EXTENDICARE

NEWS RELEASE

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FOR IMMEDIATE RELEASE
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Extendicare Announces 2014 Second Quarter Results

Reaches Tentative Settlement with U.S. Government, and Provides Update on Strategic Process

MARKHAM, ONTARIO – Extendicare Inc. ("Extendicare" or the "Company") (TSX: EXE) today reported results for the three and six months ended June 30, 2014. Results are presented in Canadian dollars unless otherwise noted.

HIGHLIGHTS (variances exclude effect of foreign exchange)

- Revenue of $531.6 million in Q2 2014 included a $13.4 million increase in same-facility operations over Q2 2013.
- Adjusted EBITDA of $45.9 million in Q2 2014 increased by $2.8 million over Q2 2013, and by $3.5 million over Q1 2014, which included an increase in the provision for self-insured liabilities of $1.5 million over Q2 2013 and an increase of $4.4 million over Q1 2014.
- AFFO was $15.5 million ($0.177 per basic share) in Q2 2014 compared to $22.1 million ($0.255 per basic share) in Q2 2013 and $21.5 million ($0.246 per basic share) in Q1 2014; AFFO for Q2 2014 included $6.1 million withholding tax on cross-border dividend.
- Tentative settlement reached with U.S. government, provision of $42.2 million (US$39 million) recorded in Q2 2014, which has been excluded from Adjusted EBITDA and AFFO.
- Letter of intent reached to lease Pennsylvania operations to an experienced third-party operator for annual rent of US$26.8 million.
- Dividends declared in the first six months of 2014 totalled $21.0 million, representing approximately 57% of AFFO for the same period.
- Declares August dividend of $0.04 per share.

"I am pleased with the progress we have made on several important fronts," stated Tim Lukenda, President and CEO of Extendicare. "The results of operations we are reporting are encouraging given the extraneous issues that we have been facing, and are the result of the diligent efforts of our team," he added.

U.S. GOVERNMENT INVESTIGATIONS

Extendicare's wholly owned U.S. subsidiary, Extendicare Health Services, Inc. (EHSI), has reached a tentative settlement for a full and final settlement with the U.S. Department of Justice (DOJ), the Office of the Inspector General (OIG) of the U.S. Department of Health and Human Services and multiple states regarding the previously disclosed investigations and ancillary claims that have been pending since 2010. EHSI has denied engaging in any illegal conduct and has agreed to the terms of the tentative settlement without any admission of wrongdoing.

Pursuant to the terms of the tentative settlement, EHSI will make a lump-sum payment of US$38 million. Such payment is expected to be made in the third or fourth quarter of 2014. Extendicare's results for the second quarter of 2014 reflect a provision of $42.2 million (US$39 million) related to the tentative settlement obligation and other related costs. The tentative settlement also provides for EHSI to enter into a five-year corporate integrity agreement with the OIG (the "CIA"), a standard practice in settlements with the DOJ and OIG. During its term, the CIA will require EHSI to continue to maintain a compliance program at all of its U.S. skilled nursing centers and related rehabilitation operations designed to ensure compliance of the Company's U.S. operations with U.S. federal and state health care program requirements. The CIA will also require EHSI to conduct certain additional compliance-related activities during its term, including various training, monitoring and review procedures, and to retain an independent third-party monitor. It is anticipated that these additional obligations of the CIA may cost EHSI between US$1.5 million and US$3.5 million per annum during the five-year term of the agreement. The Company's participation in U.S. federal and state health care programs will not be adversely affected by the settlement or the CIA.

Commenting on the tentative settlement of the DOJ and OIG investigations, Tim Lukenda said, "Notwithstanding our strong belief that EHSI has not engaged in any illegal conduct, we are pleased to put these matters behind us and look forward to focusing on the future. The final resolution of these matters will allow the Company to avoid the expense, distraction, and uncertainty resulting from the broad investigations that have been drawn out for several years, and to avoid the possibility of protracted litigation." He added, "We continue to demonstrate our strong commitment to delivering quality care and customer service to our residents and their families, and we are proud of our accomplishments in this regard. We have made great strides on our quality journey, and believe the elements of the CIA will assist us in continuing these efforts."

The tentative settlement is subject to final approvals and the finalization and execution of all required documentation. Extendicare does not expect the settlement to have a material adverse effect on the Company's business or long-term consolidated financial position; however, the settlement and related payment will have an impact on the Company's results of operations for fiscal 2014.

PENNSYLVANIA LEASE TRANSACTION

EHSI has entered into a letter of intent to lease all 22 of its owned skilled nursing centers in the states of Pennsylvania (2,502 beds), Delaware (120 beds) and West Virginia (120 beds) to an experienced third-party long-term care operator. Under the proposed agreement, the operating leases will have 15-year terms with two 5-year extensions at the option of the operator. The aggregate annual lease revenue for the first year would be US$26.8 million with rent escalation of 2.5% in years two through seven, and 3% per year thereafter. The leases will not include options to purchase the associated real estate assets. The transfer of operations would be subject to finalization of related documentation and third-party approvals, including state licensure, and is anticipated to occur in the fourth quarter of 2014.

As a result of this transaction, EHSI will no longer operate skilled nursing centers in the States of Pennsylvania, Delaware and West Virginia. The decision to exit the operations of these centers is primarily related to the increasing exposure to undue litigation risks and the associated high liability costs that are prevalent in Pennsylvania and West Virginia, in particular. Despite a strong and improving quality record in these centers, we have experienced an increase of over 300% in the number of liability claims in these states over the past several years.

For the 2013 year, these 22 skilled nursing centers generated annualized revenue of US$265.2 million and Adjusted EBITDA of US$19.3 million that included an estimated US$18.7 million in provisions made for self-insured liabilities. For the first six months of 2014, these operations generated revenue of US$134.0 million and Adjusted EBITDA of US$8.0 million that included an estimated US$10.2 million in provisions made for self-insured liabilities. As a result of the elimination of the provisions for self-insured liabilities, this transaction will improve our Adjusted EBITDA and AFFO. The estimated financial impact of the lease transaction on our results for the 2013 year is an improvement in Adjusted EBITDA of approximately US$7.5 million and an improvement in AFFO of approximately US$10.6 million. With respect to our results for the first half of 2014, the estimated financial impact is an improvement in Adjusted EBITDA of approximately US$5.4 million and an improvement in AFFO of approximately US$5.6 million.

PROVISION FOR SELF-INSURED LIABILITIES

The results of our independent actuarial review completed during the 2014 second quarter necessitated the continued strengthening of our reserves this quarter. Our provision was $11.7 million (US$10.7 million), compared to $7.4 million (US$6.7 million) in the 2014 first quarter, resulting in a provision for the first six months of 2014 of $19.1 million (US$17.4 million). The increase of US$4.0 million this quarter was primarily due to an increase in Pennsylvania based claims. Reserves for these claims represented approximately US$10.2 million, or 59% of the total recorded in the first six months of 2014. We did not experience any adverse development with respect to our former Kentucky operations in the first half of 2014. In comparison, our provision for the first six months of 2013 was US$18.6 million and included approximately US$7.1 million related to our former Kentucky operations, and an estimated US$4.9 million related to our Pennsylvania operations.

STRATEGIC REVIEW UPDATE

As previously disclosed in May 2013, the board of directors of the Company (the “Board”), through its strategic committee (the “Strategic Committee”), has been undertaking a review of strategic alternatives relating to the separation of the Company’s Canadian and U.S. businesses that would be in the best interests of the Company and would reasonably be expected to enhance shareholder value (the “Strategic Review”).

As a result of the resolution of the U.S. government investigations, the Board expects to move forward towards the completion of its Strategic Review process. The Company is actively involved in negotiations towards a transaction involving a sale of the U.S. business. It is expected that such negotiations will proceed more expeditiously as a result of the U.S. government investigations having been resolved. Further details relating to the outcome of the Strategic Review process will be disclosed when appropriate. There is no certainty that any transaction will be completed.

DEBT REFINANCINGS

As previously announced on June 9, 2014, EHSI obtained a US$100.0 million non-recourse term loan (the “2014 PrivateBank Loan”) from The PrivateBank and Trust Company and other banks in the syndicate (collectively “The PrivateBank”). These proceeds, together with other available cash on hand, were used to repay the principal owing under Extendicare’s outstanding 5.7% convertible unsecured subordinated debentures (the “2014 Debentures”) in the aggregate principal amount of $113.9 million that matured on June 30, 2014.

The 2014 PrivateBank Loan is secured by first mortgages and an assignment of rents and leases on 19 skilled nursing centers in the State of Kentucky that EHSI leases out to a third-party operator. The 2014 PrivateBank Loan has a five-year term maturing in June 2019, with monthly principal and interest payments based on a 25-year amortization period and one-month LIBOR plus 475 basis points. EHSI has the option to prepay the outstanding balance of the loan in whole or in part subject to a prepayment fee. The prepayment penalty does not apply to a prepayment in connection with the third-party operator exercising its purchase option under the lease. The 2014 PrivateBank Loan contains customary covenants and events of default, including maintaining minimum rent coverage and debt service coverage ratios on each of the 19 centers and a minimum fixed charge coverage ratio with respect to the 19 centers on a consolidated basis.

In addition, on June 30, 2014, EHSI entered into a US$35.0 million revolving loan agreement with The PrivateBank (the "EHSI Revolving Loan") with a five-year term to June 2019 and interest based on LIBOR plus 400 basis points. The EHSI Revolving Loan replaced the US$100.0 million senior secured revolving credit facility that was terminated on June 25, 2014. The EHSI Revolving Loan is secured by accounts receivable of 45 centers (42 skilled nursing centers and three assisted living centers). Under the loan agreement, the combined operations of the 45 centers must meet a minimum debt service coverage ratio and a minimum fixed charge coverage ratio and must maintain a minimum level of tangible net worth. The amount available to be borrowed under the EHSI Revolving Loan is 80% of eligible receivables that are less than 90 days old. The maximum amount available to be borrowed under the EHSI Revolving Loan as at June 30, 2014, was US$24.4 million, of which EHSI had utilized US$8.3 million under letters of credit, leaving US$16.1 million available for future borrowings for working capital and corporate purposes. The letters of credit are in favour of workers' compensation programs that renew annually and mature in June 2015.

2014 ONTARIO BUDGET

In July 2014, the Ontario government passed its 2014 budget (the "2014 Ontario Budget"), and as it relates to the long-term care sector, the government has indicated its intention to provide funding to encourage long-term care operators to accelerate the redevelopment of about 30,000 long-term care beds. In addition, the government has introduced amendments to the *Long-Term Care Homes Act, 2007*, which, if passed, would extend the maximum term of long-term care center licenses for "New" and "A" beds by five years. The government indicated that these enhancements are intended to contribute to the stability and capacity of Ontario's long-term care sector. The 2014 Ontario Budget does not specify how much funding will be provided for redevelopment, nor the expected timing of the program. Now that the government has announced its recommitment to the redevelopment program, Extendicare, along with other operators in the sector, are eagerly awaiting a viable program that will facilitate the timely enhancement of the older centers.

As it relates to the home health care sector, the government has made some significant and important investments to ensure more health care services are available in the home and in the community. The 2014 Ontario Budget assures Ontarians of the continued goal to support care at home through an increase in investments by over $750 million by fiscal 2016. This includes increasing the minimum wage for personal support workers (PSWs) in the publicly funded home and community care sector by $4.00 per hour over three years to a minimum of $16.50 per hour. PSWs will receive an hourly wage increase of $1.50 retroactive to April 1, 2014, an additional $1.50 on April 1, 2015, and a further $1.00 increase on April 1, 2016. It is anticipated that this investment will improve an operator's ability to recruit and retain PSWs in order to deliver high quality care and services in the community. While the government has indicated its intention to fund the base wage increase, sufficient details have not been provided to determine how much of the incremental benefit costs to be incurred by operators will be funded. Based upon ParaMed's current volume of services in the province, we estimate that the $4.00 per hour wage increase will increase our labour costs by approximately $15.2 million over the next three years, of which approximately $5.7 million will be incurred in the first year. In addition, we estimate that we will incur incremental costs for travel and benefits of approximately $1.40 per hour, or $5.3 million over the next three years. Extendicare and others in the industry applaud the government's recognition of the need to improve wages for PSWs in home care. However, we share concerns over the adequacy of funding for associated incremental costs, and are currently engaged with the government to communicate those concerns.

2014 SECOND QUARTER FINANCIAL REVIEW

TABLE 1	**Q2**	**Q2**	**Q1**
(millions of dollars unless otherwise noted)	**2014**	**2013**	**2014**
Revenue			
U.S. operations (US$)	**310.8**	304.7	309.8
U.S. operations (C$)	**338.8**	311.9	341.8
Canadian operations	**192.8**	186.6	186.4
Total Revenue	**531.6**	498.5	528.2
Adjusted EBITDA (1)			
U.S. operations (US$)	**25.0**	23.3	25.2
U.S. operations (C$)	**27.2**	23.8	27.8
Canadian operations	**18.7**	17.7	14.9
Total Adjusted EBITDA	**45.9**	41.5	42.7
Adjusted EBITDA margin	**8.6%**	8.3%	8.1%
Average U.S./Canadian dollar exchange rate	**1.0904**	1.0234	1.1033

(1) Refer to discussion of non-GAAP measures.

2014 Second Quarter Comparison to 2013 Second Quarter

Consolidated revenue improved by $12.3 million this quarter, excluding a $20.8 million positive effect of a weaker Canadian dollar. The impact of the following 2013 events: opening two new nursing centers in northern Ontario; discontinuing home health care operations in Alberta; classifying 11 U.S. skilled nursing centers in various states as held for sale; and closing a rehabilitation hospital in Michigan (collectively referred to as "non same-facility operations"), resulted in lower revenue of $1.1 million between periods. Revenue from our remaining operations (referred to as "same-facility operations") improved by $13.4 million, due to improvements from both our U.S. and Canadian operations.

Revenue from U.S. operations improved by US$6.1 million to US$310.8 million in the 2014 second quarter compared to US$304.7 million in the 2013 second quarter. Non same-facility operations generated revenue of US$15.0 million this quarter compared to US$15.3 million in the 2013 second quarter, for a net decline of US$0.3 million. Revenue from same-facility operations increased by US$6.4 million between periods, primarily due to a net increase in average rates of US$5.6 million, higher ancillary revenue of US$1.9 million and favourable prior period revenue settlement adjustments of US$1.7 million, partially offset by lower census of US$2.5 million and other revenue of US$0.3 million.

Revenue from Canadian operations grew by $6.2 million to $192.8 million in the 2014 second quarter from $186.6 million in the 2013 second quarter. For purposes of discussing the variances in our results, the operations of all six of our Sault Ste. Marie and Timmins area nursing centers, consisting of two new nursing centers that opened in 2013, three that were closed and one that was downsized, are classified as "non same-facility". In addition, we no longer provide home health care services in Alberta, and therefore, these operations have also been classified as “non same-facility”. The non same-facility operations generated revenue of $9.2 million this quarter compared to $10.0 million in the 2013 second quarter, for a net decrease of $0.8 million. Revenue from same-facility operations improved by $7.0 million between periods, primarily due to funding enhancements and a 7.9% increase in volumes from our Ontario home health care operations.

Consolidated Adjusted EBITDA improved by $4.4 million this quarter from $41.5 million in the 2013 second quarter, representing 8.6% and 8.3% of revenue, respectively. Excluding a $1.6 million positive effect of a weaker Canadian dollar, Adjusted EBITDA improved by $2.8 million, of which $2.2 million was from same-facility operations. The U.S. operations contributed $1.8 million to this improvement and the balance was from the Canadian operations.

Adjusted EBITDA from U.S. operations improved by US$1.7 million to US$25.0 million this quarter from US$23.3 million in the 2013 second quarter, representing 8.0% and 7.6% of revenue, respectively. Adjusted EBITDA from non same-facility operations declined by US$0.1 million between quarters (US$0.2 million this quarter compared to US$0.3 million in the same 2013 period). Adjusted EBITDA from same-facility operations increased by US$1.8 million as a result of revenue improvements of US$6.4 million, partially offset by higher costs of US$4.6 million. Operating, administrative and lease costs from same-facility operations, adjusted to exclude the impact of property taxes accounted for under IFRIC 21, increased by US$4.6 million and included a US$3.6 million increase in labour costs and a US$1.5 million increase in the provision for self-insured liabilities.

Adjusted EBITDA from Canadian operations was $18.7 million this quarter compared to $17.7 million in the 2013 second quarter, representing 9.7% and 9.5% of revenue, respectively. Adjusted EBITDA from non same-facility operations improved by $0.6 million between periods ($1.1 million this quarter compared to $0.5 million in the same 2013 period). Adjusted EBITDA from same-facility operations improved by $0.4 million due to revenue improvements of $7.0 million, partially offset by increased costs of $6.6 million, of which $6.2 million were labour-related costs.

2014 Second Quarter Comparison to 2014 First Quarter

In comparison to the 2014 first quarter, consolidated revenue this quarter improved by $7.4 million, excluding a $4.0 million negative effect of a stronger Canadian dollar. This improvement was primarily due to the timing of recognition of funding in our Canadian operations, growth in home health care volumes, the extra day this quarter, and funding enhancements, partially offset by lower U.S. census levels.

Consolidated Adjusted EBITDA was $45.9 million this quarter compared to $42.7 million in the 2014 first quarter, representing 8.6% and 8.1% of revenue, respectively. Excluding a $0.3 million negative effect of a weaker Canadian dollar, Adjusted EBITDA improved by $3.5 million between periods, of which $2.3 million was from same-facility operations. Improvements of $3.2 million from the Canadian operations were partially offset by a $0.9 million decline from the U.S. operations, largely due to an increase in the provision for self-insured liabilities.

Adjusted EBITDA from U.S. operations declined by US$0.2 million to US$25.0 million this quarter from US$25.2 million in the 2014 first quarter, representing 8.0% and 8.1% of revenue, respectively. A decline of US$0.9 million was realized from same-facility operations as a result of higher costs of US$1.8 million, partially offset by an increase in revenue of US$0.9 million between quarters. Revenue this quarter was impacted by a decline in overall census of US$6.1 million, partially offset by the extra day this quarter of US$2.9 million, favourable prior period revenue settlement adjustments of US$2.1 million, higher average rates of US$1.4 million and other revenue of US$0.6 million. Operating, administrative and lease costs from same-facility operations, adjusted to exclude the impact of property taxes accounted for under IFRIC 21, increased by US$1.8 million between quarters, primarily due to a US$4.0 million increase in the provision for self-insured liabilities and other costs of US$2.9 million, partially offset by seasonal declines in utility costs of US$1.8 million and payroll taxes of US$3.3 million.

Adjusted EBITDA from Canadian operations improved by $3.8 million to $18.7 million this quarter from $14.9 million in the 2014 first quarter, representing 9.7% and 8.0% of revenue, respectively. Same-facility operations contributed $3.2 million to the improvement resulting from higher revenue of $6.0 million, partially offset by higher costs of $2.8 million. This was primarily due to growth in home health care volumes of 4.4%, funding enhancements, timing of spending under the flow-through envelopes, the extra day in the quarter, and a favourable prior period revenue settlement adjustments of $0.4 million between periods.

2014 SIX MONTH FINANCIAL REVIEW

TABLE 2	**Six months ended June 30**	
(millions of dollars unless otherwise noted)	**2014**	**2013**
Revenue		
U.S. operations (US$)	**620.6**	618.4
U.S. operations (C$)	**680.6**	628.2
Canadian operations	**379.2**	368.3
Total Revenue	**1,059.8**	996.5
Adjusted EBITDA [1]		
U.S. operations (US$)	**50.2**	46.8
U.S. operations (C$)	**55.0**	47.5
Canadian operations	**33.6**	33.1
Total Adjusted EBITDA	**88.6**	80.6
Adjusted EBITDA margin	**8.4%**	8.1%
Average U.S./Canadian dollar exchange rate	**1.0968**	1.0159

[1] Refer to discussion of non-GAAP measures.

Consolidated revenue in the first six months of 2014 improved by $13.1 million, excluding a $50.2 million positive effect of the weaker Canadian dollar. Non same-facility operations contributed a decline in revenue of $3.0 million between periods. Revenue from same-facility operations grew by $16.1 million, with an improvement from the Canadian operations of $12.5 million, and the balance from the U.S. operations.

Consolidated Adjusted EBITDA improved by $4.0 million, excluding a $4.0 million positive effect of the weaker Canadian dollar, and was 8.4% and 8.1% of revenue, respectively. Non same-facility operations contributed $0.5 million to the improvement between periods. Adjusted EBITDA from same-facility operations increased by $3.5 million, with an improvement of $3.2 million from the U.S. operations, and the balance from the Canadian operations.

Adjusted EBITDA from U.S. operations improved by US$3.4 million to US$50.2 million in the first six months of 2014 from US$46.8 million in the same 2013 period, representing 8.1% and 7.6% of revenue, respectively. Adjusted EBITDA from non same-facility operations improved by US$0.2 million (a loss of US$0.3 million in the first half of 2014 compared to a loss of US$0.5 million in the same 2013 period).

Adjusted EBITDA from same-facility operations improved by US$3.2 million as a result of higher revenue of US$3.7 million, partially offset by cost increases of US$0.5 million. The increase in revenue was primarily due to a net increase in average rates of US$9.5 million, higher ancillary revenue of US$2.9 million, and favourable prior period revenue settlement adjustments of US$1.3 million, partially offset by lower census of US$8.6 million and other revenue of US$1.4 million. Costs from same-facility operations increased by US$0.5 million, primarily due to an increase in labour-related costs of US$2.6 million, partially offset by a reduction in the provision for self-insured liabilities of US$1.2 million, and other net cost declines of US$0.9 million.

Adjusted EBITDA from Canadian operations improved by $0.5 to $33.6 million in the first half of 2014 from $33.1 million in the same 2013 period, representing 8.9% and 9.0% of revenue, respectively. Non same-facility operations contributed Adjusted EBITDA of $1.6 million this period compared to $1.4 million in the first six months of 2013, for a net improvement of $0.2 million between periods. Same-facility operations improved by $0.3 million, resulting from higher revenue of $12.5 million, partially offset by higher costs of $12.2 million. Revenue improvements resulted primarily from enhanced funding and a 7.7% increase in Ontario home health care volumes, while cost increases included higher labour-related costs of $11.2 million.

ADJUSTED FUNDS FROM OPERATIONS (AFFO)

AFFO was $15.5 million ($0.177 per basic share) in the 2014 second quarter compared to $22.1 million ($0.255 per basic share) in the 2013 second quarter, representing a decrease of $6.9 million, excluding a $0.3 million positive effect of a weaker Canadian dollar. This decline was primarily due to an increase in current income taxes of $9.4 million and higher interest costs, partially offset by an improvement in Adjusted EBITDA of $2.8 million, lower facility maintenance capital expenditures and an increase in government capital funding payments. Current income taxes for the 2014 second quarter were $11.0 million compared to $0.9 million in the 2013 second quarter, representing 45.5% and 4.2% of pre-tax funds from operations (FFO), respectively. The increase in current income taxes this quarter was primarily due to withholding tax of $6.1 million (US$5.5 million) on the payment of a cross-border dividend from our U.S. operations to fund the settlement of the 2014 Debentures. Excluding this withholding tax, the FFO effective tax rate would have been 20.3% this quarter.

In comparison to the 2014 first quarter AFFO of $21.5 million ($0.246 per basic share), AFFO this quarter declined by $5.8 million, excluding a $0.2 million positive effect of a weaker Canadian dollar. This decline was primarily due to an increase in current income taxes of $7.8 million, higher facility maintenance capital expenditures of $1.2 million, and higher interest costs of $0.3 million, partially offset by an improvement in Adjusted EBITDA of $3.5 million. Current income taxes increased this quarter to $11.0 million from $3.2 million in the 2014 first quarter primarily due to the $6.1 million of withholding tax incurred this quarter.

For the first six months of 2014, AFFO was $37.0 million ($0.423 per basic share), compared to $40.3 million ($0.466 per basic share) in the same 2013 period, representing a decline of $4.8 million, excluding a $1.5 million positive effect of a weaker Canadian dollar. This decline was primarily due to an increase in current income taxes of $9.0 million and higher interest costs of $0.6 million, partially offset by an improvement in Adjusted EBITDA of $4.0 million, lower facility maintenance capital expenditures of $0.4 million and an increase in government capital funding payments of $0.4 million. Current income taxes for the first half of 2014 were $14.2 million compared to $4.3 million in the same 2013 period, representing 31.5% and 11% of pre-tax FFO, respectively. The increase in current income taxes was primarily due to withholding tax on cross-border dividends of $6.1 million incurred this period compared to $0.5 million in the first half of 2013.

The effective tax rates on our FFO can be impacted by: adjustments to our 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; cross-border dividends; and the ability to utilize loss carryforwards. The restructuring of our Canadian legal entities in mid-2012 enhanced our ability to utilize available non-capital loss carryforwards. Our Canadian non-capital loss carryforwards were substantially utilized by the end of the 2014 first quarter and we incurred withholding tax of $6.1 million on the payment of a cross-border dividend in the 2014 second quarter. As a result, we anticipate that our annual effective tax rate on FFO will increase in 2014 to between 23% and 26%.

Facility maintenance capital expenditures were $5.9 million in the 2014 second quarter, compared to $5.8 million in the 2013 second quarter and $4.7 million in the 2014 first quarter, representing 1.1%, 1.2% and 0.9% of revenue, respectively. For the first half of 2014, facility maintenance capital expenditures totalled $10.6 million compared to $10.5 million in the same 2013 period, representing 1.0% and 1.0% of revenue, respectively. These costs fluctuate on a quarterly basis with the timing of projects and seasonality. It is our intention to spend between 1.5% and 2.0% of revenue annually, which is consistent with our objective to maintain and upgrade our centers. In 2014, we are expecting to spend in the range of $35 million to $40 million in facility maintenance capital expenditures and $5 million to $10 million in growth capital expenditures.

Dividends declared in the first six months of 2014 totalled $21.0 million, or $0.240 per share, representing approximately 57% of AFFO of $37.0 million, or $0.423 per basic share, compared to a payout ratio of approximately 77% in the same 2013 period, when the dividends declared totalled $0.360 per share.

U.S. OPERATIONS KEY METRICS

Skilled Nursing Facility Revenue Rates

The Medicare net market basket increase for October 1, 2014, is 2.0%, which we estimate will provide us with additional Medicare Part A and Managed Care revenue of approximately US$7.1 million per annum.

For the 2014 second quarter, our average daily Medicare Part A rate, excluding prior period settlement adjustments, was US$472.68, representing an increase of 1.8% from US$464.30 in the 2013 second quarter, primarily due to the market basket increase on October 1, 2013, of 1.3%, and changes in acuity mix. In comparison to our average daily Medicare Part A rate of US$470.01 in the 2014 first quarter, our rate this quarter increased by 0.6%, primarily due to changes in acuity mix.

For the 2014 second quarter, our average daily Managed Care rate, excluding prior period settlement adjustments, was US$447.10, representing an increase of 1.6% from US$440.04 in the 2013 second quarter and an increase of 0.2% from US$446.35 in the 2014 first quarter, primarily due to changes in acuity mix.

Our average daily Medicaid rate, excluding prior period settlement adjustments, increased this quarter by 2.5% to US$202.15 from US$197.14 in the 2013 second quarter, and increased by 0.6% from US$200.88 in the 2014 first quarter. During the 2012 fourth quarter, we became eligible to receive Upper Payment Limit funding for all of our centers in Indiana. Exclusive of this additional funding, the net increase in Medicaid rates this quarter over the 2013 second quarter was 1.9%.

Total and Skilled Census
Our same-facility ADC of 11,215 in the 2014 second quarter was 44 below the 2013 second quarter level of 11,259 due to lower Skilled Mix and private/other ADC of 66 and 25, respectively, partially offset by higher Medicaid ADC of 47. In comparison to the 2014 first quarter, our same-facility ADC this quarter declined by 149, primarily due to lower Skilled Mix ADC of 159. Our average same-facility occupancy was 84.9% this quarter compared to 83.5% in the 2013 second quarter, and was unchanged from the 2014 first quarter. Despite the decline in ADC, our average percentage occupancy improved or remained unchanged this quarter due to a removal of beds from service.

Our same-facility Skilled Mix ADC of 22.0% of our residents in the 2014 second quarter declined from 22.5% in the 2013 second quarter, and declined from 23.1% in the 2014 first quarter.

AUGUST 2014 DIVIDEND DECLARED
The Board of Directors of Extendicare today declared a cash dividend of $0.04 per share for the month of August 2014, which is payable on September 15, 2014, to shareholders of record at the close of business on August 29, 2014. This dividend is designated as an “eligible dividend” within the meaning of the Income Tax Act (Canada).

CONFERENCE CALL AND WEBCAST
On August 7, 2014, at 10:00 a.m. (ET), we will hold a conference call to discuss our 2014 second quarter results. The call will be webcast live and archived in the investors/presentations & webcasts section of our website at www.extendicare.com. Alternatively, the call-in number is 1-866-696-5910 or 416-340-2217, conference ID number 5060236#. A replay of the call will be available until midnight on August 22, 2014. To access the rebroadcast, dial 1-800-408-3053 or 905-694-9451, followed by the passcode 9562198#. Slides accompanying remarks during the call will be posted to our website as part of the live webcast. Also, a supplemental information package containing historical quarterly financial results and operating statistics can be found on the website under the investors/financial reports section.

ABOUT US
Extendicare is a leading North American provider of post-acute and long-term senior care services. Through our network of owned and operated health care centers, our qualified and experienced workforce of 36,000 individuals is dedicated to helping people live better through a commitment to quality service that includes skilled nursing care, rehabilitative therapies and home health care services. Our 251 senior care centers in North America have capacity to care for approximately 27,600 residents.

Retrospective Adoption of IFRIC 21, Levies
Upon the adoption of IFRIC 21, Levies, effective January 1, 2014, the Company has reassessed the timing of when to accrue property taxes imposed by specific legislation in the jurisdictions where it owns property. The Company previously accrued for Canadian and U.S. property taxes evenly throughout the year. In accordance with IFRIC 21, the Company has determined that the liability to pay the U.S. property taxes should be recognized in full at a single point in time when the obligating event occurs. The obligating event for the U.S. properties has been determined to be January 1, as stated in the legislation. The Company’s recognition of property taxes for its Canadian properties remains unchanged. The Company has retrospectively applied this change in accounting policy to January 1, 2013, and has restated its comparative interim periods for 2013 to reflect the recognition of the full amount of the annual U.S. property tax expense in the first quarter.

Non-GAAP Measures

Extendicare assesses and measures operating results and financial position based on performance measures referred to as "Adjusted EBITDA", "earnings (loss) before separately reported items", "Funds from Operations", and "Adjusted Funds from Operations". These are not measures recognized under GAAP and do not have standardized meanings prescribed by GAAP. These non-GAAP measures are presented in this document because either: (i) management believes that they are a relevant measure of the ability of Extendicare to make cash distributions; or (ii) certain ongoing rights and obligations of Extendicare may be calculated using these measures. Such non-GAAP measures may differ from similar computations as reported by other issuers and, accordingly, may not be comparable to similarly titled measures as reported by such issuers. They are not intended to replace earnings (loss) from continuing operations, net earnings (loss), cash flow, or other measures of financial performance and liquidity reported in accordance with GAAP. Reconciliations of these non-GAAP measures from net earnings and/or from net cash from operations, where applicable, are provided in this press release on the Non-GAAP Reconciliations page. Detailed descriptions of these terms can be found in the disclosure documents filed by Extendicare with the securities regulatory authorities, available at www.sedar.com and on Extendicare's website at www.extendicare.com.

Forward-looking Statements

Information provided by Extendicare from time to time, including this release, contains or may contain forward-looking statements concerning anticipated financial events, results, circumstances, economic performance or expectations with respect to Extendicare and its subsidiaries, including, without limitation, statements regarding its business operations, business strategy, and financial condition. Forward-looking statements can be identified because they generally contain the words "expect", "intend", "anticipate", "believe", "estimate", "project", "plan" or "objective" or other similar expressions or the negative thereof. Forward-looking statements reflect management's beliefs and assumptions and are based on information currently available, and Extendicare assumes no obligation to update or revise any forward-looking statement, except as required by applicable securities laws. These statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements of Extendicare to differ materially from those expressed or implied in the statements. Given these risks and uncertainties, readers are cautioned not to place undue reliance on Extendicare's forward-looking statements. Further information can be found in the disclosure documents filed by Extendicare with the securities regulatory authorities, available at www.sedar.com and on Extendicare's website at www.extendicare.com.

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Visit Extendicare's Website at www.extendicare.com

Extendicare Inc.
Consolidated Statements of Earnings

(in thousands of Canadian dollars)	Three months ended June 30		Six months ended June 30	
	2014	**2013**	**2014**	**2013**
Revenue				
Nursing and assisted living centers				
United States	**324,591**	298,337	**652,922**	601,101
Canada	**143,986**	139,959	**284,655**	277,366
Home health − Canada	**45,487**	44,045	**88,424**	86,108
Health technology services − United States	**5,820**	5,745	**11,506**	11,253
Outpatient therapy − United States	**3,501**	3,290	**6,514**	6,674
Rent, management, consulting and other services	**8,281**	7,145	**15,844**	13,976
Total revenue	**531,666**	498,521	**1,059,865**	996,478
Operating expenses	**463,370**	435,616	**937,418**	882,821
Administrative costs	**16,801**	16,358	**33,586**	32,545
Lease costs	**2,880**	2,697	**5,723**	5,481
Total expenses	**483,051**	454,671	**976,727**	920,847
Earnings before depreciation, amortization, loss from asset impairment, disposals and other items	**48,615**	43,850	**83,138**	75,631
Depreciation and amortization	**18,460**	19,404	**37,091**	38,450
Provision for U.S. government investigations	**42,240**	-	**42,240**	-
Loss from asset impairment, disposals and other items	**2,610**	717	**3,120**	728
Earnings (loss) before net finance costs and income taxes	**(14,695)**	23,729	**687**	36,453
Finance costs				
Interest expense	**16,157**	15,757	**32,613**	31,446
Interest income	**(820)**	(1,278)	**(2,150)**	(2,460)
Accretion costs	**953**	839	**1,915**	1,667
Fair value adjustments	**(854)**	(1,044)	**(296)**	(2,654)
Loss on foreign exchange and financial instruments	**-**	-	**-**	518
Net finance costs	**15,436**	14,274	**32,082**	28,517
Earnings (loss) before income taxes	**(30,131)**	9,455	**(31,395)**	7,936
Income tax expense (recovery)				
Current	**(2,096)**	1,644	**(2,069)**	2,126
Deferred	**(7,143)**	1,263	**(7,376)**	(134)
	(9,239)	2,907	**(9,445)**	1,992
Net earnings (loss)	**(20,892)**	6,548	**(21,950)**	5,944

Certain items have been restated for the adoption of the new standard, IFRIC 21 "Levies".

Extendicare Inc.
Consolidated Statements of Financial Position

(in thousands of Canadian dollars, unless otherwise noted)	**June 30 2014**	**December 31 2013**
Assets		
Current assets		
Cash and short-term investments	**94,289**	95,999
Restricted cash	**15,419**	18,668
Accounts receivable, less allowance	**192,853**	210,795
Income taxes recoverable	**21,754**	9,395
Other current assets	**65,361**	61,893
Total current assets	**389,676**	396,750
Non-current assets		
Property and equipment, *including construction-in-progress of $4,637 and $6,514, respectively*	**1,131,800**	1,152,007
Goodwill and other intangible assets	**78,147**	79,229
Other assets	**218,838**	213,571
Deferred tax assets	**6,851**	7,531
Total non-current assets	**1,435,636**	1,452,338
Total Assets	**1,825,312**	1,849,088
Liabilities and Equity		
Current liabilities		
Accounts payable	**28,435**	31,031
Accrued liabilities	**251,910**	215,521
Accrual for self-insured liabilities	**28,969**	28,052
Current portion of long-term debt	**30,917**	148,051
Income taxes payable	**13,808**	10,111
Total current liabilities	**354,039**	432,766
Non-current liabilities		
Provisions	**29,544**	28,801
Accrual for self-insured liabilities	**89,513**	87,257
Long-term debt	**1,111,204**	1,016,785
Other long-term liabilities	**47,784**	46,147
Deferred tax liabilities	**192,126**	199,953
Total non-current liabilities	**1,470,171**	1,378,943
Total liabilities	**1,824,210**	1,811,709
Shareholders' equity	**1,102**	37,379
Total Liabilities and Equity	**1,825,312**	1,849,088
Closing U.S./Cdn. dollar exchange rate	***1.0670***	*1.0636*

Certain items have been restated for the adoption of the new standard, IFRIC 21 “Levies”.

Extendicare Inc.
Consolidated Statements of Cash Flows

(in thousands of Canadian dollars)	Three months ended June 30		Six months ended June 30	
	2014	**2013**	**2014**	**2013**
Operating Activities				
Net earnings (loss)	**(20,892)**	6,548	**(21,950)**	5,944
Adjustments for:				
Depreciation and amortization	**18,460**	19,404	**37,091**	38,450
Provision for self-insured liabilities	**11,733**	9,365	**19,123**	18,885
Payments for self-insured liabilities	**(7,956)**	(16,443)	**(17,062)**	(24,265)
Deferred taxes	**(7,143)**	1,263	**(7,376)**	(134)
Current taxes	**(2,096)**	1,644	**(2,069)**	2,126
Loss from asset impairment, disposals and other items	**2,610**	717	**3,120**	728
Net finance costs	**15,436**	14,274	**32,082**	28,517
Interest capitalized	**-**	(242)	**-**	(822)
Other	**-**	(2)	**-**	(330)
	10,152	36,528	**42,959**	69,099
Net change in operating assets and liabilities				
Accounts receivable	**1,762**	22,844	**22,454**	22,912
Other current assets	**(2,348)**	(1,847)	**(4,184)**	(2,956)
Provision for U.S. government investigations	**42,240**	-	**42,240**	-
Accounts payable and accrued liabilities	**(10,152)**	(21,851)	**(11,003)**	(11,264)
	41,654	35,674	**92,466**	77,791
Interest paid	**(14,591)**	(14,401)	**(30,426)**	(29,153)
Interest received	**820**	1,278	**2,134**	2,468
Income taxes paid	**(6,441)**	(660)	**(6,695)**	(5,214)
Net cash from operating activities	**21,442**	21,891	**57,479**	45,892
Investing Activities				
Purchase of property, equipment and software	**(6,354)**	(17,890)	**(12,509)**	(34,098)
Other assets	**1,498**	185	**4,634**	(406)
Net cash from investing activities	**(4,856)**	(17,705)	**(7,875)**	(34,504)
Financing Activities				
Issue of long-term debt, excluding line of credit	**109,680**	46,989	**109,680**	56,245
Repayment of long-term debt, excluding line of credit	**(121,749)**	(41,321)	**(130,040)**	(49,978)
Repayment on line of credit	**(2,303)**	-	**(2,303)**	-
Decrease (increase) in restricted cash	**(3,721)**	(2,265)	**3,249**	3,977
Decrease (increase) in investments held for self-insured liabilities	**(3,083)**	5,469	**(10,775)**	4,983
Dividends paid	**(8,897)**	(12,772)	**(17,738)**	(27,473)
Financing costs	**(2,988)**	(1,449)	**(3,172)**	(1,821)
Other	**-**	32	**-**	66
Net cash from financing activities	**(33,061)**	(5,317)	**(51,099)**	(14,001)
Decrease in cash and cash equivalents	**(16,475)**	(1,131)	**(1,495)**	(2,613)
Cash and cash equivalents at beginning of period	**112,607**	70,621	**95,999**	71,398
Foreign exchange gain (loss) on cash held in foreign currency	**(1,843)**	1,453	**(215)**	2,158
Cash and cash equivalents at end of period	**94,289**	70,943	**94,289**	70,943

Certain items have been restated for the adoption of the new standard, IFRIC 21 "Levies".

Extendicare Inc.
Financial and Operating Statistics

(amounts in Canadian dollars, unless otherwise noted)	Three months ended June 30		Six months ended June 30	
	2014	**2013**	**2014**	**2013**
U.S. Skilled Nursing Center Statistics				
Percent of Revenue by Payor Source (same-facility basis, excluding prior period settlement adjustments)				
Medicare (Parts A and B)	**29.8 %**	30.0 %	**29.9 %**	31.1 %
Managed Care	**10.9**	10.8	**11.4**	10.8
Skilled mix	**40.7**	40.8	**41.3**	41.9
Private/other	**9.3**	9.6	**9.2**	9.3
Quality mix	**50.0**	50.4	**50.5**	51.2
Medicaid	**50.0**	49.6	**49.5**	48.8
	100.0	100.0	**100.0**	100.0
Average Daily Census by Payor Source (same-facility basis)				
Medicare	**1,726**	1,800	**1,766**	1,880
Managed Care	**745**	737	**784**	757
Skilled mix	**2,471**	2,537	**2,550**	2,637
Private/other	**1,168**	1,193	**1,164**	1,171
Quality mix	**3,639**	3,730	**3,714**	3,808
Medicaid	**7,576**	7,529	**7,575**	7,591
	11,215	11,259	**11,289**	11,399
Average Revenue per Resident Day by Payor Source (excluding prior period settlement adjustments) *(US$)*				
Medicare Part A only	**$472.68**	$464.30	**$471.33**	$470.41
Medicare (Parts A and B)	**532.05**	504.22	**526.18**	510.77
Managed Care	**447.10**	440.04	**446.71**	439.74
Private/other	**246.03**	244.29	**244.83**	244.65
Medicaid	**202.15**	197.14	**201.52**	196.26
Weighted average	**272.91**	266.26	**272.77**	268.42
Average Occupancy (excluding managed centers) (same-facility basis)				
U.S. skilled nursing centers	**84.9 %**	83.5 %	**84.9 %**	84.5 %
U.S. assisted living centers	**73.2**	78.5	**74.1**	78.7
Canadian centers	**97.6**	97.6	**97.5**	97.5
Average U.S./Cdn. dollar exchange rate	***1.0904***	*1.0234*	***1.0968***	*1.0159*

Extendicare Inc.
Supplemental Information – FFO and AFFO

The following table provides a reconciliation of Adjusted EBITDA to Funds from Operations (FFO) and Adjusted Funds from Operations (AFFO) for the periods ended June 30, 2014 and 2013.[1]

(in thousands of Canadian dollars unless otherwise noted)	**Three months ended June 30**		**Six months ended June 30**	
	2014	**2013**	**2014**	**2013**
Adjusted EBITDA from continuing operations	**45,884**	41,455	**88,618**	80,598
Depreciation for furniture, fixtures, equipment and computers	**(5,500)**	(5,504)	**(11,058)**	(11,101)
Accretion costs	**(953)**	(839)	**(1,915)**	(1,667)
Interest expense, net	**(15,337)**	(14,479)	**(30,463)**	(28,986)
	24,094	20,633	**45,182**	38,844
Current income tax expense (recovery) [2]	**(10,967)**	(868)	**(14,222)**	(4,262)
FFO	**13,127**	19,765	**30,960**	34,582
Amortization of financing costs	**1,821**	1,714	**3,643**	3,512
Principal portion of government capital funding payments	**1,011**	850	**2,019**	1,580
Additional maintenance capital expenditures [3]	**(427)**	(229)	**381**	649
AFFO	**15,532**	22,100	**37,003**	40,323
Per Basic Share ($)				
FFO	**0.150**	0.228	**0.354**	0.400
AFFO	**0.177**	0.255	**0.423**	0.466
Per Diluted Share ($)				
FFO	**0.155**	0.219	**0.354**	0.391
AFFO	**0.178**	0.240	**0.410**	0.443
Distributions declared	**10,520**	13,004	**21,011**	31,126
Distributions declared per share ($)	**0.1200**	0.1500	**0.2400**	0.3600
Basic weighted average number of shares *(thousands)*	**87,628**	86,658	**87,507**	86,441
Diluted weighted average number of shares *(thousands)*	**102,710**	103,628	**103,528**	103,411

(1) "Adjusted EBITDA", "funds from operations" and "adjusted funds from operations" are not recognized measures under GAAP and do not have a standardized meaning prescribed by GAAP. Refer to the discussion of non-GAAP measures.

(2) Excludes current tax with respect to the property taxes accounted for under IFRIC 21, provision for U.S. government investigations, loss (gain) from derivative financial instruments, foreign exchange, asset impairment, disposals and other items that are excluded from the computation of AFFO.

(3) Represents total facility maintenance capital expenditures less depreciation for furniture, fixtures, equipment and computers already deducted in determining FFO.

(in thousands of Canadian dollars unless otherwise noted)	**Three months ended June 30**		**Six months ended June 30**	
	2014	**2013**	**2014**	**2013**
Purchase of Property, Equipment and Software				
Growth expenditures	**$427**	$12,399	**$1,832**	$24,468
Facility maintenance	**5,927**	5,733	**10,677**	10,452
Deduct: capitalized interest	**-**	(242)	**-**	(822)
	$6,354	$17,890	**$12,509**	$34,098
Segmented Adjusted Funds from Operations				
United States *(US$)*	**$5,233**	$11,631	**$17,861**	$21,420
United States *(C$)*	**5,654**	11,893	**19,588**	21,761
Canada	**9,878**	10,207	**17,415**	18,562
	$15,532	$22,100	**$37,003**	$40,323

Extendicare Inc.
Non-GAAP Reconciliations

(in thousands of Canadian dollars unless otherwise noted)	**Three months ended June 30**		**Six months ended June 30**	
	2014	**2013**	**2014**	**2013**
Reconciliation of Cash Provided by Operating Activities to AFFO:				
Net cash from operating activities	**21,442**	21,891	**57,479**	45,892
Add (Deduct):				
Net change in operating assets and liabilities, including interest and taxes	**(23,663)**	(369)	**(41,186)**	(5,238)
Current income taxes on items excluded from AFFO (1)	**(13,063)**	**776**	**(16,291)**	**(2,136)**
Net provisions and payments for self-insured liabilities	**(3,777)**	7,078	**(2,061)**	5,380
Depreciation for furniture, fixtures, equipment and computers	**(5,500)**	**(5,504)**	**(11,058)**	(11,101)
Principal portion of government capital funding payments	**1,011**	**850**	**2,019**	1,580
Additional maintenance capital expenditures	**(427)**	**(229)**	**381**	649
Provision for U.S. government investigations	**42,240**	**-**	**42,240**	-
Property taxes accounted for under IFRIC 21	**(2,731)**	(2,395)	**5,480**	4,967
Other	**-**	2	**-**	330
AFFO (2)	15,532	22,100	**37,003**	40,323
Reconciliation of Earnings (Loss) before Income Taxes to Adjusted EBITDA:				
Earnings (loss) before income taxes	**(30,131)**	9,455	**(31,395)**	7,936
Add (Deduct):				
Property taxes accounted for under IFRIC 21	**(2,731)**	(2,395)	**5,480**	4,967
Depreciation and amortization	**18,460**	19,404	**37,091**	38,450
Net finance costs	**15,436**	14,274	**32,082**	28,517
Loss from asset impairment, disposals and other items	**2,610**	717	**3,120**	728
Provision for U.S. government investigations	**42,240**	-	**42,240**	-
Adjusted EBITDA (2)	**45,884**	41,455	**88,618**	80,598
Reconciliation of Net Earnings (Loss) to Earnings before Separately Reported Items:				
Net earnings (loss)	**(20,892)**	6,548	**(21,950)**	5,944
Add (deduct):				
Fair value adjustment on convertible debentures, net of tax	**(854)**	(1,044)	**(296)**	(2,654)
Loss on foreign exchange and financial instruments, net of tax	**-**	-	**-**	518
Loss from asset impairment, disposals and other items, net of tax	**1,822**	492	**2,241**	500
Provision for U.S. government investigations, net of tax	**28,946**	-	**28,946**	-
Earnings before separately reported items (2)	**9,022**	5,996	**8,941**	4,308

(1) Represents current income tax with respect to the property taxes accounted for under IFRIC 21, provision for U.S. government investigations, gains or losses from derivative financial instruments, foreign exchange, asset impairment, disposals and other items that are excluded from the computation of AFFO.

(2) Refer to discussion of non-GAAP measures.