modern, safe comfortable homes for seniors. Among other things, the act includes a target to increase average hours of direct care per resident per day to four hours by March 31, 2025 (with phased-in funding that started in November 2021), doubles fines as a financial deterrent for non-compliance and allows the Minister to establish policy that would be used in lieu of individual licensing determinations, thus streamlining the approval process.

Normal Course Issuer Bid ("NCIB")

In June 2022, the Company received approval from the TSX to make a NCIB to purchase for cancellation up to 7,829,630 Common Shares, representing 10% of its public float, through the facilities of the TSX and/or through alternative Canadian trading systems, in accordance with TSX rules. The NCIB commenced on June 30, 2022, and provides the Company with flexibility to purchase Common Shares for cancellation until June 29, 2023, or on such earlier date as the NCIB is complete. The actual number of Common Shares purchased under the NCIB and the timing of any such purchases will be at the Company's discretion. Subject to the TSX's block purchase exception, daily purchases will be limited to 53,068 Common Shares. The Company has entered into an automatic purchase plan ("APP") with its designated broker in connection with its NCIB to facilitate the purchase of Common Shares during times when the Company would ordinarily not be active in the market. As at August 8, 2022, the Company had purchased for cancellation 985,176 Common Shares at a cost of \$7.1 million, representing a weighted average price of \$7.22 per share.

BUSINESS OVERVIEW

As at June 30, 2022, the Company owned and operated 58 LTC homes and provided management services to 50 LTC homes and retirement communities for third parties through Extencicare Assist. In total, Extencicare operated or provided management services to a network of 108 LTC homes and retirement communities across four provinces in Canada, with capacity for 14,401 residents. The majority of these homes are in Ontario and Alberta, which accounted for approximately 77% and 12% of residents served, respectively. This overview includes the Saskatchewan LTC Homes which we continue to operate, pending completion of an agreement to transition ownership and operations to the SHA, and excludes the retirement living segment that was sold in May 2022, both of which have been classified as discontinued operations, refer to "Discontinued Operations".

In addition to providing group purchasing services to the Company's own operations, SGP supports third-party clients representing approximately 102,200 beds across Canada, as at June 30, 2022.

The Company's home health care operations, ParaMed, delivered approximately 9.2 million hours of home health care services for the trailing twelve months ended June 30, 2022. The majority of ParaMed's volumes are generated in Ontario and Alberta, representing 93% and 4%, respectively.

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

The following table summarizes the contribution of the business segments to the Company's consolidated revenue and NOI from continuing operations for the six months ended June 30, 2022 and 2021 and year ended December 31, 2021. The impact of COVID-19 on all segments and of CEWS on the home health care segment affects 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", "2022 Second Quarter Financial Review" and "2022 Six Month 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,	
	2022		2021		2021	
	Revenue	NOI	Revenue	NOI	Revenue	NOI
Long-term care	63.3 %	69.8 %	63.0 %	41.3 %	62.4 %	50.6 %
Home health care	34.1 %	17.3 %	34.5 %	46.0 %	35.2 %	37.3 %
Other	2.6 %	12.9 %	2.5 %	12.7 %	2.4 %	12.1 %
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 significantly smaller portion to be paid by the resident. No individual is refused access to long-term care due to an inability to pay, as a government subsidy, generally based on an income test, is available for LTC residents who are unable to afford the resident co-payment. Long-term care funding in Ontario is provided in four envelopes allocated to personal care, programming, food and accommodation, respectively. The first three envelopes must be spent entirely on residents and are independently audited with any surplus funding returned to the government. The additional COVID-19 pandemic related funding being provided in Ontario is subject to this same reconciliation process. In Alberta, designated supportive living homes provide an alternative setting for residents not yet requiring the needs of a more expensive LTC home. Such homes are licensed, regulated and funded by Alberta Health Services ("AHS") in a similar manner to LTC homes, including a government-determined fee structure.

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

The following summarizes the government funding rate changes announced for LTC during 2021 and 2022 in Ontario, Alberta and Manitoba, 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

Effective April 28, 2022, the Government of Ontario made permanent the \$3/hour wage enhancement that PSWs working in LTC homes had been receiving since October 1, 2020. The Company estimates that this increase will result in additional annual funding of approximately \$14.1 million to support the associated increased labour costs.

Effective April 1, 2022, the MLTC implemented a blended level of care funding increase of 1.75%, representing a combination of a 15% increase in nutritional support, a 1.5% increase in the remaining flow-through envelopes and a nominal increase in the accommodation envelope. These changes represent incremental annual revenue of approximately \$6.0 million to the flow through envelopes (2021 – 1.5% effective April 1, 2021, representing incremental annual revenue of \$5.1 million, of which \$1.6 million was applicable to the accommodation envelope).

In November 2021, the MLTC implemented the first phase of its LTC Staffing Plan to increase the level of direct care for LTC residents over four years. Based on the incremental funding per LTC bed per month included in the announcement, the Company estimates that this will provide incremental revenue in 2022 of approximately \$40.0 to \$45.0 million through the nursing and program flow-through envelopes, where any funding not spent on resident care is returned to the government.

In respect of the preferred accommodation premiums paid for by residents to LTC providers for private and semi-private accommodation, the MLTC implemented increases on July 1, 2020 and July 1, 2021 of 1.9% and 0.7%, respectively. However, to provide relief to families experiencing challenges due to COVID-19, these increases to residents have been deferred until October 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 are \$8.74 and \$19.67 for semi-private and private rooms, respectively. For newer LTC beds that are classified as “New” or “A” beds, the maximum daily preferred accommodation premiums are \$13.11 and \$27.34 for semi-private and private rooms, respectively.

ALBERTA LTC FUNDING CHANGES

In July 2022, AHS announced adjustments to the portion of government funding for providers of LTC and designated supportive living homes retroactive to April 1, 2022, which are estimated to represent additional annual revenue for the Company of approximately \$0.4 million (2021 – effective April 1, 2021, \$0.1 million).

In March 2022, AHS announced a 5.5% annual inflationary increase for the portion of the accommodation rates paid directly by residents of LTC and designated supportive living homes to providers. AHS has deferred the typical effective date of July 1, 2022, for the increase to residents, and will compensate operators directly during the deferral period. This increase represents additional annual revenue for the Company of approximately \$2.3 million (2021 – 0.6% effective July 1, 2021, \$0.2 million).

MANITOBA LTC FUNDING CHANGES

In March 2022, Manitoba Health implemented a global funding increase for LTC operators in support of union wage settlements in the form of a baseline operating funding increase and retroactive one-time funding amount retroactive to April 1, 2017. As a result, the Company recognized additional revenue of \$3.3 million in Q1 2022, of which \$2.9 million related to prior periods. The base line funding increase represents additional annual revenue for the Company of approximately \$1.4 million. The Company had previously accrued for the anticipated increased costs associated with the union wage settlements.

Home Health Care

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

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

HOME HEALTH CARE FUNDING CHANGES

Effective April 28, 2022, the Government of Ontario made permanent the \$3/hour wage enhancement that PSWs providing publicly funded services in home and community care had been receiving since October 1, 2020. The impact of this change is estimated to increase annual revenue by approximately \$25.7 million, based on ADV and mix of home health care services provided for the trailing twelve months ended June 30, 2022. Given the flow-through nature of the wage enhancement this adjustment will have no impact on NOI.

Effective April 1, 2022, the Government of Ontario increased home health care billing rates by 3% for personal support contracts and 5% for nursing and allied health contracts. Based on ADV and mix of home health care services provided for the trailing twelve months ended June 30, 2022, these rate increases are estimated to increase annual revenue by approximately \$13.1 million and help offset wage and benefit increases and increased recruitment costs in the home health division.

In October 2021, the Government of Ontario implemented increased home health care billing rates for government contracted services by approximately 1.9%, effective April 1, 2021. In addition, AHS increased home health care billing rates by 1%, effective April 1, 2021. These Ontario and Alberta billing rate increases resulted in additional revenue received by ParaMed of \$5.1 million in Q4 2021, of which the retroactive component was \$3.5 million.

Other Operations

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

MANAGEMENT AND CONSULTING SERVICES

Through its Extendicare Assist division, the Company provides a wide range of management and consulting services to third parties. Extendicare Assist provides services to not-for-profit and for-profit organizations, hospitals and municipalities seeking to improve their management practices, quality of care practices and operating efficiencies. Extendicare Assist provides a broad range of services aimed at meeting the needs of its clients, including: financial administration, record keeping, regulatory compliance and purchasing. In addition, Extendicare Assist provides consulting services to third parties for the development and redevelopment of LTC homes. Extendicare Assist's management services portfolio consisted of 50 LTC homes and retirement communities with capacity for 6,263 residents as at June 30, 2022.

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, 2022, SGP provided services to third parties representing approximately 102,200 beds across Canada.

KEY PERFORMANCE INDICATORS

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

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

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

"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;

Long-term Care

The following table provides the average occupancy levels of the LTC operations, excluding the Saskatchewan LTC Homes that have been classified as held for sale, for the past eight quarters.

Long-term Care Homes Average Occupancy (%)	2022				2021		2020	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Total LTC	90.2 %	88.6 %	89.8 %	88.7 %	85.7 %	83.4 %	87.5 %	89.8 %
Change over prior year period (bps)	450	520	230	(110)	(760)	(1,360)	(1,030)	(830)
Sequential quarterly change (bps)	160	(120)	110	300	230	(410)	(230)	(350)
Ontario LTC								
Total ON LTC	88.8 %	87.2 %	87.8 %	86.6 %	82.8 %	80.3 %	85.3 %	87.9 %
Preferred Accommodation ⁽ⁱ⁾								
"New" homes – private	86.4 %	85.9 %	87.9 %	85.6 %	83.6 %	82.6 %	88.4 %	88.0 %
"C" homes – private	85.8 %	83.5 %	83.9 %	79.9 %	81.0 %	76.6 %	80.7 %	86.5 %
"C" homes – semi-private	54.3 %	53.1 %	54.1 %	51.3 %	49.3 %	50.0 %	54.6 %	58.6 %

(i) 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.

During Q2 2022, the number of outbreaks at our LTC homes subsided, resulting in improvements in our average occupancy. The average occupancy of the Company's LTC homes was 90.2% in Q2 2022, up 450 bps from Q2 2021 and up 160 bps from Q1 2022. The Company's LTC occupancy levels have been negatively impacted by COVID-19 since March 2020. In the last half of 2021, average occupancy levels improved following the success of the vaccination program and easing of restrictions during that period. However, a combination of seasonal factors and the surge of COVID-19 related outbreaks driven by the Omicron variant slowed the pace of occupancy recovery and contributed to a sequential decline in Q1 2022.

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, which is not unusual during the winter months, full funding is preserved in Ontario, otherwise referred to as occupancy protection funding. Prior to the onset of COVID-19 in 2020, the Company's Ontario LTC homes generally averaged above the 97% occupancy threshold, with all but one having done so in 2019. In response to financial pressures caused by the impacts of COVID-19 on occupancy levels, the Government of Ontario provided basic occupancy protection funding for all LTC homes for 2020 and through to the end of January 2022, including for third and fourth beds in ward rooms that have been taken out of service. The average occupancy of our Ontario LTC homes, adjusted to exclude 185 ward-style beds not in use, was 96.6% and 96.0% for the three and five months ended June 30, 2022, respectively, up from 94.9% for the two months ended March 31, 2022. The sector has continued to receive full funding for the third and fourth ward beds no longer in service. In April 2022, the MLTC confirmed that the sector will not be returning to ward-style rooms and that funding will be provided to support this shift, with further details to be provided on potential funding changes. 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 year ended December 31, 2021, was approximately \$1.1 million from 2020 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	Construction Commenced	Expected Opening	Estimated Adjusted Development Costs ⁽¹⁾ (\$ millions)	Adjusted Development Costs ⁽¹⁾		Annual CFS ⁽ⁱ⁾ (\$ millions)	Estimated Stabilized NOI ⁽¹⁾ (\$ millions)	Expected NOI Yield ⁽¹⁾
					Incurring as at June 30, 2022 (\$ millions)	Incurred as at June 30, 2022 (\$ millions)			
Sudbury	256	Q4-20	Q3-23	65.0	29.9	29.9	1.9	3.1	7.7 %
Kingston	192	Q2-21	Q3-23	46.2	15.9	15.9	1.4	2.3	8.1 %
Stittsville	256	Q4-21	Q1-24	69.5	19.3	19.3	2.2	3.0	7.6 %
704				180.7	65.1	65.1	5.5	8.4	7.7 %

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

The construction industry across Ontario is experiencing significant inflationary cost increases, disruptions in the labour forces across various trades and supply chain issues. Since May 2022, we have experienced labour disruptions of selected trades and supply chain issues across our current construction projects, which are impacting projected completion and opening dates. These delays may result in cost increases that could be in excess of the contingency levels included in our estimated Adjusted Development Costs. We continue to work with our general contractors and construction partners to identify opportunities to mitigate the impacts of these factors on schedules and costs.

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.

The peak impact of COVID-19 on ParaMed's ADV occurred in April 2020, after which we saw a steady recovery in our ADV levels through to the end of 2021. Despite the various COVID-19 lockdowns and traditional seasonal impacts, recovery of our workforce capacity throughout 2021 allowed our ADV levels to return to pre-pandemic levels by Q2 2021 and remained at those levels through the balance of 2021. Referral activity remains above pre-COVID-19 levels as strong demand for home health care services continues. However, our progress has been constrained by the dramatic impact of the Omicron variant on our workforce capacity that peaked in Q1-22, with as many as 900 staff in late January 2022 on public health leave due to COVID, and continued to a lesser extent in Q2 2022 (refer to the discussion under "Significant Developments – Health Workforce Shortages Weighing on Home Health Care Volumes"). As a result, our Q2 2022 ADV of 25,174 was up 2.5% from Q1 2022, and down modestly from Q2 2021 ADV by 0.4%.

Home Health Care Service Volumes	2022		2021				2020	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Hours of service (000's)	2,290.9	2,209.7	2,373.2	2,331.7	2,299.0	2,191.7	2,202.7	2,093.2
ADV	25,174	24,552	25,796	25,345	25,264	24,352	23,943	22,752
Change over prior year period	(0.4)%	0.8 %	7.7 %	11.4 %	24.0 %	(1.3)%	(5.4)%	(9.9)%
Sequential quarterly change	2.5 %	(4.8)%	1.8 %	0.3 %	3.7 %	1.7 %	5.2 %	11.6 %

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.

As a result of the revenue declines experienced by ParaMed, the Company's home health care subsidiary, ParaMed applied for and received CEWS funding in 2020 and 2021. In 2021, ParaMed recognized \$17.4 million in CEWS (\$9.7 million in Q1 2021 and \$7.7 million in Q2 2021). During 2020, ParaMed recognized \$91.2 million in CEWS (\$50.8 million in Q3 2020 and \$40.4 million in Q4 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.

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. The reduction in Extendicare Assist's management services portfolio during 2021 reflects changes resulting from homes that were either closed or sold. At June 30, 2022, Extendicare Assist was providing management services to third-parties representing 50 LTC homes and retirement communities with capacity for 6,263 senior residents. SGP continues to grow its market share, increasing its third-party beds served by 22.4% at the end of Q2 2022 from Q2 2021, and by 3.4% from Q1 2021.

Other Operations	2022				2021			2020
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Extendicare Assist Management Services								
Homes at period end	50	50	50	51	51	51	52	53
Resident capacity	6,263	6,263	6,263	6,359	6,359	6,359	6,379	6,543
Change over prior year period	(1.5)%	(1.5)%	(1.8)%	(2.8)%	(2.8)%	(3.7)%	(3.4)%	(0.9)%
Sequential quarterly change	— %	— %	(1.5)%	— %	— %	(0.3)%	(2.5)%	— %
SGP Clients								
Third-party beds	102,219	98,845	93,208	88,431	83,511	81,110	78,937	79,372
Change over prior year period	22.4 %	21.9 %	18.1 %	11.4 %	11.1 %	11.3 %	21.9 %	23.5 %
Sequential quarterly change	3.4 %	6.0 %	5.4 %	5.9 %	3.0 %	2.8 %	(0.5)%	5.6 %

SELECT QUARTERLY FINANCIAL INFORMATION

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

(thousands of dollars unless otherwise noted)	2022				2021 ⁽²⁾			2020 ⁽²⁾
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Revenue	296,585	305,710	306,162	284,271	281,693	294,861	280,231	271,233
Net operating income ⁽¹⁾	30,341	32,976	38,741	29,009	28,900	36,319	52,441	72,342
NOI margin ⁽²⁾	10.2%	10.8%	12.7%	10.2%	10.3%	12.3%	18.7%	26.7%
Adjusted EBITDA ⁽¹⁾	17,082	19,563	24,505	16,789	15,466	23,778	37,683	60,160
Adjusted EBITDA margin ⁽¹⁾	5.8%	6.4%	8.0%	5.9%	5.5%	8.1%	13.4%	22.2%
Earnings (loss) from continuing operations	3,510	4,045	(4,483)	2,812	1,663	7,512	15,689	34,643
per basic share (\$)	0.04	0.04	(0.06)	0.03	0.02	0.08	0.17	0.39
per diluted share (\$)	0.04	0.04	(0.06)	0.03	0.02	0.08	0.17	0.36
Earnings (loss) from operating activities of discontinued operations	(37)	75	661	3,231	(703)	811	1,787	(177)
Gain on sale of retirement living segment, net of income taxes	67,920	—	—	—	—	—	—	—
Net earnings (loss)	71,393	4,120	(3,822)	6,043	960	8,323	17,476	34,466
per basic share (\$)	0.79	0.04	(0.04)	0.07	0.01	0.09	0.19	0.38
per diluted share (\$)	0.72	0.04	(0.04)	0.07	0.01	0.09	0.19	0.36
AFFO ⁽¹⁾	8,906	12,048	16,530	9,573	8,073	19,545	21,804	42,787
per basic share (\$)	0.10	0.13	0.18	0.11	0.09	0.22	0.24	0.48
per diluted share (\$)	0.10	0.13	0.17	0.11	0.09	0.21	0.23	0.44
Maintenance capex	2,700	1,412	5,472	3,833	3,746	1,033	7,573	2,381
Cash dividends declared	10,754	10,750	10,746	10,752	10,744	10,752	10,743	10,746
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	90,139	90,075	90,040	90,009	89,980	89,929	89,898	89,864
Diluted	101,102	101,190	100,953	100,786	100,615	100,520	100,362	100,223

There are a number of factors affecting the trend of the Company's quarterly results from continuing operations. With respect to the core operations, while year-over-year quarterly comparisons will generally remain comparable, sequential quarters can vary materially for seasonal and other trends. COVID-19 has impacted the Company's quarterly results from both continuing operations and discontinued operations since Q1 2020 (refer to "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".

Reconciliations of Adjusted EBITDA and Net Operating Income

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

<i>(thousands of dollars)</i>	2022			2021 ⁽²⁾					2020 ⁽²⁾	
	Q2	Q1	YTD Q2	Q4	Q3	Q2	Q1	YTD Q2	Q4	Q3
Earnings (loss) from continuing operations before income taxes	4,646	6,264	10,910	(3,559)	4,196	2,695	10,650	13,345	21,847	47,456
Add:										
Depreciation and amortization	8,058	8,251	16,309	7,845	7,829	7,431	7,726	15,157	7,726	7,213
Net finance costs	4,378	5,048	9,426	5,250	4,764	5,340	5,402	10,742	5,624	5,491
Other expense	—	—	—	14,969	—	—	—	—	2,486	—
Adjusted EBITDA	17,082	19,563	36,645	24,505	16,789	15,466	23,778	39,244	37,683	60,160
Administrative costs	13,259	13,413	26,672	14,236	12,220	13,434	12,541	25,975	14,758	12,182
Net operating income	30,341	32,976	63,317	38,741	29,009	28,900	36,319	65,219	52,441	72,342

STATEMENT OF EARNINGS

The following provides the consolidated statement of earnings for the periods ended June 30, 2022 and 2021.

<i>(thousands of dollars unless otherwise noted)</i>	Three months ended June 30,			Six months ended June 30,		
	2022	2021 ⁽²⁾	Change	2022	2021 ⁽²⁾	Change
Revenue	296,585	281,693	14,892	602,295	576,554	25,741
Operating expenses	266,244	252,793	13,451	538,978	511,335	27,643
Net operating income⁽¹⁾	30,341	28,900	1,441	63,317	65,219	(1,902)
Administrative costs	13,259	13,434	(175)	26,672	25,975	697
Adjusted EBITDA⁽¹⁾	17,082	15,466	1,616	36,645	39,244	(2,599)
Depreciation and amortization	8,058	7,431	627	16,309	15,157	1,152
Earnings before net finance costs and income taxes	9,024	8,035	989	20,336	24,087	(3,751)
Interest expense (net of capitalized interest)	5,022	5,388	(366)	10,080	10,733	(653)
Interest revenue	(541)	(450)	(91)	(1,291)	(965)	(326)
Accretion	(240)	301	(541)	607	599	8
Foreign exchange and fair value adjustments	137	101	36	30	375	(345)
Net finance costs	4,378	5,340	(962)	9,426	10,742	(1,316)
Earnings from continuing operations before income taxes	4,646	2,695	1,951	10,910	13,345	(2,435)
Income tax expense (recovery)						
Current	1,100	2,034	(934)	5,060	4,837	223
Deferred	36	(1,002)	1,038	(1,705)	(667)	(1,038)
Total income tax expense	1,136	1,032	104	3,355	4,170	(815)
Earnings from continuing operations	3,510	1,663	1,847	7,555	9,175	(1,620)
Earnings (loss) from operating activities of discontinued operations	(37)	(703)	666	38	108	(70)
Gain on sale of retirement living segment, net of income taxes	67,920	—	67,920	67,920	—	67,920
Net earnings	71,393	960	70,433	75,513	9,283	66,230
Earnings from continuing operations	3,510	1,663	1,847	7,555	9,175	(1,620)
Add (Deduct)⁽ⁱ⁾:						
Foreign exchange and fair value adjustments	96	95	1	12	366	(354)
Earnings from continuing operations before separately reported items, net of taxes⁽¹⁾	3,606	1,758	1,848	7,567	9,541	(1,974)

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

2022 SECOND QUARTER FINANCIAL REVIEW

The following is an analysis of the consolidated results from operations for Q2 2022, as compared to Q2 2021. 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 \$296.6 million for Q2 2022 increased by \$14.9 million or 5.3% from \$281.7 million in Q2 2021. Improvements in revenue were driven primarily by LTC funding enhancements, home health care billing rate increases and growth from other operations, partially offset by lower COVID-19 funding (\$11.0 million) and the impact of timing of flow-through funding.

Operating Expenses

Operating expenses of \$266.2 million for Q2 2022 increased by \$13.5 million or 5.3% from Q2 2021. 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 \$5.7 million or 2.2% to \$266.2 million in Q2 2022 from \$260.5 million in the same prior year period. The increase in operating expenses was driven by increased labour, utilities, technology and insurance costs

across the business segments, partially offset by workers compensation rebates of \$3.9 million in Q2 2022 and lower estimated costs related to COVID-19 and funded pandemic pay programs (\$16.9 million).

Net Operating Income

Net operating income was \$30.3 million for Q2 2022 as compared to \$28.9 million for Q2 2021 and represented 10.2% of revenue as compared to 10.3% for Q2 2021. Excluding the impact of CEWS (\$7.7 million) received by the home health care segment in Q2 2021, NOI increased by \$9.1 million to \$30.3 million in Q2 2022 from \$21.2 million in the same prior year period, representing 10.2% and 7.5% of revenue, respectively. The increase in NOI was impacted by workers compensation rebates (\$3.9 million) and a decline in estimated unfunded COVID-19 costs (\$5.9 million), partially offset by higher operating costs.

Administrative Costs

Administrative costs declined by \$0.2 million to \$13.3 million for Q2 2022, primarily impacted by lower costs related to COVID-19 of \$1.0 million, partially offset by higher transaction related professional fees (\$1.0 million).

Adjusted EBITDA

Adjusted EBITDA was \$17.1 million for Q2 2022 as compared to \$15.5 million for Q2 2021 and represented 5.8% of revenue as compared to 5.5%, respectively. Excluding the impact of CEWS (\$7.7 million) received by the home health care segment in Q2 2021, Adjusted EBITDA increased by \$9.3 million to \$17.1 million in Q2 2022 from \$7.8 million in the same prior year period, representing 5.8% and 2.8% of revenue, respectively, reflecting the increase in NOI and decline in administrative costs.

Depreciation and Amortization

Depreciation and amortization costs increased by \$0.6 million to \$8.1 million for Q2 2022, due to higher capital expenditures.

Net Finance Costs

Net finance costs declined by \$1.0 million for Q2 2022, primarily due to lower interest expense and accretion costs. Interest expense of \$5.0 million declined by \$0.4 million due to lower debt levels.

Income Taxes

The income tax provision was \$1.1 million for Q2 2022, representing an effective tax rate of 24.5%, as compared to \$1.0 million and an effective tax rate of 38.3% for Q2 2021, largely due to a change in taxable income of certain of the legal entities. 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.

Earnings from Continuing Operations

Earnings from continuing operations increased by \$1.8 million to \$3.5 million (\$0.04 per basic share) for Q2 2022 from \$1.7 million (\$0.02 per basic share) for Q2 2021, largely reflecting the increase in Adjusted EBITDA. The year-over-year increase in earnings was favourably impacted by a decline in estimated unfunded COVID-19 costs in Q2 2022 (\$5.1 million net of tax, or \$0.05 per basic share, partially offset by the impact of CEWS (\$7.7 million) received by the home health care segment in Q2 2021 (\$5.7 million net of tax, or \$0.06 per basic share).

Summary of Results of Operations by Segment

The following summarizes the Company's segmented "revenue", "operating expenses" and "net operating income", followed by an analysis of the operating performance of each of the Company's operating segments.

Three months ended June 30 <i>(thousands of dollars unless otherwise noted)</i>	Long-term Care	Home Health Care	Other Operations	Total
2022				
Revenue	181,641	106,774	8,170	296,585
Operating expenses	163,994	98,566	3,684	266,244
Net operating income ⁽¹⁾	17,647	8,208	4,486	30,341
<i>NOI margin⁽¹⁾</i>	<i>9.7 %</i>	<i>7.7 %</i>	<i>54.9 %</i>	<i>10.2 %</i>
2021⁽²⁾				
Revenue	173,711	101,097	6,885	281,693
Operating expenses	162,583	87,056	3,154	252,793
Net operating income ⁽¹⁾	11,128	14,041	3,731	28,900
<i>NOI margin⁽¹⁾</i>	<i>6.4 %</i>	<i>13.9 %</i>	<i>54.2 %</i>	<i>10.3 %</i>
Change				
Revenue	7,930	5,677	1,285	14,892
Operating expenses	1,411	11,510	530	13,451
Net operating income ⁽¹⁾	6,519	(5,833)	755	1,441

LONG-TERM CARE OPERATIONS

Revenue from the LTC operations grew by \$7.9 million or 4.6% to \$181.6 million for Q2 2022, largely driven by funding enhancements, including Ontario flow-through funding of \$14.7 million, partially offset by reduced funding of \$7.7 million to support the costs associated with COVID-19 and pandemic pay programs.

Net operating income from the LTC operations was \$17.6 million for Q2 2022 as compared to \$11.1 million for Q2 2021, an improvement of \$6.5 million, with NOI margins of 9.7% and 6.4%, respectively, due largely to higher estimated net COVID-19 recoveries of \$6.3 million (refer to "Significant Developments – COVID-19 Related Expenses and Funding"). Excluding the net change in COVID-19 recoveries, NOI improved by \$0.2 million, reflecting funding enhancements and a workers compensation rebate of \$1.8 million, partially offset by higher costs of labour, utilities and insurance.

HOME HEALTH CARE OPERATIONS

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

Revenue from the home health care operations increased by \$5.7 million or 5.6% to \$106.8 million for Q2 2022 from \$101.1 million for Q2 2021 due to billing rate increases, including approximately \$4.4 million to support government funded wage enhancements, partially offset by reduced funding of \$3.3 million to support the costs associated with COVID-19 and pandemic pay programs, and a decline in ADV of 0.4%.

Net operating income from the home health care operations increased by \$1.9 million or 29.4% to \$8.2 million for Q2 2022 from \$6.3 million for Q2 2021, with NOI margins of 7.7% and 6.3%, respectively. The improvement in NOI was due to billing rate increases and a workers compensation rebate of \$2.1 million, partially offset by increased wages and benefits, recruitment, travel, technology and training costs to address staffing capacity challenges, and an increase in unfunded COVID-19 costs of \$0.4 million (refer to the discussion under "Significant Developments – COVID-19 Related Expenses and Funding").

OTHER OPERATIONS

Revenue from other operations increased by \$1.3 million or 18.7% to \$8.2 million in Q2 2022 compared to Q2 2021, largely due to growth in SGP clients and timing and mix of Assist consulting services.

Net operating income from other operations increased by \$0.8 million or 20.2% to \$4.5 million for Q2 2022 compared to Q2 2021, reflecting revenue growth, partially offset by increased staff and technology costs in support of growth initiatives.

2022 SIX MONTH FINANCIAL REVIEW

The following is an analysis of the consolidated results from operations for the six months ended June 30, 2022, as compared to the same period in 2021. 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 \$602.3 million for the six months ended June 30, 2022, increased by \$25.7 million or 4.5% from the six months ended June 30, 2021. Improvements in revenue were driven primarily by LTC funding enhancements, home health care billing rate increases and growth from other operations, partially offset by lower COVID-19 funding (\$14.9 million) and the impact of timing of flow through funding.

Operating Expenses

Operating expenses of \$539.0 million for the six months ended June 30, 2022, increased by \$27.6 million or 5.4% from the six months ended June 30, 2021. 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 \$10.2 million or 1.9% to \$539.0 million for the six months ended June 30, 2022, from \$528.8 million in the same prior year period. The increase in operating expenses was driven by increased labour, utilities, technology and insurance costs across the business segments, partially offset by workers compensation rebates of \$3.9 million and lower estimated costs related to COVID-19 and funded pandemic pay programs (\$28.7 million).

Net Operating Income

Net operating income declined by \$1.9 million to \$63.3 million for the six months ended June 30, 2022, and represented 10.5% of revenue as compared to 11.3% for the six months ended June 30, 2021. Excluding the impact of CEWS (\$17.4 million) received by the home health care segment in 2021, NOI increased by \$15.5 million to \$63.3 million for the six months ended June 30, 2022, from \$47.8 million in the same prior year period, representing 10.5% and 8.3% of revenue, respectively. The increase in NOI was impacted by workers compensation rebates (\$3.9 million), retroactive LTC funding in Manitoba (\$2.9 million), and a decline in estimated unfunded COVID-19 costs (\$13.8 million), partially offset by higher operating costs and the impact of loss of occupancy protection for Ontario LTC homes.

Administrative Costs

Administrative costs increased by \$0.7 million or 2.7% to \$26.7 million for the six months ended June 30, 2022, primarily due to higher transaction related professional fees (\$1.6 million) and technology costs, partially offset by lower costs related to COVID-19 of \$1.8 million.

Adjusted EBITDA

Adjusted EBITDA declined by \$2.6 million to \$36.6 million for the six months ended June 30, 2022, as compared to \$39.2 million for the six months ended June 30, 2021, and represented 6.1% of revenue as compared to 6.8%, respectively. Excluding the impact of CEWS (\$17.4 million) received by the home health care segment in 2021, Adjusted EBITDA increased by \$14.8 million to \$2.6 million for the six months ended June 30, 2022 from \$21.8 million in the same prior year period, representing 6.1% and 6.8% of revenue, respectively, reflecting the increase in NOI, partially offset by higher administrative costs.

Depreciation and Amortization

Depreciation and amortization costs increased by \$1.2 million to \$16.3 million for six months ended June 30, 2022, due to higher capital expenditures.

Net Finance Costs

Net finance costs decreased by \$1.3 million for the six months ended June 30, 2022, primarily due to lower interest expense, higher interest income and a net favourable change of \$0.3 million in foreign exchange and fair value adjustments related to the Company’s interest rate swaps and lower interest expense. Interest expense of \$10.1 million declined by \$0.7 million, reflecting lower debt levels.

Income Taxes

The income tax provision was \$3.4 million for the six months ended June 30, 2022, representing an effective tax rate of 30.8%, as compared to \$4.2 million and an effective tax rate of 31.2% for the six months ended June 30, 2021. The income tax provision for 2021 included \$4.6 million of current income taxes payable on CEWS (\$17.4 million) received by the home health care segment.

Earnings from Continuing Operations

Earnings from continuing operations declined by \$1.6 million to \$7.6 million (\$0.08 per basic share) for the six months ended June 30, 2022, from \$9.2 million (\$0.10 per basic share) for the six months ended June 30, 2021, reflecting the decline in Adjusted EBITDA. The year-over-year decline in earnings included the impact of CEWS (\$17.4 million) received by the home health care segment in 2021 (\$12.8 million net of tax, or \$0.14 per basic share), partially offset by the decline in estimated unfunded COVID-19 costs (\$11.5 million net of tax, or \$0.12 per basic share).

Summary of Results of Operations by Segment

The following summarizes the Company's segmented "revenue", "operating expenses" and "net operating income", followed by an analysis of the operating performance of each of the Company's operating segments.

Six months ended June 30, 2022 <i>(thousands of dollars unless otherwise noted)</i>	Long-term Care	Home Health Care	Other Operations	Total
2022				
Revenue	381,449	205,423	15,423	602,295
Operating expenses	337,238	194,504	7,236	538,978
Net operating income ⁽¹⁾	44,211	10,919	8,187	63,317
<i>NOI margin⁽²⁾</i>	11.6 %	5.3 %	53.1 %	10.5 %
2021⁽²⁾				
Revenue	363,500	198,764	14,290	576,554
Operating expenses	336,582	168,761	5,992	511,335
Net operating income ⁽¹⁾	26,918	30,003	8,298	65,219
<i>NOI margin⁽²⁾</i>	7.4 %	15.1 %	58.1 %	11.3 %
Change				
Revenue	17,949	6,659	1,133	25,741
Operating expenses	656	25,743	1,244	27,643
Net operating income ⁽¹⁾	17,293	(19,084)	(111)	(1,902)

LONG-TERM CARE OPERATIONS

Revenue from the LTC operations grew by \$17.9 million or 4.9% to \$381.4 million for the six months ended June 30, 2022, largely driven by funding enhancements, including Manitoba retroactive funding of \$2.9 million and \$23.9 million in Ontario flow-through funding, partially offset by reduced funding of \$10.4 million to support the costs associated with COVID-19 and pandemic pay programs.

Net operating income from the LTC operations increased by \$17.3 million to \$44.2 million for the six months ended June 30, 2022, from \$26.9 million for the six months ended June 30, 2021, with NOI margins of 11.6% and 7.4%, respectively, due largely to higher estimated net COVID-19 recoveries of \$16.2 million (refer to "Significant Developments – COVID-19 Related Expenses and Funding"). Excluding the net change in COVID-19 recoveries, NOI improved by \$1.1 million reflecting funding enhancements, including a \$2.9 million in retroactive funding, and a workers compensation rebate of \$1.8 million, partially offset by higher costs of labour, utilities and insurance, and the impact of the loss of occupancy protection for Ontario LTC homes.

HOME HEALTH CARE OPERATIONS

The following discussion of the home health care operations excludes CEWS of \$17.4 million received 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 \$6.7 million or 3.4% to \$205.4 million for the six months ended June 30, 2022, from \$198.8 million in the same prior year period, reflecting billing rate increases, including approximately

\$4.4 million to support government funded wage enhancements, and an increase in ADV of 0.2%, partially offset by reduced funding of \$4.5 million to support the costs associated with COVID-19 and pandemic pay programs.

Net operating income from the home health care operations decreased by \$1.7 million to \$10.9 million for the six months ended June 30, 2022, from \$12.6 million for the six months ended June 30, 2021, with NOI margins of 5.3% and 6.3%, respectively. The decline in NOI reflected billing rate increases and a workers compensation rebate of \$2.1 million, offset by increased wages and benefits, recruitment, travel, technology and training costs to address staffing capacity challenges, and an increase in unfunded COVID-19 costs of \$2.4 million (refer to the discussion under “Significant Developments – COVID-19 Related Expenses and Funding”).

OTHER OPERATIONS

Revenue from other operations increased by \$1.1 million or 7.9% to \$15.4 million for the six months ended June 30, 2022, largely due to growth in SGP clients and timing and mix of Assist consulting services.

Net operating income from other operations declined by \$0.1 million or 1.3% to \$8.2 million for the six months ended June 30, 2022, with revenue growth offset by increased staff and technology costs in support of growth initiatives.

FUNDS FROM OPERATIONS AND ADJUSTED FUNDS FROM OPERATIONS

Reconciliations of FFO to Net Earnings

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

<i>(thousands of dollars unless otherwise noted)</i>	Three months ended June 30,			Six months ended June 30,		
	2022	2021 ⁽²⁾	Change	2022	2021 ⁽²⁾	Change
Earnings from continuing operations	3,510	1,663	1,847	7,555	9,175	(1,620)
Add (Deduct):						
Depreciation and amortization	8,058	7,431	627	16,309	15,157	1,152
Depreciation for FFEC (maintenance capex)	(2,801)	(1,632)	(1,169)	(4,590)	(3,293)	(1,297)
Depreciation for office leases	(753)	(623)	(130)	(1,410)	(1,350)	(60)
Foreign exchange and fair value adjustments	137	101	36	30	375	(345)
Deferred income tax expense (recovery)	36	(1,002)	1,038	(1,705)	(667)	(1,038)
FFO from discontinued operations	(396)	441	(837)	(630)	2,564	(3,194)
FFO	7,791	6,379	1,412	15,559	21,961	(6,402)
Amortization of deferred financing costs	387	502	(115)	844	1,037	(193)
Accretion costs	(240)	320	(560)	533	637	(104)
Non-cash share-based compensation	(236)	1,166	(1,402)	1,249	1,824	(575)
Principal portion of government capital funding	1,102	1,536	(434)	2,217	3,057	(840)
Additional maintenance capex	102	(1,830)	1,932	552	(898)	1,450
AFFO	8,906	8,073	833	20,954	27,618	(6,664)
Per Basic Share (\$)						
FFO	0.09	0.07	0.02	0.17	0.24	(0.07)
AFFO	0.10	0.09	0.01	0.23	0.31	(0.08)
Per Diluted Share (\$)						
FFO	0.09	0.07	0.02	0.17	0.24	(0.07)
AFFO	0.10	0.09	0.01	0.23	0.30	(0.07)
Dividends (\$)						
Declared	10,754	10,744	10	21,504	21,496	8
Declared per share (\$)	0.12	0.12	—	0.24	0.24	—
Weighted Average Number of Shares (thousands)						
Basic	90,139	89,980		90,107	89,954	
Diluted	101,102	100,615		101,108	100,672	
Current income tax expense included in FFO	1,013	2,091	(1,078)	4,607	4,918	(311)
<i>FFO effective tax rate</i>	11.5 %	24.7 %		22.8 %	18.3 %	

Reconciliations of AFFO to Net Cash From Operating Activities

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

<i>(thousands of dollars)</i>	Three months ended June 30,			Six months ended June 30,		
	2022	2021	Change	2022	2021	Change
Net cash from (used in) operating activities	19,578	22,254	(2,676)	69,802	9,107	60,695
Add (Deduct):						—
Net change in operating assets and liabilities, including interest, and taxes	(8,321)	(11,348)	3,027	(45,543)	21,583	(67,126)
Depreciation for office leases	(753)	(623)	(130)	(1,410)	(1,350)	(60)
Depreciation for FFEC (maintenance capex) ⁽ⁱ⁾	(2,802)	(1,916)	(886)	(4,664)	(3,881)	(783)
Additional maintenance capex ⁽ⁱ⁾	102	(1,830)	1,932	552	(898)	1,450
Principal portion of government capital funding	1,102	1,536	(434)	2,217	3,057	(840)
AFFO	8,906	8,073	833	20,954	27,618	(6,664)
Total maintenance capex⁽ⁱ⁾	2,700	3,746	(1,046)	4,112	4,779	(667)

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

AFFO 2022 Financial Review

For Q2 2022, AFFO increased by \$0.8 million to \$8.9 million (\$0.10 per basic share) from \$8.1 million (\$0.09 per basic share) for Q2 2021, reflecting the improvement in Adjusted EBITDA, and lower interest, current income taxes and maintenance capex, partially offset by the loss of earnings from the disposed retirement living segment, a reduction in the portion of non-cash share-based compensation due to cash withholding tax on settlement of awards in the quarter, and a decline in the principal portion of government capital funding. The year-over-year improvement in AFFO included the unfavourable impact of CEWS received in Q2 2021 by the home health care segment of \$5.7 million net of tax (\$0.06 per basic share), partially offset by a favourable change in estimated unfunded COVID-19 costs from continuing operations of \$5.1 million net of tax (\$0.06 per basic share) (unfunded costs of \$0.4 million in Q2 2022 in comparison to unfunded costs of \$5.5 million in Q2 2021).

For the six months ended June 30, 2022, AFFO declined by \$6.7 million to \$21.0 million (\$0.23 per basic share) from \$27.6 million (\$0.31 per basic share) for the six months ended June 30, 2021, reflecting the decrease in Adjusted EBITDA, loss of earnings from the disposed retirement living segment, a reduction in the portion of non-cash share-based compensation due to cash withholding tax on settlement of awards in the quarter, and a decline in the principal portion of government capital funding, partially offset by lower interest, current income taxes and maintenance capex. The year-over-year decline in AFFO included the impact of CEWS received by the home health care segment in 2021 of \$12.8 million net of tax (\$0.14 per basic share). In addition, AFFO was impacted by a favourable change in estimated unfunded COVID-19 costs from continuing operations of \$11.5 million net of tax (a net recovery of \$5.8 million (\$0.06 per basic share) for the three months ended June 30, 2022, in comparison to net unfunded costs of \$5.7 million (\$0.06 loss per basic share) in the same prior year period).

Dividends declared as a percentage of AFFO for the six months ended June 30, 2022, represented a payout ratio of 103%. In addition to cash on hand of \$238.1 million at June 30, 2022, and ongoing cash generated from operations, the Company has available undrawn credit facilities totalling \$76.7 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 “2022 Second Quarter Financial Review”, “2022 Six Month Financial Review” and “Discontinued Operations”.

The current income tax expense included in arriving at AFFO was \$4.6 million for the six months ended June 30, 2022, and \$4.9 million for the same prior year period, representing an effective tax rate on FFO of 22.8% and 18.3%, respectively. 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 2021. 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 2022, the Company expects the effective tax rate on FFO will be in the range of 24% to 26%. 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.

Including the activity of discontinued operations, maintenance capex was \$2.7 million for Q2 2022 as compared to \$3.7 million for Q2 2021 and to \$1.4 million for Q1 2021, representing 0.9%, 1.2% and 0.4% of revenue, respectively. For the six months ended June 30, 2022, maintenance capex was \$4.1 million as compared to \$4.8 million in the same prior year period, representing 0.6% and 0.8% of revenue, respectively. These costs fluctuate on a quarterly and annual basis with the timing of projects and seasonality.

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

<i>(thousands of dollars)</i>	Three months ended June 30,			Six months ended June 30,		
	2022	2021	Change	2022	2021	Change
Adjusted EBITDA	17,082	15,466	1,616	36,645	39,244	(2,599)
Add (Deduct):						
Depreciation for FFEC (maintenance capex)	(2,801)	(1,632)	(1,169)	(4,590)	(3,293)	(1,297)
Depreciation for office leases	(753)	(623)	(130)	(1,410)	(1,350)	(60)
Accretion costs	240	(301)	541	(607)	(599)	(8)
Interest expense	(5,022)	(5,388)	366	(10,080)	(10,733)	653
Interest revenue	541	450	91	1,291	965	326
Discontinued operations, pre-tax	(483)	498	(981)	(1,083)	2,645	(3,728)
	8,804	8,470	334	20,166	26,879	(6,713)
Current income tax expense (recovery)	1,013	2,091	(1,078)	4,607	4,918	(311)
FFO	7,791	6,379	1,412	15,559	21,961	(6,402)
Amortization of deferred financing costs	387	502	(115)	844	1,037	(193)
Accretion costs	(240)	320	(560)	533	637	(104)
Non-cash share-based compensation	(236)	1,166	(1,402)	1,249	1,824	(575)
Principal portion of government capital funding	1,102	1,536	(434)	2,217	3,057	(840)
Additional maintenance capex	102	(1,830)	1,932	552	(898)	1,450
AFFO	8,906	8,073	833	20,954	27,618	(6,664)

LIQUIDITY AND CAPITAL RESOURCES

Sources and Uses of Cash

The following summarizes the sources and uses of cash between continuing and discontinued operations for three months ended June 30, 2022 and 2021.

<i>(thousands of dollars)</i>	Six months ended June 30, 2022			Six months ended June 30, 2021		
	Continuing	Discontinued	Total	Continuing	Discontinued	Total
Net cash from (used in) operating activities	74,243	(4,441)	69,802	6,913	2,194	9,107
Net cash from (used in) investing activities	(38,870)	244,782	205,912	(17,644)	(663)	(18,307)
Net cash used in financing activities	(20,456)	(121,796)	(142,252)	(35,217)	(2,971)	(38,188)
Foreign exchange gain (loss) on U.S. cash held	(6)	—	(6)	(117)	—	(117)
Increase (decrease) in cash and cash equivalents	14,911	118,545	133,456	(46,065)	(1,440)	(47,505)

As at June 30, 2022, the Company had cash and cash equivalents on hand of \$238.1 million, reflecting an increase in cash of \$133.5 million from the beginning of the year. Cash flow from operating activities of the continuing operations was \$74.2 million for the six months ended June 30, 2022, and was in excess of dividends paid of \$21.5 million for the same period.

Net cash from operating activities was a source of cash of \$69.8 million for the six months ended June 30, 2022, up \$60.7 million from \$9.1 million for the same prior year period, reflecting favourable changes in operating assets and liabilities and cash income taxes between periods. Net income taxes received of \$7.5 million to date in 2022 included receipt of a prior year tax recoverable related to the former U.S. operations, compared to taxes paid of \$23.6 million in 2021 resulting from CEWS recognized in 2020 and timing of related payments. Fluctuations in operating assets and liabilities between periods are primarily attributable to the volatility and timing of cash receipts related to flow-through funding and COVID-19, and the timing of payroll cycles.

Net cash from investing activities was a source of cash of \$205.9 million for the six months ended June 30, 2022 as compared to a use of cash of \$18.3 million for the same prior year period. The 2022 activity included proceeds from the sale of the retirement living segment including assumed debt, net of taxes paid, of \$245.6 million and the collection of other assets of \$2.2 million, partially offset by purchases of property, equipment and other intangible assets of \$41.9 million. 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 table that follows summarizes the capital expenditures for each of the continuing and discontinued operations. Growth capex relates to the LTC redevelopment projects, building improvements, IT projects, or other capital projects, all of which are aimed at earnings growth. Maintenance capex relates to the actual capital expenditures incurred to sustain and upgrade existing property and equipment.

<i>(thousands of dollars)</i>	Six months ended June 30, 2022			Six months ended June 30, 2021		
	Continuing	Discontinued	Total	Continuing	Discontinued	Total
Growth capex	37,824	—	37,824	16,365	220	16,585
Maintenance capex	3,295	817	4,112	4,337	442	4,779
	41,119	817	41,936	20,702	662	21,364

Management monitors and prioritizes the capital expenditure requirements of its properties throughout the year, taking into account the urgency and necessity of the expenditure. In 2022, the Company expects to spend in the range of \$13.0 million to \$15.0 million in maintenance capex and in the range of \$135.0 million to \$145.0 million in growth capex related primarily to the LTC projects under construction, redevelopment activities and investments in technology as part of our ongoing strategy of transitioning our key IT platforms to the cloud to support our growth initiatives. Depending on the timing of further announcements of our LTC redevelopment projects the level of our growth capex could change (refer to “Key Performance Indicators – LTC Projects Under Construction”).

Net cash used in financing activities was a use of cash of \$142.3 million for the six months ended June 30, 2022, an increase of \$104.1 million from \$38.2 million for the same prior year period. The 2022 activity included debt repayments of \$134.5 million, including \$2.6 million related to the Saskatchewan LTC Homes and \$119.0 million, including debt repayments, related to the Retirement Living Sale, cash dividends paid of \$21.5 million and financing costs, partially offset by \$13.4 million in draws on LTC construction financings (\$8.0 million) and term loans (\$5.4 million). The 2021 activity included debt repayments of \$15.7 million, cash dividends paid of \$21.5 million and financing costs.

Discontinued operations reflect the operations of the retirement living segment and the Saskatchewan LTC Homes. Further details are provided under “Discontinued Operations” and in *Note 14* of the unaudited interim condensed consolidated financial statements.

Capital Structure

SHAREHOLDERS’ EQUITY

Total shareholders’ equity as at June 30, 2022, was \$161.5 million as compared to \$101.9 million at December 31, 2021, reflecting the contributions from net earnings and comprehensive income offset by dividends declared of \$21.5 million.

As at June 30, 2022, the Company had 89,739,924 Common Shares issued and outstanding (carrying value – \$502.8 million), as compared to 89,562,499 Common Shares (carrying value – \$500.9 million) as at December 31, 2021, reflecting 177,425 Common Shares issued under the Company’s equity-based compensation plan.

Share Information (thousands)	August 8, 2022	June 30, 2022	June 30, 2021
Common Shares (TSX symbol: EXE) ⁽ⁱ⁾	88,754.7	89,739.9	89,562.5

(i) Closing market value per TSX on August 8, 2022, was \$7.58.

As at August 9, 2022, the Company had an aggregate of 4,063,313 Common Shares reserved and available for issuance pursuant to the Company's long-term incentive plan, of which there were in aggregate 1,946,919 performance share units and deferred share units outstanding as at June 30, 2022 (refer to *Note 9* of the unaudited interim condensed consolidated financial statements).

As at August 9, 2022, 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, 2022, consistent with that declared in the same 2021 period.

Normal Course Issuer Bid

As at August 8, 2022, the Company had purchased for cancellation 985,176 Common Shares at a cost of \$7.1 million, representing a weighted average price of \$7.22 per share (refer to "Significant Developments – Normal Course Issuer Bid ("NCIB)").

Long-term Debt

Long-term debt totalled \$373.2 million as at June 30, 2022, as compared to \$536.9 million as at December 31, 2021, representing a decrease of \$163.7 million, reflecting the repayment and transfer of debt of \$117.6 million and \$53.5 million, respectively, in connection with the Retirement Living Sale, and regular debt repayments of \$16.9 million, partially offset by \$13.4 million in draws on construction loans (\$8.0 million) and term loans (\$5.4 million), new lease liabilities and changes in accretion and deferred financing costs. The current portion of long-term debt as at June 30, 2022, was \$23.8 million. The Company is subject to debt service coverage covenants on certain of its loans and was in compliance with all of these covenants as at June 30, 2022. 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

As at June 30, 2022, \$10.2 million was drawn on the Company's LTC redevelopment construction facilities, aggregating \$156.6 million in connection with the Sudbury, Kingston and Stittsville LTC projects. Secured in 2021, these financings include \$54.7 million for Sudbury, \$41.1 million for Kingston and \$60.7 million for Stittsville, and mature on the earlier of 42 months from closing or the date of refinancing following completion of construction or lease up of the applicable project. Interest rates are prime plus 1.25% with standby fees of 0.55%. The facilities also provide for an aggregate \$6.0 million in letter of credit facilities. Interest is capitalized during construction and is payable following completion of construction until maturity.

NON-CMHC MORTGAGES AND LOANS

In May 2022, the Company amended an existing loan agreement to increase the principal amount by \$5.4 million to \$29.9 million and extended the term to April 2027. The Company entered into interest rate swap contracts to lock in the interest rate at a fixed rate of 5.40% per annum.

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, 2022, \$30.5 million of the facilities secure the Company's defined benefit pension plan obligations and \$5.1 million was used in connection with obligations relating to LTC homes, leaving \$76.7 million available.

Management has limited the amount of debt that may be subject to changes in interest rates, with only \$21.5 million of mortgage debt and \$10.2 million of construction loans in connection with the LTC projects at variable rates. The Company's term loan aggregating \$29.9 million as at June 30, 2022, has effectively been converted to fixed-rate financings with interest rate swaps over the full term. As at June 30, 2022, the interest rate swaps were valued as a liability of \$0.2 million.

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

<i>(thousands of dollars unless otherwise noted)</i>	June 30, 2022	December 31, 2021⁽²⁾
Weighted average interest rate of long-term debt outstanding	5.3 %	4.3 %
Weighted average term to maturity of long-term debt outstanding	6.5 yrs	5.9 yrs
Trailing twelve months consolidated interest coverage ratio ⁽¹⁾	3.6 X	3.5 X
Debt to Gross Book Value (GBV)		
Total assets (carrying value)	815,121	900,323
Accumulated depreciation on property and equipment	264,598	284,428
Accumulated amortization on other intangible assets	33,321	31,852
Deduct assets held for sale	(7,337)	(7,262)
GBV ⁽ⁱ⁾	1,105,703	1,209,341
Debt ⁽ⁱⁱ⁾	381,715	550,212
Debt to GBV⁽ⁱ⁾	34.5 %	45.5 %

(i) GBV excludes assets held for sale.

(ii) Debt includes convertible debentures at face value of \$126.5 million and excludes deferred financing costs and debt related to assets held for sale.

Future Liquidity and Capital Resources

The Company's consolidated cash and cash equivalents on hand was \$238.1 million as at June 30, 2022, as compared with \$104.6 million as at December 31, 2021, representing an increase of \$133.5 million. In addition, the Company has access to a further \$76.7 million in undrawn demand credit facilities. Cash and cash equivalents exclude restricted cash of \$2.4 million.

The Company has construction facilities in connection with three LTC projects in the aggregate of \$156.6 million, of which \$10.2 million was drawn as at June 30, 2022. For more information refer to the discussion under "Liquidity and Capital Resources – Long-term Debt – LTC Construction Financing".

Management believes that cash from operating activities, future debt financings, and estimated net proceeds from the Retirement Living Sale will be sufficiently available to support the Company's ongoing business operations, maintenance capex and debt repayment obligations and fund the completion of the Revera and Axiom Transactions (refer to "Significant Developments – Strategic Transactions with Revera and Axiom to Expand Focus on Long-term Care"). Growth through redevelopment of the LTC homes over the next few years, strategic acquisitions and developments may necessitate the raising of funds through debt, equity financings and/or other means. Decisions will be made on a specific transaction basis and will depend on market and economic conditions at the time. 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, 2022, the Company has outstanding commitments of \$87.3 million in connection with construction contracts for three LTC redevelopment projects, of which \$31.2 million is estimated to be payable in 2022, \$51.4 million in 2023 and the balance in 2024, based on the anticipated construction schedules. The Company also has outstanding commitments of \$26.9 million in connection with various IT service and license agreements to support the transition of key IT platforms to cloud-based solutions in support of the Company's growth initiatives (refer to *Note 15* of the unaudited interim condensed consolidated financial statements).

Revera and Axiom Transactions

On March 1, 2022, the Company entered into agreements with Revera and Axiom in respect of the ownership, operation and redevelopment of LTC homes in Ontario and Manitoba (refer to the discussion under "Significant Developments – Strategic Transactions with Revera and Axiom to Expand Long-term Care").

Legal Proceedings and Regulatory Actions

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

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

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

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

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

In October 2021, the Supreme Court of Canada dismissed an application for leave to appeal by the Attorney General of Ontario which sought to challenge the decision issued by the previous presiding court that ruled in favour of certain unions in respect of a legal challenge to a 2016 Pay Equity Tribunal decision. The unions argued that new pay equity adjustments were required in order to maintain pay equity with municipal LTC homes where PSWs and other direct care workers in other industries are included in determining pay equity. The matter has now been referred back to the Pay Equity Tribunal to settle the matter between the participating LTC homes, unions and the Government and establish a framework for pay equity suitable for the sector. The Company, along with other participants in the long-term care sector, including the Government of Ontario, are working to resolve the matter. Given the uncertainty of the matter and the various stakeholders involved, and as a result the wide range of possible settlement outcomes and related funding changes the Company is unable to determine a reliable estimate of the potential outcome and it could have a materially adverse impact on the Company's business, results of operations and financial condition.

DISCONTINUED OPERATIONS

The following describes those operations affecting the results for discontinued operations for the past eight quarters.

Retirement Living Sale

On May 16, 2022, the Company completed the previously announced sale of its retirement living operations composed of 11 retirement communities (1,050 suites), located in Ontario and Saskatchewan, to Sienna-Sabra LP, a partnership formed between Sienna Senior Living Inc. and SABRA Healthcare REIT, for an aggregate purchase price of \$307.5 million. The Company recorded a gain on sale of \$78.8 million, or \$67.9 million net of taxes, other adjustments and transaction costs, through discontinued operations (refer to “Significant Developments – Completed Sale of Retirement Living Portfolio”).

Accordingly, the Company classified its retirement living segment as discontinued in Q1 2022 and re-presented its comparative consolidated financial statements, including the comparative financial information presented in this MD&A.

Saskatchewan LTC Home Transition

The Company is in the process of transitioning the delivery of long-term care services operated at its Saskatchewan LTC Homes to the SHA. The timing of the transfer of the operations, and potentially the related assets, is anticipated to be completed in 2022.

Accordingly, the Company classified its Saskatchewan LTC Homes as discontinued in Q4 2021 and re-presented its comparative consolidated financial statements, including the comparative financial information presented in this MD&A.

Earnings (Loss) from Discontinued Operations

The following is an analysis of the results of discontinued operations for the periods ended June 30, 2022 and 2021. There was no impact from the former U.S. operations on these periods. Further details are provided in *Note 14* of the unaudited interim condensed consolidated financial statements.

Net operating income from discontinued operations declined by \$2.1 million to \$0.3 million for Q2 2022, compared to \$2.4 million for Q2 2021. For the six months ended June 30, 2022, NOI declined by \$5.2 million to \$1.0 million compared to \$6.3 million for the six months ended June 30, 2021. The sale of the retirement living segment in mid-May 2022 contributed to the year-over-year decline in NOI by \$2.6 million for Q2 2022 and \$3.3 million for the six months ended June 30, 2022.

The net operating loss of the Saskatchewan LTC Homes improved by \$0.5 million in Q2 2022, reflecting a reduction in estimated unfunded COVID-19 costs of \$1.1 million, partially offset by higher operating expenses. For the six months ended June 30, 2022, the net operating loss of the Saskatchewan LTC homes declined by \$2.0 million and was impacted by retroactive funding received in 2021 and higher operating costs, partially offset by a reduction in estimated unfunded COVID-19 costs of \$0.5 million.

Earnings from operating activities of discontinued operations was essentially flat for Q2 2022 compared to a loss of \$0.7 million for Q2 2021. For the six months ended June 30, 2022, earnings from operating activities was unchanged at \$0.1 million. The year-over-year comparisons for both periods were impacted by the reduction in NOI, lower depreciation and amortization, and lower net finance costs due to the repayment of debt related to the discontinued operations during 2022.

AFFO from discontinued operations declined by \$1.6 million to a loss of \$1.0 million for Q2 2022, compared to AFFO of \$0.6 million for Q2 2021, largely due to the \$2.1 million decline in NOI and higher maintenance capex, partially offset by lower interest expense. For the six months ended June 30, 2022, AFFO from discontinued operations declined by \$4.3 million to a loss of \$1.2 million compared to AFFO of \$3.1 million for the six months ended June 30, 2021. The year-over-year comparisons for both periods were impacted by the decline in NOI and higher maintenance capex, partially offset by lower interest expense.

The following table provides the results of discontinued operations and a calculation of AFFO for the for the three months ended June 30, 2022 and 2021.

DISCONTINUED OPERATIONS	Three months ended June 30,						
	2022			2021			
<i>(thousands of dollars unless otherwise noted)</i>	Retirement Living	SK LTC Homes	Total	Retirement Living	SK LTC Homes	Total	Total Change
Revenue	6,272	13,010	19,282	12,301	13,455	25,756	(6,474)
Operating expense	5,202	13,810	19,012	8,601	14,804	23,405	(4,393)
Net operating income (loss)	1,070	(800)	270	3,700	(1,349)	2,351	(2,081)
RECONCILIATION TO AFFO							
Earnings (loss) from operating activities of discontinued operations	551	(588)	(37)	445	(1,148)	(703)	666
Add (Deduct):							
Depreciation and amortization	—	—	—	1,691	185	1,876	(1,876)
Depreciation for FFEC (maintenance capex)	(1)	—	(1)	(228)	(56)	(284)	283
Foreign exchange and fair value adjustments	(432)	—	(432)	(140)	—	(140)	(292)
Deferred income tax expense (recovery)	74	—	74	103	(411)	(308)	382
FFO from discontinued operations	192	(588)	(396)	1,871	(1,430)	441	(837)
Amortization of deferred financing costs	96	—	96	166	—	166	(70)
Accretion costs	—	—	—	19	—	19	(19)
Additional maintenance capex	(696)	(16)	(712)	22	(44)	(22)	(690)
AFFO from discontinued operations	(408)	(604)	(1,012)	2,078	(1,474)	604	(1,616)
AFFO per basic share (\$)	—	(0.01)	(0.01)	0.02	(0.02)	0.01	(0.02)
Total maintenance capex	697	16	713	206	100	306	407

The following table provides the results of discontinued operations and a calculation of AFFO for the for the six months ended June 30, 2022 and 2021.

DISCONTINUED OPERATIONS	Six months ended June 30,						
	2022			2021			
<i>(thousands of dollars unless otherwise noted)</i>	Retirement Living	SK LTC Homes	Total	Retirement Living	SK LTC Homes	Total	Total Change
Revenue	18,937	26,370	45,307	24,475	28,801	53,276	(7,969)
Operating expense	15,058	29,200	44,258	17,328	29,652	46,980	(2,722)
Net operating income (loss)	3,879	(2,830)	1,049	7,147	(851)	6,296	(5,247)
RECONCILIATION TO AFFO							
Earnings (loss) from operating activities of discontinued operations	2,118	(2,080)	38	1,033	(925)	108	(70)
Add (Deduct):							
Depreciation and amortization	565	—	565	3,653	352	4,005	(3,440)
Depreciation for FFEC (maintenance capex)	(74)	—	(74)	(462)	(126)	(588)	514
Other expense, net of current tax	—	—	—	—	—	—	—
Foreign exchange and fair value adjustments	(1,627)	—	(1,627)	(921)	—	(921)	(706)
Deferred income tax expense (recovery)	468	—	468	291	(331)	(40)	508
FFO from discontinued operations	1,450	(2,080)	(630)	3,594	(1,030)	2,564	(3,194)
Amortization of deferred financing costs	263	—	263	365	—	365	(102)
Accretion costs	(74)	—	(74)	38	—	38	(112)
Additional maintenance capex	(727)	(16)	(743)	188	(42)	146	(889)
AFFO from discontinued operations	912	(2,096)	(1,184)	4,185	(1,072)	3,113	(4,297)
AFFO per basic share (\$)	0.01	(0.02)	(0.01)	0.05	(0.01)	0.03	(0.04)
Total maintenance capex	801	16	817	274	168	442	375

The following table provides the results of discontinued operations and a calculation of AFFO for the for the year ended December 31, 2021.

DISCONTINUED OPERATIONS	Twelve months ended December 31, 2021			
	Retirement Living	SK LTC Homes	U.S. Sale ⁽ⁱ⁾	Total
<i>(thousands of dollars unless otherwise noted)</i>				
Revenue	49,771	56,649	—	106,420
Operating expense	36,395	57,414	—	93,809
Net operating income (loss)	13,376	(765)	—	12,611
RECONCILIATION TO AFFO				
Earnings (loss) from operating activities of discontinued operations	1,508	(1,150)	3,642	4,000
Add (Deduct):				
Depreciation and amortization	7,046	691	—	7,737
Depreciation for FFEC (maintenance capex)	(921)	(260)	—	(1,181)
Other expense, net of current tax	—	—	(3,642)	(3,642)
Foreign exchange and fair value adjustments	(1,567)	—	—	(1,567)
Deferred income tax expense (recovery)	369	(415)	—	(46)
FFO from discontinued operations	6,435	(1,134)	—	5,301
Amortization of deferred financing costs	697	3	—	700
Accretion costs	76	—	—	76
Additional maintenance capex	(69)	(267)	—	(336)
AFFO from discontinued operations	7,139	(1,398)	—	5,741
AFFO per basic share (\$)	0.08	(0.02)	—	0.06
Total maintenance capex	990	527	—	1,517

(i) Relates to former U.S. segment classified as discontinued in Q2 2020.

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, 2021, contained in the Company's 2021 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".

Accounting Standards Adopted During the Period

During the six months ended June 30, 2022, the Company adopted certain IFRS standards and amendments, the nature and effect of which are provided in *Note 3* of the unaudited interim condensed consolidated financial statements, and described below:

DERECOGNITION OF FINANCIAL LIABILITIES

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

Future Changes in Accounting Policies

The following accounting standards, amendments and interpretations will take effect for the Company after December 31, 2022, the nature and effect of which are provided in *Note 3* of the unaudited interim condensed consolidated financial statements, and described below:

CLASSIFICATION OF LIABILITIES AS CURRENT OR NON-CURRENT

Beginning no earlier than January 1, 2024, the Company will adopt IASB amendments to IAS 1 *Presentation of financial statements*, which clarified the criteria of classification of liabilities as current or non-current. Management is assessing

whether the adoption of this amendment is expected to have a material impact on the consolidated financial statements. The International Accounting Standards Board has tentatively deferred the adoption date to no earlier than January 1, 2024 from January 1, 2023.

DEFERRED TAX RELATED TO ASSETS AND LIABILITIES ARISING FROM A SINGLE TRANSACTION

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

NON-GAAP MEASURES

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

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

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

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

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

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

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

"Adjusted EBITDA Margin" is defined as Adjusted EBITDA as a percentage of revenue.

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

"Earnings (loss) from continuing operations before separately reported items, net of tax" is defined as earnings (loss) from continuing operations, excluding the following separately reported line items: "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.

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

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

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

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

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

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

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

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

“**NOI Yield**” is defined 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 considers this a relevant measure of the Company’s total economic return of a development project.

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

RISKS AND UNCERTAINTIES

There are certain risks inherent in an investment in securities and activities of the Company, which investors should carefully consider before investing in the Company. Risks and uncertainties are disclosed in the Company's 2021 Annual Information Form, including without limitation, "Risks Related to a Pandemic, Epidemic or Outbreak of a Contagious Illness, such as COVID-19", "Risks Related to Inflationary Pressures", "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".

Endnotes

- (1) This is a non-GAAP financial measure. Refer to the discussion under "Non-GAAP Measures".
- (2) Comparative figures have been re-presented to reflect discontinued operations. Refer to the discussion under "Discontinued Operations".