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NEWS RELEASE

FOR IMMEDIATE RELEASE
May 7, 2014

Extendicare Announces 2014 First Quarter Results and Declares May Dividend of $0.04 per Share

MARKHAM, ONTARIO – Extendicare Inc. (“Extendicare” or the “Company”) (TSX: EXE) today reported results for the first quarter ended March 31, 2014. Results are presented in Canadian dollars unless otherwise noted.

HIGHLIGHTS (variances exclude effect of foreign exchange)

- Revenue of $528.2 million in Q1 2014 included a $2.7 million increase in same-facility operations over Q1 2013.
- In the United States, our average daily Medicare Part A rate decreased by 1.3% over Q1 2013, and increased by 0.3% over Q4 2013. Average daily Managed Care rate increased by 1.6% over Q1 2013 and by 0.3% over Q4 2013.
- In Canada, the average daily revenue rate for our senior care centers increased by 1.8% to $194.47 from $191.12 in Q1 2013, and home health care volumes improved by 7.5%.
- Adjusted EBITDA of $42.7 million in Q1 2014 increased by $1.2 million over Q1 2013, and by $9.4 million over Q4 2013.
- Adjusted EBITDA included a decrease in the provision for self-insured liabilities of $2.7 million over Q1 2013 and a decrease of $14.1 million over Q4 2013.
- Adjusted EBITDA margin of 8.1% in Q1 2014, up from 7.9% in Q1 2013 and from 6.2% in Q4 2013.
- AFFO was $21.5 million ($0.246 per basic share) in Q1 2014 compared to $18.2 million ($0.211 per basic share) in Q1 2013 and $10.4 million ($0.119 per basic share) in Q4 2013.
- Dividends declared this quarter totalled $10.5 million, representing approximately 49% of AFFO for the same period.
- Declares May dividend of $0.04 per share.

“We are pleased with the overall results of Extendicare in the first quarter”, said Tim Lukenda, President and CEO, “in light of the challenging census and regulatory environment in the US and the distraction of the unresolved government investigations and strategic review process.”

“We look forward to the resolution of these matters and the refocusing on the opportunities to grow our business and capitalize on strong market fundamentals,” Lukenda added.

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”). With the assistance of CitiGroup Global Markets Inc., as a financial advisor, the Company has studied various alternatives and analyzed relevant considerations, including valuation, taxation, curtailment of future liability costs, and strategic implications, of each alternative.

The outcome of the Strategic Review and the determination of the Company's course of action have taken longer than expected. As previously disclosed, the Company has had negotiations with one party towards a transaction involving the U.S. business. The Company’s ability to separate the Canadian and U.S. businesses by way of a sale of the U.S. business to a third party, the Company’s preferred technique for effecting the separation, is dependent in part on the satisfactory resolution of the previously disclosed and still unresolved investigations of the U.S. Department of Health and Human Services, Office of the Inspector General (“OIG”) into the submission of claims by Extendicare Health Services, Inc. (EHSI), which operates the U.S. business, relating to the quality of care provided to its residents and patients and the provision of rehabilitation services. As previously disclosed, the resolution of the OIG’s investigations will include the requirement that EHSI enter into a corporate integrity agreement with the OIG, the specific procedural, administrative, and other obligations and requirements of which may pertain to a third party purchaser and future operators of the U.S. business.

If the OIG investigations are resolved on a satisfactory basis to EHSI and the third party in the near term, it is expected that the separation of the Canadian and U.S. businesses will be effected by way of a sale of the U.S. business. If the OIG investigations are not so resolved, the Company intends to proceed to take steps to separate the Canadian and U.S. businesses by utilizing one of the other several alternatives and techniques being considered and analyzed by the Strategic Committee. Material details relating to the separation of the Company’s Canadian and U.S. businesses will be disclosed when appropriate.

PROVISION FOR SELF-INSURED LIABILITIES

Our 2014 first quarter provision for potential general and professional liability claims was $7.4 million (US$6.7 million), compared to $9.5 million (US$9.4 million) in the same 2013 period, representing a decline of US$2.7 million. The 2013 first quarter provision included approximately US$2.0 million in reserves for our Kentucky based claims. Our last independent actuarial review was completed in conjunction with the 2013 year end results, and the next one will be completed in the 2014 second quarter.

MEDICARE UPDATES

On May 1, 2014, the U.S. Centers for Medicare & Medicaid Services (CMS) issued its proposed policy changes for the upcoming fiscal year. CMS has proposed a net market basket increase in Medicare Part A revenue rates of 2.0%, effective October 1, 2014, consisting of a market basket increase of 2.4% minus a productivity adjustment of 0.4%. We estimate that the impact of this funding increase will provide us with additional Medicare Part A and Managed Care revenue of approximately US$7.1 million per annum.

On April 1, 2014, the U.S. President signed into law the *Protecting Access to Medicare Act of 2014* (the “PAM Act”). The PAM Act is the latest postponement of the implementation of the Medicare Sustainable Growth Rate (SGR) legislation, which if implemented, would result in a 24% reduction to the Medicare Part B fee screen rates. This postponement, commonly referred to as the “Doc Fix”, runs through April 1, 2015. The industry continues to lobby for a more permanent solution. In addition to the

SGR, the PAM Act also postpones implementation of ICD-10 code sets that was scheduled to begin on October 1, 2014, by at least one year, and extends the therapy cap exception process to April 1, 2015. The PAM Act also includes a “Value-Based Purchasing” initiative, whereby providers can earn incentives for reducing hospital readmissions. The incentives are to be funded via a 2% rate cut in fiscal year 2019, of which up to 70% will be transferred to an incentive pool. Data used in setting the benchmarks and potential incentives will be collected and made public on Medicare’s “Nursing Home Compare” website starting on October 1, 2017.

2014 CONVERTIBLE DEBENTURES

Extendicare’s outstanding 5.7% convertible unsecured subordinated debentures, in the aggregate principal amount of $113.9 million (the “2014 Debentures”), mature on June 30, 2014. EHSI is in the process of arranging a new credit facility for up to US$100 million, which will be secured by mortgages on some of EHSI’s unencumbered centers. The interest rate under the new credit facility is expected to be the one month LIBOR plus 475 basis points. Management is confident that cash from operating activities and draw downs under debt financings will be available and sufficient to support Extendicare's ongoing business operations, facility maintenance capital expenditures, debt repayment obligations and to repay the principal and accrued and unpaid interest owing under the 2014 Debentures on maturity.

2014 FIRST QUARTER FINANCIAL REVIEW

TABLE 1	**Q1**	**Q1**	**Q4**
(millions of dollars unless otherwise noted)	**2014**	**2013**	**2013**
Revenue			
U.S. operations (US$)	**309.8**	313.7	307.2
U.S. operations (C$)	**341.8**	316.3	322.3
Canadian operations	**186.4**	181.7	197.0
Total Revenue	**528.2**	498.0	519.3
Adjusted EBITDA [(1)]			
U.S. operations (US$)	**25.2**	23.5	12.0
U.S. operations (C$)	**27.8**	23.7	12.7
Canadian operations	**14.9**	15.4	19.4
Total Adjusted EBITDA	**42.7**	39.1	32.1
Adjusted EBITDA margin	**8.1%**	7.9%	6.2%
Average U.S./Canadian dollar exchange rate	**1.1033**	1.0083	1.0489

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

2014 First Quarter Comparison to 2013 First Quarter

Consolidated revenue improved by $0.8 million this quarter, excluding a $29.4 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 $1.9 million between periods. Revenue from our remaining operations (referred to as “same-facility operations”) improved by $2.7 million, due to an improvement from our Canadian operations, partially offset by lower revenue from our U.S. operations.

Revenue from U.S. operations declined by US$3.9 million to US$309.8 million in the 2014 first quarter compared to US$313.7 million in the 2013 first quarter. Non same-facility operations generated revenue of US$14.9 million this quarter compared to US$16.1 million in the 2013 first quarter, for a net decline of US$1.2 million. Revenue from same-facility operations declined by US$2.7 million between periods, primarily due to the impact of lower census levels of US$6.1 million and a decrease in prior period revenue settlement adjustments and other revenue of US$0.5 million, partially offset by a net increase in average rates of US$3.9 million.

Revenue from Canadian operations grew by $4.7 million to $186.4 million in the 2014 first quarter from $181.6 million in the 2013 first 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 $8.8 million this quarter compared to $9.6 million in the 2013 first quarter, for a net decrease of $0.8 million. Revenue from same-facility operations improved by $5.5 million between periods, primarily due to funding enhancements, the timing of recognition of revenue under the Ontario envelope system and higher volumes from our Ontario home health care operations of 7.5%, partially offset by an unfavourable prior period revenue adjustment of $0.4 million.

Consolidated Adjusted EBITDA improved by $3.6 million this quarter from $39.1 million in the 2013 first quarter, representing 8.1% and 7.9% of revenue, respectively. Excluding a $2.4 million positive effect of a weaker Canadian dollar, Adjusted EBITDA improved by $1.2 million, of which $1.3 million was from same-facility operations. The U.S. operations contributed $1.4 million to the improvement from same-facility operations, and was partially offset by a $0.1 million decline from the Canadian operations.

Adjusted EBITDA from U.S. operations improved by US$1.7 million to US$25.2 million this quarter from US$23.5 million in the 2013 first quarter, representing 8.1% and 7.5% of revenue, respectively. Adjusted EBITDA from non same-facility operations improved by US$0.3 million between quarters (a US$0.5 million loss this quarter compared to a loss of US$0.8 million in the same 2013 period). Adjusted EBITDA from same-facility operations increased by US$1.4 million as a result of lower costs of US$4.1 million, partially offset by a decline in revenue of US$2.7 million. Operating, administrative and lease costs from same-facility operations, adjusted to exclude the impact of property taxes accounted for under IFRIC 21, declined by US$4.1 million, primarily due to a US$2.7 million decrease in the provision for self-insured liabilities and a US$1.0 million decline in labour costs primarily due to lower census levels partially offset by an average wage rate increase.

Adjusted EBITDA from Canadian operations was $14.9 million this quarter compared to $15.4 million in the 2013 first quarter, representing 8.0% and 8.5% of revenue, respectively. Adjusted EBITDA from non same-facility operations declined by $0.4 million between periods (contribution of $0.5 million this quarter compared to $0.9 million in the same 2013 period). Adjusted EBITDA from same-facility operations declined by $0.1 million primarily due to an unfavourable prior period revenue adjustment of $0.4 million recorded this quarter.

2014 First Quarter Comparison to 2013 Fourth Quarter

In comparison to the 2013 fourth quarter, consolidated revenue this quarter declined by $7.9 million, excluding a $16.8 million positive effect of a weaker Canadian dollar. This decline was primarily due to two fewer days this quarter and the timing of recognition of funding in our Canadian operations, partially offset by higher U.S. census levels.

Consolidated Adjusted EBITDA was $42.7 million this quarter compared to $32.1 million in the 2013 fourth quarter, representing 8.1% and 6.2% of revenue, respectively. Excluding a $1.2 million positive effect of a weaker Canadian dollar, Adjusted EBITDA improved by $9.4 million between periods, of which $9.1 million was from same-facility operations. This improvement was largely due to a reduction in the provision for self-insured liabilities between quarters of $14.1 million (US$13.6 million) and higher U.S. census levels, partially offset by unfavourable settlement adjustments of approximately $3.6 million, two fewer days and the timing of recognition of funding and costs under the Ontario envelope system.

Adjusted EBITDA from U.S. operations improved by US$13.2 million to US$25.2 million this quarter from US$12.0 million in the 2013 fourth quarter, representing 8.1% and 3.9% of revenue, respectively. Same-facility operations contributed US$12.7 million to the improvement resulting from lower costs of US$10.6 million and higher revenue of US$2.1 million between quarters. Revenue this quarter was impacted by improvements in overall census and average rates, partially offset by two fewer days in the quarter. Operating, administrative and lease costs from same-facility operations, adjusted to exclude the impact of property taxes accounted for under IFRIC 21, declined by US$10.6 million between quarters, primarily due to a US$13.6 million decrease in the provision for self-insured liabilities and other cost decreases of US$0.7 million, partially offset by a US$2.0 million refund of prior period charges recorded in the 2013 fourth quarter and a US$1.7 million increase in labour costs primarily due to the seasonality of payroll taxes.

Adjusted EBITDA from Canadian operations was declined by $4.5 million to $14.9 million this quarter from $19.4 million in the 2013 fourth quarter, representing 8.0% and 9.9% of revenue, respectively. Same-facility operations contributed $4.2 million to the decline resulting from lower revenue of $10.0 million, partially offset by a reduction in costs of $5.8 million. This was primarily due to a decline in home health care volumes, two fewer days this quarter, timing of spending under the flow-through envelopes, and an unfavourable prior period revenue settlement adjustments of $1.6 million between periods (a $0.4 million charge this quarter versus a $1.2 million pick up in the 2013 fourth quarter).

ADJUSTED FUNDS FROM OPERATIONS (AFFO)

AFFO was $21.5 million ($0.246 per basic share) in the 2014 first quarter compared to $18.2 million ($0.211 per basic share) in the 2013 first quarter, representing an improvement of $2.1 million, excluding a $1.2 million positive effect of a weaker Canadian dollar. This improvement was primarily due to an increase in Adjusted EBITDA of $1.2 million, lower facility maintenance capital expenditures of $0.3 million, a $0.3 million increase in government capital funding payments and lower current income taxes. Current income taxes for the 2014 first quarter were $3.2 million compared to $3.4 million in the 2013 first quarter, representing 15.4% and 18.6% of pre-tax funds from operations (FFO), respectively.

In comparison to AFFO in the 2013 fourth quarter of $10.4 million ($0.119 per basic share), AFFO this quarter improved by $10.4 million, excluding a $0.7 million positive effect of a weaker Canadian dollar. This improvement was primarily due to an increase in Adjusted EBITDA of $9.4 million, the timing of facility maintenance capital expenditures, which were lower by $7.7 million, partially offset by higher current income taxes. Current income taxes for the 2014 first quarter were a provision of $3.2 million, representing 15.4% of pre-tax FFO. Current income taxes for the 2013 fourth quarter were a recovery of $3.3 million, and were favourably impacted by book-to-file tax adjustments of approximately $3.6 million, primarily related to our U.S. operations. Excluding these book-to-file adjustments, current income taxes for the 2013 fourth quarter represented 2.3% of pre-tax FFO.

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; 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. 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 $4.7 million in the 2014 first quarter, compared to $4.7 million in the 2013 first quarter and $12.2 million in the 2013 fourth quarter, representing 0.9%, 0.9% and 2.4% 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 $38 million to $43 million in facility maintenance capital expenditures and $15 million to $20 million in growth capital expenditures.

Dividends declared in the first three months of 2014 totalled $10.5 million, or $0.120 per share, representing approximately 49% of AFFO of $21.5 million, or $0.246 per basic share, compared to a payout ratio of approximately 100% in the same 2013 period when the dividends declared totalled $0.210 per share.

U.S. OPERATIONS KEY METRICS

Skilled Nursing Facility Revenue Rates

The CMS Medicare net market basket increases for October 1, 2012 and 2013, were 1.8% and 1.3%, respectively. However, our Medicare Part A and Managed Care rates were adversely impacted by the sequestration funding reduction of 2.0% effective April 1, 2013, and our Medicare Part A funding has been impacted by a reduction in co-insurance reimbursement for bad debts, which declined from 100% to 88% on January 1, 2013, and to 76% on January 1, 2014.

For the 2014 first quarter, our average daily Medicare Part A rate, excluding prior period settlement adjustments, was US$470.01, representing a decrease of 1.3% from US$476.08 in the 2013 first quarter, primarily due to the impact of sequestration that took effect April 1, 2013, reduction in reimbursement for bad debts and changes in acuity mix, partially offset by the market basket increase. In comparison to our average daily Medicare Part A rate of US$468.78 in the 2013 fourth quarter, our rate this quarter increased by 0.3%, primarily due to the market basket increase, partially offset by changes in acuity mix.

For the 2014 first quarter, our average daily Managed Care rate, excluding prior period settlement adjustments, was US$446.35, representing an increase of 1.6% from US$439.44 in the 2013 first quarter and an increase of 0.3% from US$445.03 in the 2013 fourth quarter, primarily due to changes in acuity mix.

Our average daily Medicaid rate, excluding prior period settlement adjustments, increased this quarter by 2.8% to US$200.88 from US$195.39 in the 2013 first quarter, and was relatively unchanged from US$200.80 in the 2013 fourth 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 first quarter was 1.9%.

Total and Skilled Census

Our same-facility ADC of 11,364 in the 2014 first quarter was 177 below the 2013 first quarter level of 11,541 due to lower Skilled Mix ADC of 109, and lower Medicaid ADC of 79, partially offset by higher private/other ADC of 11. In comparison to the 2013 fourth quarter, our same-facility ADC improved by

172 due to higher Skilled Mix ADC of 199 and higher Medicaid ADC of 32, partially offset by lower private/other ADC of 59. Our average same-facility occupancy was 84.9% this quarter compared to 85.5% in the 2013 first quarter, and 83.4% in the 2013 fourth quarter.

Our same-facility Skilled Mix ADC of 23.1% of our residents in the 2014 first quarter declined from 23.7% in the 2013 first quarter, and improved from 21.7% in the 2013 fourth quarter.

MAY 2014 DIVIDEND DECLARED
The Board of Directors of Extendicare today declared a cash dividend of $0.04 per share for the month of May 2014, which is payable on June 16, 2014 to shareholders of record at the close of business on May 30, 2014. This dividend is designated as an “eligible dividend” within the meaning of the Income Tax Act (Canada).

CONFERENCE CALL AND WEBCAST
On May 8, 2014, at 10:00 a.m. (ET), we will hold a conference call to discuss our 2014 first 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 1556484#. A replay of the call will be available until midnight on May 23, 2014. To access the rebroadcast, dial 1-800-408-3053 or 905-694-9451, followed by the passcode 5906792#. 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 35,500 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 27,800 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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Extendicare Inc.
Consolidated Statements of Earnings (Loss)

(in thousands of Canadian dollars)	Three months ended March 31	
	2014	**2013**
Revenue		
Nursing and assisted living centers		
United States	**328,331**	302,764
Canada	**140,669**	137,407
Home health − Canada	**42,937**	42,063
Health technology services − United States	**5,686**	5,508
Outpatient therapy − United States	**3,013**	3,384
Rent, management, consulting and other services	**7,563**	6,831
Total revenue	**528,199**	497,957
Operating expenses	**474,048**	447,205
Administrative costs	**16,785**	16,187
Lease costs	**2,843**	2,784
Total expenses	**493,676**	466,176
Earnings before depreciation, amortization, loss from asset impairment, disposals and other items	**34,523**	31,781
Depreciation and amortization	**18,631**	19,046
Loss from asset impairment, disposals and other items	**510**	11
Earnings before net finance costs and income taxes	**15,382**	12,724
Finance costs		
Interest expense	**16,456**	15,689
Interest income	**(1,330)**	(1,182)
Accretion costs	**962**	828
Fair value adjustments	**558**	(1,610)
Loss on foreign exchange and financial instruments	**-**	518
Net finance costs	**16,646**	14,243
Loss before income taxes	**(1,264)**	(1,519)
Income tax expense (recovery)		
Current	**27**	482
Deferred	**(233)**	(1,397)
	(206)	(915)
Net loss	**(1,058)**	(604)

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)	**March 31 2014**	**December 31 2013**
Assets		
Current assets		
Cash and short-term investments	**112,607**	95,999
Restricted cash	**11,698**	18,668
Accounts receivable, less allowance	**198,071**	210,795
Income taxes recoverable	**6,100**	9,395
Other current assets	**67,042**	61,893
Total current assets	**395,518**	396,750
Non-current assets		
Property and equipment, *including construction-in-progress of $5,503 and $6,514, respectively*	**1,172,406**	1,152,007
Goodwill and other intangible assets	**81,127**	79,229
Other assets	**223,786**	213,571
Deferred tax assets	**7,107**	7,531
Total non-current assets	**1,484,426**	1,452,338
Total Assets	**1,879,944**	1,849,088
Liabilities and Equity		
Current liabilities		
Accounts payable	**35,770**	31,031
Accrued liabilities	**217,096**	215,521
Accrual for self-insured liabilities	**31,230**	28,052
Current portion of long-term debt	**143,070**	148,051
Income taxes payable	**6,617**	10,111
Total current liabilities	**433,783**	432,766
Non-current liabilities		
Provisions	**29,886**	28,801
Accrual for self-insured liabilities	**87,179**	87,257
Long-term debt	**1,037,102**	1,016,785
Other long-term liabilities	**47,036**	46,147
Deferred tax liabilities	**206,227**	199,953
Total non-current liabilities	**1,407,430**	1,378,943
Total liabilities	**1,841,213**	1,811,709
Shareholders' equity	**38,731**	37,379
Total Liabilities and Equity	**1,879,944**	1,849,088
Closing U.S./Cdn. dollar exchange rate	***1.1055***	*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 March 31	
	2014	**2013**
Operating Activities		
Net loss	**(1,058)**	(604)
Adjustments for:		
Depreciation and amortization	**18,631**	19,046
Provision for self-insured liabilities	**7,390**	9,520
Payments for self-insured liabilities	**(9,106)**	(7,822)
Deferred taxes	**(233)**	(1,397)
Current taxes	**27**	482
Loss from asset impairment, disposals and other items	**510**	11
Net finance costs	**16,646**	14,243
Interest capitalized	**-**	(580)
Other	**-**	(328)
	32,807	32,571
Net change in operating assets and liabilities		
Accounts receivable	**20,692**	68
Other current assets	**(1,836)**	(1,109)
Accounts payable and accrued liabilities	**(851)**	10,587
	50,812	42,117
Interest paid	**(15,835)**	(14,752)
Interest received	**1,314**	1,190
Income taxes paid	**(254)**	(4,554)
Net cash from operating activities	**36,037**	24,001
Investing Activities		
Purchase of property, equipment and software	**(6,155)**	(16,208)
Other assets	**3,136**	(591)
Net cash from investing activities	**(3,019)**	(16,799)
Financing Activities		
Issue of long-term debt, excluding line of credit	**-**	9,256
Repayment of long-term debt, excluding line of credit	**(8,291)**	(8,657)
Decrease in restricted cash	**6,970**	6,242
Increase in investments held for self-insured liabilities	**(7,692)**	(486)
Dividends paid	**(8,841)**	(14,701)
Financing costs	**(184)**	(372)
Other	**-**	34
Net cash from financing activities	**(18,038)**	(8,684)
Increase (decrease) in cash and cash equivalents	**14,980**	(1,482)
Cash and cash equivalents at beginning of period	**95,999**	71,398
Foreign exchange gain on cash held in foreign currency	**1,628**	705
Cash and cash equivalents at end of period	**112,607**	70,621

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 March 31**	
	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)	**30.1 %**	32.2 %
Managed Care	**11.8**	10.9
Skilled mix	**41.9**	43.1
Private/other	**9.0**	8.9
Quality mix	**50.9**	52.0
Medicaid	**49.1**	48.0
	100.0	100.0
Average Daily Census by Payor Source (same-facility basis)		
Medicare	**1,807**	1,961
Managed Care	**823**	778
Skilled mix	**2,630**	2,739
Private/other	**1,159**	1,148
Quality mix	**3,789**	3,887
Medicaid	**7,575**	7,654
	11,364	11,541
Average Revenue per Resident Day by Payor Source (excluding prior period settlement adjustments) *(US$)*		
Medicare Part A only	**$470.01**	$476.08
Medicare (Parts A and B)	**520.48**	516.86
Managed Care	**446.35**	439.44
Private/other	**243.61**	245.04
Medicaid	**200.88**	195.39
Weighted average	**272.63**	270.55
Average Occupancy (excluding managed centers) (same-facility basis)		
U.S. skilled nursing centers	**84.9 %**	85.5 %
U.S. assisted living centers	**75.1**	79.0
Canadian centers	**97.5**	97.5
Average U.S./Cdn. dollar exchange rate	***1.1033***	*1.0083*

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 March 31, 2014 and 2013.[1]

(in thousands of Canadian dollars unless otherwise noted)	**Three months ended March 31**	
	2014	**2013**
Adjusted EBITDA from continuing operations	**42,734**	39,143
Depreciation for furniture, fixtures, equipment and computers	**(5,558)**	(5,597)
Accretion costs	**(962)**	(828)
Interest expense, net	**(15,126)**	(14,507)
	21,088	18,211
Current income tax expense (recovery) [2]	**(3,255)**	(3,394)
FFO	**17,833**	14,817
Amortization of financing costs	**1,822**	1,798
Principal portion of government capital funding payments	**1,008**	730
Additional maintenance capital expenditures [3]	**808**	878
AFFO	**21,471**	18,223
Per Basic Share ($)		
FFO	**0.204**	0.172
AFFO	**0.246**	0.211
Per Diluted Share ($)		
FFO	**0.199**	0.172
AFFO	**0.232**	0.203
Distributions declared	**10,491**	18,122
Distributions declared per share ($)	**0.1200**	0.2100
Basic weighted average number of shares *(thousands)*	**87,386**	86,221
Diluted weighted average number of shares *(thousands)*	**104,355**	103,192

(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 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 March 31**	
	2014	**2013**
Purchase of Property, Equipment and Software		
Growth expenditures	**$1,405**	$12,069
Facility maintenance	**4,750**	4,719
Deduct: capitalized interest	**-**	(580)
	$6,155	$16,208
Segmented Adjusted Funds from Operations		
United States *(US$)*	**$12,628**	$9,789
United States *(C$)*	**13,934**	9,868
Canada	**7,537**	8,355
	$21,471	$18,223

Extendicare Inc.
Non-GAAP Reconciliations

(in thousands of Canadian dollars unless otherwise noted)	**Three months ended March 31**	
	2014	**2013**
Reconciliation of Cash Provided by Operating Activities to AFFO:		
Net cash from operating activities	**36,037**	24,001
Add (Deduct):		
Net change in operating assets and liabilities, including interest and taxes	**(17,523)**	(4,869)
Current income taxes on items excluded from AFFO (1)	**(3,228)**	**(2,912)**
Net provisions and payments for self-insured liabilities	**1,716**	(1,698)
Depreciation for furniture, fixtures, equipment and computers	**(5,558)**	(5,597)
Principal portion of government capital funding payments	**1,008**	730
Additional maintenance capital expenditures	**808**	878
Property taxes accounted for under IFRIC 21	**8,211**	7,362
Other	**-**	328
AFFO (2)	**21,471**	18,223
Reconciliation of Earnings (Loss) before Income Taxes to Adjusted EBITDA:		
Loss before income taxes	**(1,264)**	(1,519)
Add (Deduct):		
Property taxes accounted for under IFRIC 21	**8,211**	7,362
Depreciation and amortization	**18,631**	19,046
Net finance costs	**16,646**	14,243
Loss from asset impairment, disposals and other items	**510**	11
Adjusted EBITDA (2)	**42,734**	39,143
Reconciliation of Net Loss to Loss before Separately Reported Items:		
Net loss	**(1,058)**	(604)
Add (deduct):		
Fair value adjustment on convertible debentures, net of tax	**558**	(1,610)
Loss on foreign exchange and financial instruments, net of tax	**-**	518
Loss from asset impairment, disposals and other items, net of tax	**419**	8
Loss before separately reported items (2)	**(81)**	(1,688)

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

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