EXTENDICARE

2013 Consolidated Financial Statements

Year Ended December 31, 2013

Dated: February 26, 2014

The 2013 Consolidated Financial Statements of Extendicare Inc. have been refiled to include the top three rows in the table under Note 27 b) "Management of Risks and Financial Instruments – Fair Values of Financial Instruments " to such financial statements, that were inadvertently hidden in the original filing of such statements on March 7, 2014.

...helping people
live better

Management’s Responsibility for Financial Statements

The accompanying consolidated financial statements of Extendicare Inc. (“Extendicare” or the “Company”), formerly “Extendicare Real Estate Investment Trust”, and other financial information contained in this Annual Report are the responsibility of management. The consolidated financial statements have been prepared in conformity with International Financial Reporting Standards, using management’s best estimates and judgements, where appropriate. In the opinion of management, these consolidated financial statements reflect fairly the financial position, results of operations and cash flows of Extendicare within reasonable limits of materiality. The financial information contained elsewhere in this Annual Report has been reviewed to ensure consistency with that in the consolidated financial statements.

A system of internal accounting and administrative controls is maintained by management to provide reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition and that financial records are properly maintained to provide accurate and reliable financial statements.

The board of directors of Extendicare (the “Board of Directors”) is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Board of Directors carries out this responsibility principally through its independent Audit Committee comprised of unrelated and outside directors. The Audit Committee meets regularly during the year to review significant accounting and auditing matters with management and the independent auditors and to review and approve the interim and annual consolidated financial statements of Extendicare.

The consolidated financial statements have been audited by KPMG LLP, Chartered Accountants, which has full and unrestricted access to the Audit Committee. KPMG’s report on the consolidated financial statements follows.

/s/ Timothy L. Lukenda

TIMOTHY L. LUKENDA
President and Chief Executive Officer

/s/ Dylan T. Mann

DYLAN T. MANN
Senior Vice President and
Chief Financial Officer

February 26, 2014

Independent Auditors' Report

To the Shareholders of Extendicare Inc.

We have audited the accompanying consolidated financial statements of Extendicare Inc. ("Extendicare" or the "Company"), which comprise the consolidated statements of financial position as at December 31, 2013, and December 31, 2012, and the consolidated statements of earnings, comprehensive income, changes in equity, and cash flows for the years ended December 31, 2013 and 2012, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Extendicare as at December 31, 2013, and December 31, 2012, and the financial performance and its cash flows for the years ended December 31, 2013 and 2012, in accordance with International Financial Reporting Standards.

(signed KPMG LLP)

Chartered Accountants,
Licensed Public Accountants

Toronto, Canada
February 26, 2014

Extendicare Inc.
Consolidated Statements of Financial Position
As at December 31

(in thousands of Canadian dollars)	*notes*	**2013**	2012
Assets			
Current assets			
Cash and short-term investments		**95,999**	71,398
Restricted cash	*14*	**18,668**	28,680
Accounts receivable	*6*	**210,795**	209,518
Income taxes recoverable		**9,395**	4,149
Other current assets	*7, 8*	**61,893**	31,408
Total current assets		**396,750**	345,153
Non-current assets			
Property and equipment	*9*	**1,152,007**	1,181,596
Goodwill and other intangible assets	*10*	**79,229**	82,793
Other assets	*11*	**213,571**	176,457
Deferred tax assets	*24*	**7,531**	21,917
Total non-current assets		**1,452,338**	1,462,763
Total Assets	*30*	**1,849,088**	1,807,916
Liabilities and Equity			
Current liabilities			
Accounts payable and accrued liabilities	*8, 12*	**245,745**	238,421
Income taxes payable		**10,430**	9,377
Long-term debt	*14*	**148,051**	93,448
Provisions	*13*	**28,052**	21,888
Total current liabilities		**432,278**	363,134
Non-current liabilities			
Long-term debt	*14*	**1,016,785**	1,038,787
Provisions	*13*	**116,058**	100,893
Other long-term liabilities	*15*	**46,147**	48,025
Deferred tax liabilities	*24*	**199,954**	202,417
Total non-current liabilities		**1,378,944**	1,390,122
Total liabilities	*30*	**1,811,222**	1,753,256
Share capital	*16*	**476,480**	467,463
Equity portion of convertible debentures	*14*	**5,573**	5,573
Contributed surplus		**48**	48
Accumulated deficit		**(441,794)**	(395,024)
Accumulated other comprehensive loss		**(2,441)**	(23,400)
Shareholders' equity		**37,866**	54,660
Total Liabilities and Equity		**1,849,088**	1,807,916

See accompanying notes to consolidated financial statements.

Subsequent events (notes 14 and 20).

Commitments and contingencies (note 25).

Approved by the Board

/s/ Benjamin J. Hutzel
Benjamin J. Hutzel
Chairman

/s/ Timothy L. Lukenda
Timothy L. Lukenda
President and Chief Executive Officer

Extendicare Inc.
Consolidated Statements of Earnings
Years ended December 31

(in thousands of Canadian dollars except for per share amounts)	*notes*	**2013**	2012
CONTINUING OPERATIONS			
Revenue			
Nursing and assisted living centers			
United States		**1,216,569**	1,259,858
Canada		**568,870**	550,302
Home health care - Canada		**174,087**	170,343
Health technology services - United States		**22,348**	25,453
Outpatient therapy - United States		**13,360**	13,229
Rent, management, consulting and other services		**29,231**	18,228
Total revenue	*18*	**2,024,465**	2,037,413
Operating expenses		**1,793,368**	1,780,019
Administrative costs		**64,258**	63,155
Lease costs		**11,096**	10,986
Total expenses	*19*	**1,868,722**	1,854,160
Earnings before depreciation, amortization, loss from asset impairment, disposals and other items		**155,743**	183,253
Depreciation and amortization		**77,929**	76,805
Loss from asset impairment, disposals and other items	*20*	**9,641**	7,930
Earnings before net finance costs and income taxes		**68,173**	98,518
Interest expense		**63,416**	65,306
Accretion of decommissioning provisions		**1,823**	1,694
Other accretion		**1,557**	608
Loss on foreign exchange and financial instruments		**519**	1,103
Finance costs		**67,315**	68,711
Interest revenue		**4,638**	3,565
Fair value adjustments		**3,099**	4,823
Finance income		**7,737**	8,388
Net finance costs	*21*	**59,578**	60,323
Earnings before income taxes		**8,595**	38,195
Income tax expense (recovery)			
Current		**4,547**	5,178
Deferred		**(1,204)**	5,394
Total income tax expense	*24*	**3,343**	10,572
Earnings from continuing operations		**5,252**	27,623
DISCONTINUED OPERATIONS			
Earnings from discontinued operations, net of income taxes	*23, 24*	**-**	35,033
Net earnings attributable to shareholders of the company		**5,252**	62,656
Basic Earnings per Share			
Earnings from continuing operations	*22*	**0.06**	**0.32**
Net earnings	*22*	**0.06**	**0.74**
Diluted Earnings per Share			
Earnings from continuing operations	*22*	**0.06**	**0.32**
Net earnings	*22*	**0.06**	**0.68**

See accompanying notes to consolidated financial statements.

Extendicare Inc.

Consolidated Statements of Comprehensive Income

Years ended December 31

(in thousands of Canadian dollars)	***notes***	**2013**	2012
Net earnings		**5,252**	62,656
Other comprehensive income (loss), net of income taxes			
Items that will not be reclassified to profit or loss:			
Defined benefit plan actuarial loss, net of tax	*26*	**(168)**	(985)
Total items that will not be reclassified to profit or loss		**(168)**	(985)
Items that are or may be reclassified subsequently to profit or loss:			
Unrealized gain on available-for-sale securities, net of tax	*17*	**2,882**	1,505
Reclassification of realized gain on available-for-sale securities to earnings, net of tax	*17*	**(335)**	(315)
Net change in foreign currency translation adjustment	*17*	**18,580**	(4,867)
Total items that are or may be reclassified subsequently to profit or loss		**21,127**	(3,677)
Other comprehensive income (loss), net of taxes		**20,959**	(4,662)
Total comprehensive income		**26,211**	57,994

See accompanying notes to consolidated financial statements.

Extendicare Inc.
Consolidated Statements of Changes in Equity
Years ended December 31

(in thousands of Canadian dollars)	***notes***	**2013**	2012
Share/unit capital			
Unit capital, at January 1		**-**	453,150
DRIP		**-**	7,112
2012 Conversion	*1, 16*	**-**	(460,262)
Unit capital, end of year		**-**	-
Share capital, at January 1		**467,463**	-
DRIP		**9,017**	7,275
Purchase of shares for cancellation in excess of book value		**-**	(74)
2012 Conversion	*1, 16*	**-**	460,262
Share capital, end of year		**476,480**	467,463
Balance at end of year		**476,480**	467,463
Equity portion of convertible debentures			
Balance at January 1		**5,573**	-
Issuance of convertible debentures		**-**	5,573
Balance at end of year		**5,573**	5,573
Contributed surplus			
Balance at January 1		**48**	81
Purchase of shares for cancellation in excess of book value		**-**	(33)
Balance at end of year		**48**	48
Accumulated deficit			
Balance at January 1		**(395,024)**	(386,174)
Net earnings		**5,252**	62,656
Dividends/distributions declared		**(52,022)**	(71,497)
Other		**-**	(9)
Balance at end of year		**(441,794)**	(395,024)
Accumulated other comprehensive loss			
Balance at January 1		**(23,400)**	(18,738)
Other comprehensive income (loss):			
Foreign currency translation differences for foreign operations		**18,580**	(4,867)
Net change in fair value of available-for-sale financial assets, net of tax		**2,882**	1,505
Net change in fair value of available-for-sale financial assets transferred to profit or loss, net of tax		**(335)**	(315)
Defined benefit plan actuarial losses, net of tax		**(168)**	(985)
Total other comprehensive income (loss)		**20,959**	(4,662)
Balance at end of year		**(2,441)**	(23,400)
Shareholders' equity		**37,866**	54,660

See accompanying notes to consolidated financial statements.

Extendicare Inc.
Consolidated Statements of Cash Flows
Years ended December 31

(in thousands of Canadian dollars)	**2013**	2012
Operating Activities		
Net earnings	**5,252**	62,656
Adjustments for:		
Depreciation and amortization	**77,929**	76,805
Accrual for self-insured liabilities in provisions	**54,482**	40,807
Payments for self-insured liabilities in provisions	**(42,720)**	(23,933)
Deferred taxes	**(1,204)**	5,263
Current taxes	**4,547**	26,729
Loss from asset impairment, disposals and other items	**9,641**	7,930
Gain from asset disposals from discontinued operations	**-**	(56,453)
Net finance costs	**59,578**	60,323
Interest capitalized	**(1,232)**	(873)
Other	**(335)**	(406)
	165,938	198,848
Net change in operating assets and liabilities		
Accounts receivable	**6,246**	21,111
Other current assets	**4,541**	759
Accounts payable and accrued liabilities	**(15,882)**	(31,701)
	160,843	189,017
Interest paid	**(59,585)**	(60,276)
Interest received	**4,657**	3,509
Income taxes paid	**(7,999)**	(23,463)
Net cash from operating activities	**97,916**	108,787
Investing Activities		
Purchase of property, equipment and software	**(55,753)**	(84,103)
Net proceeds from dispositions	**3,671**	56,323
Decrease (increase) of other assets	**1,646**	(5,363)
Net cash from investing activities	**(50,436)**	(33,143)
Financing Activities		
Issue of long-term debt, excluding line of credit	**95,703**	329,720
Repayment of long-term debt, excluding line of credit	**(84,101)**	(254,468)
Issue on line of credit	**-**	63,964
Repayment on line of credit	**(6,179)**	(108,846)
Decrease (increase) in restricted cash	**9,799**	(11,832)
Decrease (increase) in investments held for self-insured liabilities	**6,908**	(31,603)
Dividends/distributions paid	**(45,534)**	(56,980)
Financing costs	**(2,065)**	(13,101)
Other	**5**	(4)
Net cash from financing activities	**(25,464)**	(83,150)
Increase (decrease) in cash and short-term investments	**22,016**	(7,506)
Cash and short-term investments at beginning of year	**71,398**	80,018
Foreign exchange gain (loss) on cash held in foreign currency	**2,585**	(1,114)
Cash and short-term investments at end of year	**95,999**	71,398

See accompanying notes to consolidated financial statements.

Cash distributions for Extendicare are at the discretion of the Board.

Notes to Consolidated Financial Statements

YEARS ENDED DECEMBER 31, 2013 AND 2012

Notes to Consolidated Financial Statements

YEARS ENDED DECEMBER 31, 2013 AND 2012
(Tabular amounts in thousands of Canadian dollars, unless otherwise noted)

1. GENERAL INFORMATION AND NATURE OF THE BUSINESS

Extendicare Inc. (“Extendicare” or the “Company”) is the successor to Extendicare Real Estate Investment Trust (“Extendicare REIT” or the “REIT”) following the conversion of the REIT from an income trust to a corporate structure pursuant to a plan of arrangement effective July 1, 2012 (the “2012 Conversion”). The 2012 Conversion was accounted for by the Company as a continuity of interest, and accordingly, the consolidated financial statements of the Company are reflective as if the Company had always carried on the business previously carried on indirectly by Extendicare REIT (*note 16*). Comparative information for Extendicare relating to periods prior to the 2012 Conversion is that of its predecessor, Extendicare REIT.

References to “Extendicare”, the “Company”, “we”, “us” and “our” or similar terms refer to Extendicare Inc., either alone, or together with its subsidiaries. The registered office of Extendicare is located at 3000 Steeles Avenue East, Markham, Ontario, Canada, L3R 9W2. The common shares of Extendicare Inc. (the “Common Shares”) commenced trading on the Toronto Stock Exchange (TSX) on July 5, 2012, under the trading symbol “EXE” and the units of Extendicare REIT (the “REIT Units”) were de-listed concurrently.

Extendicare is a leading North American provider of long-term senior care services offering post-acute, rehabilitative therapies and long-term care through its network of owned and operated senior care centers that include skilled nursing centers in the United States and nursing centers in Canada. Extendicare itself is not a provider of services or products. The operation of the senior care centers and ancillary businesses is conducted by the subsidiaries of Extendicare, namely its wholly owned U.S. subsidiary, Extendicare Health Services, Inc. and its subsidiaries (collectively “EHSI”), and its wholly owned Canadian subsidiary, Extendicare (Canada) Inc. and its subsidiaries (collectively “ECI”).

2. BASIS OF PREPARATION

a) Statement of Compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The Company transitioned to IFRS as at January 1, 2010 (the “Transition Date”). Periods prior to January 1, 2010, were reported under previous Canadian generally accepted accounting principles (GAAP).These consolidated financial statements were approved by the board of directors of Extendicare Inc. (the “Board”) on February 26, 2014.

b) Basis of Measurement

The consolidated financial statements have been prepared on the historical cost basis except for financial assets and liabilities classified or designated at fair value through profit or loss (FVTPL) or designated as available for sale (AFS) that have been measured at fair value. Refer to *note 3* for the classification of financial assets and liabilities.

Extendicare’s consolidated financial statements are presented in Canadian dollars, which is the Company’s functional currency. All financial information presented in dollars has been rounded to the nearest thousand, unless otherwise noted.

c) Use of Estimates and Judgement

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The more subjective of such estimates and judgement are:

- revenue recognition (*note 18*);
- valuation of accounts receivable (*notes 6 and 27(a)*);
- determination of the recoverable amount of cash generating units (CGUs) subject to an impairment test (*notes 10 and 20*);
- valuation of decommissioning provisions (*note 13*);
- valuation of self-insured liabilities (*note 13*);
- assessment of contingencies (*note 25*);
- valuation of financial assets and liabilities (*note 27(b)*);
- valuation of share appreciation rights liabilities (*note 15*); and
- accounting for tax uncertainties and the tax rates used for valuation of deferred taxes (*note 24*).

The recorded amounts for such items are based on management's best available information and are subject to assumptions and judgement, which may change as time progresses; accordingly, actual results could differ from estimates.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

a) Basis of Consolidation

The consolidated financial statements include the accounts of Extendicare and its subsidiaries. All material intercompany transactions and balances have been eliminated. The financial statements of Extendicare's subsidiaries are included within the Company's consolidated financial statements from the date that control commences until the date that control ceases, and are prepared for the same reporting period as Extendicare, using consistent accounting policies.

The acquisition method of accounting is used to account for the acquisition of subsidiaries. Consideration transferred on the acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed on the date of the acquisition and transaction costs are expensed as incurred. Identified assets acquired and liabilities assumed are generally measured at their fair value on the acquisition date. In determining the fair value of identifiable intangible assets acquired, values are assigned to resident relationships as described in *note 3(h)*. The excess of fair value of consideration given over the fair value of the identifiable net assets acquired is recorded as goodwill, with any negative goodwill being recognized in net earnings on the acquisition date.

b) Foreign Currency

FOREIGN OPERATIONS

The assets and liabilities of foreign operations are translated at exchange rates at the reporting date. The income and expenses of foreign operations are translated at average rates of exchange for the period. The resulting translation adjustments are included in accumulated other comprehensive income (AOCI) in shareholders' equity. When a foreign operation is disposed of, the relevant amount in the cumulative amount of foreign currency translation differences is transferred to net earnings as part of the profit or loss on disposal. When only part of the interest in a subsidiary that includes a foreign operation is disposed of, the relevant proportion of such cumulative amount is reattributed to non-controlling interest. Foreign exchange gains and losses related to intercompany loans that are, in substance, part of the net investment in a foreign operation are included in AOCI. Foreign exchange gains and losses on intercompany loans with planned or foreseeable settlement are included in net finance costs within net earnings.

FOREIGN CURRENCY TRANSACTIONS

Transactions in foreign currencies are translated at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognized in net earnings, except for differences arising on the retranslation of available-for-sale equity instruments, which are recognized in other comprehensive income (OCI). Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign exchange gains and losses are included in net finance costs within net earnings.

c) Cash and Short-term Investments

Cash and cash equivalents include unrestricted cash and short-term investments less bank overdraft and outstanding cheques. Short-term investments, comprised of money market instruments, have a maturity of 90 days or less from their date of purchase.

d) Accounts Receivable

Receivables from government agencies represent the only concentrated group of accounts receivable for EHSI and ECI. In the United States, EHSI has receivables from federal and state medical assistance programs, other third-party payors and from individuals. In Canada, ECI has receivables primarily from provincial government agencies. Management does not believe there is any credit risk associated with these government agencies other than possible funding delays. Accounts receivable other than from government agencies consist of receivables from Managed Care providers, commercial insurers and private individuals that are subject to different economic conditions, none of which represents any concentrated credit risk to the Company.

Extendicare periodically evaluates the adequacy of its provision for receivable impairment by conducting a specific account review of amounts in excess of predefined target amounts and aging thresholds, which vary by payor type. Allowances for uncollectibility are considered based upon the evaluation of the circumstances for each of these specific accounts. In addition, the Company has established percentages for provision for receivable impairment that are based upon historical collection trends for each payor type and age of the receivables. Accounts receivable that are specifically estimated to be uncollectible, based upon the above process, are fully reserved for in the provision for receivable impairment until they are written off or collected.

e) Property and Equipment

Property and equipment is stated at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition or development of the asset. Property and equipment acquired as a result of a business combination are valued as outlined in *note 3(a)*. Centers that are constructed or that are in progress include all incurred expenditures for the development and other direct costs related to the acquisition of land, development and construction of the centers, including borrowing costs of assets meeting certain criteria that are capitalized until the center is completed for its intended use.

Refer to *note 3(i)* for the accounting policy for the determination of impairment losses.

Property and equipment are classified into components when parts of an item have different useful lives. The cost of replacing a component of an item is recognized in the carrying amount of the item if there is a future economic benefit and its cost can be measured reliably. Any undepreciated carrying value of the assets being replaced will be derecognized and charged to net earnings upon replacement. The costs of the day-to-day maintenance of property and equipment are recognized in net earnings as incurred.

Depreciation and amortization are computed on a straight-line basis based on the useful lives of each component of property and equipment. Depreciation of nursing centers under construction commences in the month after the center is available for its intended use based upon the useful life of the asset, as outlined in the following table. The depreciation methods, useful lives and residual values are reviewed at least annually, and adjusted if appropriate.

Land improvements	10 to 25 years
Buildings:	
Building components:	
Structure and sprinklers systems	50 years
Roof, windows and elevators	25 years
HVAC and building systems	15 to 25 years
Flooring and interior upgrades	5 to 15 years
Building improvements and extensions	5 to 30 years
Furniture and equipment:	
Furniture and equipment	5 to 15 years
Computer equipment	3 to 5 years
Leasehold improvements	Term of the lease and renewal that is reasonably certain to be exercised

f) Government Grants

Government grants are recognized depending on the purpose and form of the payment from the government.

Forgivable loans issued by the government are accounted for as government grants if there is reasonable assurance the Company will meet the terms for forgiveness of the loan. Forgivable loans granted by a provincial or health authority body for the construction of a senior care center, where the grants are received throughout the duration of the construction project, are netted with the cost of property and equipment to which they relate when such payments are received.

Capital funding payments for the development of a senior care center that are received from a provincial body subsequent to construction over extended periods of time are present valued and are recorded as notes, mortgages and amounts receivable included in other assets, with an offset to the cost of property and equipment upon inception; as these grants are received over time, the accretion of the receivables are recognized in interest revenue as part of net finance costs within net earnings.

g) Leases

Leases are classified as either finance or operating leases. Leases that substantially transfer all of the benefits and risks of ownership of property to the lessee, or otherwise meet the criteria for capitalizing a lease under IFRS, are accounted for as a finance lease; all other leases are classified as operating leases.

WHEN THE COMPANY IS THE LESSEE

Leased assets that are classified as finance leases are presented according to their nature and are measured at amounts equal to the lower of their fair value and the present value of the minimum lease payments. The corresponding liability due to the lessor is presented as a finance lease obligation as part of the long-term debt. Property and equipment recognized as finance leases are depreciated on a consistent basis with owned property and equipment.

Rental payments under operating leases are expensed as incurred. Operating leases with defined scheduled rent increases are recognized on a straight-line basis over the lease term. Lease incentives received as an inducement to enter into operating leases are initially recognized as a liability, and are recorded as a reduction of rental expense on a straight-line basis over the term of the lease.

WHEN THE COMPANY IS THE LESSOR

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Company's net investment in the leases. The interest element of the lease payment is recognized over the term of the lease based on the effective interest method and is included in financing costs. The Company is not currently the lessor under any finance leases.

Assets under operating leases are included in property and equipment. Rental income from operating leases is recognized on a straight-line basis over the term of the lease and is included in revenue from rental, management, consulting and other services.

h) Goodwill and Other Intangible Assets

GOODWILL

Goodwill represents the excess amount of consideration given over the fair value of the underlying net assets acquired in a business combination, and is measured at cost less accumulated impairment losses. Goodwill arising from acquisitions prior to January 1, 2010, is included on the basis of its deemed cost, which represents the amount recorded under previous Canadian GAAP, subject to an impairment test on the Transition Date. Goodwill is not amortized, but is tested for impairment on an annual basis or more frequently if there are indicators that goodwill may be impaired, see *note 3(i)*.

OTHER INTANGIBLE ASSETS

Other intangible assets that are acquired and have finite useful lives are measured at cost less accumulated amortization and accumulated impairment losses (refer to *note 3(i)).* Intangible assets with finite lives are amortized based on cost. Subsequent expenditures are capitalized only if a future benefit exists. All other expenditures, including expenditures on internally generated goodwill, are recognized in net earnings as incurred.

Intangible assets with indefinite useful lives are measured at cost without amortization, and are subject to impairment tests (refer to *note 3(i))*.

Purchased licenses for resident relationships acquired through the acquisition of senior care centers are intangible assets. Acquiring resident relationships for existing residents of acquired centers represent the cost of having to obtain new residents. These intangible assets include a value of lost net resident revenue over the estimated lease-up period of the property, and are amortized on a straight-line basis, based upon a review of the residents' average length of stay. Resident relationships are generally amortized over a 16-month period for senior care centers. Amortization of the resident relationships asset is included within amortization expense in net earnings.

Non-compete agreements acquired through acquisitions are amortized on a straight-line basis over the period until the agreement expires.

Computer software is amortized over five to seven years and internally developed software over a three-year period.

Amortization methods and useful lives are reviewed at least annually, and are adjusted when appropriate.

i) Impairment

Impairment of financial and non-financial assets is assessed on a regular basis. All impairment losses are charged to loss (gain) from asset impairment, disposals and other items as part of earnings before net finance costs and income taxes.

NON-FINANCIAL ASSETS

Non-financial assets consist of property and equipment, intangible assets with finite lives, intangible assets with indefinite lives and goodwill.

The carrying amounts of non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or those that are not yet available for use, the recoverable amount is estimated annually at the same time or more frequently if warranted. An impairment loss is recognized in net earnings if the carrying amount of an asset or its related CGU, or group of assets on the same basis as evaluated by management, exceeds its estimated recoverable amount. A CGU is defined to be the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets. The Company has identified each individual center as a CGU.

The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. Goodwill and indefinite life intangible assets are allocated to their respective CGUs for the purpose of impairment testing. Indefinite life intangible assets and corporate assets that do not generate separate cash flows and are utilized by more than one CGU, are allocated to each CGU for the purpose of impairment testing and are not tested for impairment separately.

Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amounts of the assets in the CGU on a pro rata basis. Impairment losses on goodwill cannot be reversed. In respect of other non-financial assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

FINANCIAL ASSETS

A financial asset is any asset that consists of: cash; a contractual right to receive cash or another financial asset, or exchange financial assets or financial liabilities under potentially favourable conditions; an equity instrument of another entity; or certain contracts that will or may be settled in the Company's own equity instruments.

Financial assets are reviewed at each reporting date and are deemed to be impaired when objective evidence resulting from one or more events subsequent to the initial recognition of the asset indicates the estimated future cash flows of the asset has been negatively impacted. For assets carried at amortized cost or cost and debt securities, the criteria of this assessment includes significant financial difficulty of the issuer or obligor, the disappearance of an active market for that financial asset because of financial difficulties, or observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets. For equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also objective evidence that the assets are impaired.

For assets carried at amortized cost or cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate, and will be recognized in net earnings. Impairment losses can be reversed to the extent it was previously recognized in net earnings.

For assets classified as available for sale, the cumulative impairment loss is the difference between the asset's carrying amount and the fair value plus any losses accumulated in the OCI. Impairment losses on equity instruments cannot be reversed, whereas impairment losses on debt instruments can be reversed to the extent they were previously recognized in net earnings.

j) Investments Held for Self-insured Liabilities

Extendicare, through its captive insurance subsidiary, holds investments as security for self-insured liabilities. The majority of these investments are investment grade. These investments are classified as available for sale. Investments held for sale are designated as available for sale and are valued at fair market value through OCI, and held-to-maturity investments are valued at amortized cost. (Refer to *note 3(o)*).

k) Employee Benefits

DEFINED BENEFIT PLANS

Defined benefit plans are post-employment plans with a defined obligation to employees in return for the services rendered during the term of their employment with the Company. The net obligation of these plans is calculated separately for each plan by estimating the present value of future benefit that employees have earned in return for their service in the current and prior periods. Any unrecognized past service costs and the fair value of any plan assets are deducted. The discount rate used in deriving the present value is the yield at the reporting date on AA credit-rated corporate bonds that have maturity dates approximating the Company's obligations and are denominated in the same currency in which the benefits are expected to be paid.

The calculation of the future benefit of the plan is performed annually by a qualified actuary using the project unit credit method. When the calculation results in a benefit to the plan, the recognized asset is limited to the total of any unrecognized past service costs and the present value of economic benefits available in the form of reductions in future contributions to the plan.

All actuarial gains and losses arising from defined benefit plans are recognized in OCI during the period in which they are incurred.

DEFINED CONTRIBUTION PLANS

The Company has corporate specific and multi-employer defined benefit pension plans, as well as deferred compensation plans. Multi-employer defined benefit pension plans are accounted for as defined contribution plans as the liability per employer is not available. Deferred compensation plans are also accounted for as defined contribution plans. Defined contribution plans are post-employment plans where the costs are fixed and there are no legal or constructive obligations to pay further amounts. Obligations for such contributions are recognized as employee benefit expense in net earnings during the periods in which services are rendered by employees.

SHORT-TERM EMPLOYEE BENEFITS

The Company has vacation, paid sick leave and short-term disability plans along with other health, drug and welfare plans for its employees. These employee benefit obligations are measured on an undiscounted basis and are expensed as the related services are rendered.

OTHER EMPLOYEE BENEFITS

The Company self-insures, to a limited degree, certain risks in EHSI including workers' compensation (for certain periods), auto liability and health benefits. These employee related self-insured risks are primarily due within twelve months and therefore are not discounted and are included within accounts payable and accrued liabilities as a current liability.

l) Share Appreciation Rights Plan

Awards under the Company's share appreciation rights plan (the "SARP") have a three-year vesting period. Until the liability is settled, the Company reports the liability on a pro rata basis at fair value at each reporting date. The fair value of the share appreciation right (SAR) is determined by using an option pricing model based on the remaining vesting term and the amount by which the "Fair Market Value" of a Common Share of Extendicare exceeds the grant price, plus "Accrued Distributions". "Fair Market Value" of a Common Share, on any particular date, means the volume-weighted average trading price of the Common Share on the TSX for the 10 trading days immediately preceding such date. "Accrued Distributions" means the product of the aggregate amount of cash distributions per Common Share declared payable to holders of record during the term of the SAR and the probability of the award being in the money at the end of the vesting period. Changes in fair value are recognized in net earnings in the period during which these are incurred.

m) Provisions

A provision is recognized when there is a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and that obligation can be measured reliably. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as accretion and recognized as part of net finance costs. Provisions are reviewed on a regular basis and adjusted to reflect management's best current estimates. Due to the judgemental nature of these items, future settlements may differ from amounts recognized. Provisions comprise estimated self-insured liabilities, decommissioning provisions and other legal claims and obligations.

SELF-INSURED LIABILITIES

Extendicare self-insures certain risks related to general and professional liability. The accrual for self-insured liabilities includes the estimated costs of both reported claims and claims incurred but not yet reported. The provision for self-insured liabilities is based on estimates of loss based upon assumptions made by management supported by actuarial projections and the advice of external risk management and legal counsel. The accrual for self-insured liabilities is discounted based on the projected timing of future payment obligations.

DECOMMISSIONING PROVISIONS

Management has determined that future costs could be incurred for possible asbestos remediation of the Company's pre-1980 constructed centers. Although asbestos is currently not a health hazard in any of these centers, appropriate remediation procedures may be required to remove potential asbestos-containing materials, consisting primarily of floor and ceiling tiles, in connection with any major renovation or demolition.

The fair value of the decommissioning provision related to asbestos remediation is estimated by computing the present value of the estimated future costs of remediation based on estimated expected dates of remediation. The computation is based on a number of assumptions, which may vary in the future depending upon the availability of new information, changes in technology and in costs of remediation, and other factors.

The following assumptions were used in calculating the decommissioning provision: (a) discount rates of 6.75% for ECI and 7.10% for EHSI; (b) an estimated timing of the settlement of the provision ranging from 10 to 30 years since the provision was established in 2005; and (c) an estimated undiscounted cash flow amount to settle the decommissioning provision of approximately $50 million.

OTHER PROVISIONS

Other provisions include legal claims that meet the above definition of a provision, along with lease restructuring and employee termination payments. Provisions are not recognized for future operating losses.

n) Fair Value Measurement

Extendicare measures financial instruments at fair value at each balance sheet date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either: in the principal market for the asset or liability; or in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability assuming that market participants act in their economic best interests.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the following fair value hierarchy:

Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities;
Level 2 – inputs other than quoted market prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); or
Level 3 – unobservable inputs such as inputs for the asset or liability that are not based on observable market data.

Each type of fair value is categorized based on the lowest level input that is significant to the fair value measurement in its entirety, categorization of which is re-assessed at the end of each reporting period. For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

o) Financial Instruments

FINANCIAL ASSETS AND LIABILITIES

Extendicare classifies financial assets and liabilities according to their characteristics and the related management's intention for use on an ongoing basis. Financial assets and liabilities are classified into one of the following five classifications: held-to-maturity financial assets, loans and receivables, financial assets at FVTPL, AFS and financial liabilities. Below is a description of the valuation methodology.

Held-to-maturity Financial Assets

Held-to-maturity financial assets are those that the Company has the positive intent and ability to hold to maturity. Held-to-maturity financial assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, held-to-maturity financial assets are measured at amortized cost using the effective interest method, less any impairment losses. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale investments, and prevent the Company from classifying investment securities as held to maturity for the current and the following two financial years.

Loans and Receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Financial Assets at FVTPL

Assets classified as FVTPL are financial assets that are acquired for the purpose of selling in the short term. These assets are initially recognized and subsequently carried at fair value with changes recorded in net earnings and all transaction costs are expensed as incurred.

AFS

AFS financial assets are assets that are not classified in any of the previous categories or are designated as such by management. These assets are initially recognized at fair value plus transaction costs, and subsequently carried at fair value with changes, except for impairment losses, recorded in OCI until the assets are derecognized through sale or impairment, at which time the cumulative gain or loss previously recognized in AOCI is recognized in net earnings. Interest calculated using the effective interest method on available-for-sale financial assets is recognized in net earnings. Dividends on available-for-sale equity instruments are recognized in net earnings when Extendicare's right to receive payment is established.

Financial Liabilities

Financial liabilities include FVTPL and other financial liabilities, these are liabilities incurred or assumed in the conduct of business or specific transactions. Financial liabilities are initially measured at fair value and subsequently measured at either amortized cost or fair value. Financial liabilities that are designated as FVTPL are subsequently measured at fair value with changes recognized in net earnings as part of finance costs, whereas those that are designated as other financial liabilities are subsequently measured at amortized cost.

The Company has convertible debentures that can be converted to Common Shares at the option of the holder and the number of Common Shares to be issued does not vary with changes in fair value. Those convertible debentures that were issued prior to the 2012 Conversion are designated as financial liabilities valued at FVTPL, whereas those issued subsequent to the 2012 Conversion are classified as other financial liabilities.

Summary of Financial Instruments and Classification

All of the Company's financial instruments are classified as loans and receivables, AFS, other financial liabilities or financial liabilities valued at FVTPL.

Below is a classification summary of the Company's financial instruments:

Asset / Liability	Classification	Measurement
Cash and short-term investments	Loans and receivables	Amortized cost
Total receivables	Loans and receivables	Amortized cost
Notes, mortgages and amounts receivable	Loans and receivables	Amortized cost
Investments held for self-insured liabilities – Available for sale	AFS	Fair value
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Long-term debt excluding convertible debentures issued prior to 2012 Conversion	Other financial liabilities	Amortized cost
Convertible debentures issued prior to 2012 Conversion	FVTPL	Fair value

Other items on the statement of financial position including, but not limited to, prepaid expenses within other current assets, property and equipment, goodwill and intangible assets, deferred income taxes, provisions and employee benefit obligations are not financial assets or liabilities.

DERIVATIVE FINANCIAL INSTRUMENTS

From time to time, the Company uses derivative financial instruments to manage risks from fluctuations in exchange rates and interest rates. All derivative instruments, including embedded derivatives that must be separately accounted for, are valued at their respective fair values in the consolidated financial statements unless they are effective cash-flow hedging instruments.

On the date a derivative contract is entered into, the Company assesses whether or not to designate the derivative (or non-derivative) as either a hedge of the fair value of a recognized asset or liability (a "fair-value hedge") or a hedge of the variability of cash flows to be received or paid related to a recognized asset or liability or a forecasted transaction (a "cash-flow hedge") or as a hedge of a net investment in a foreign operation. At the inception of any hedge and on an ongoing basis, we assess whether the derivatives that are used in the hedging transactions are highly effective in offsetting changes in fair values or cash flows of the hedged items. We currently do not have any fair-value, cash-flow or net investment hedges.

Management uses foreign currency forward contracts (FCFCs) to limit the exposure of converting U.S. cash flow into Canadian dollars. These are not designated as fair-value or cash-flow hedges for accounting purposes; therefore, gains or losses arising from the change in fair values are recognized in net earnings during the year.

The Company does not enter into financial instruments for trading or speculative purposes.

p) Revenue

In the United States, revenue from skilled nursing centers is derived from various federal and state medical assistance programs, Managed Care providers (for residents with health maintenance and commercial insurance programs), as well as privately from the residents. Revenue is recorded in the period in which services and products are provided at established rates less contractual adjustments. Contractual adjustments include differences between established billing rates and amounts estimated by management as reimbursable under various reimbursement formulas or contracts in effect. Differences between final settlements and amounts recorded in previous years are reported as adjustments to revenue in the period such settlements are determined.

Extendicare also offers information technology services to smaller long-term care providers through its wholly owned U.S. subsidiary, Virtual Care Provider, Inc. This revenue source is primarily derived from application hosting, customer support, telecommunications, equipment sales and consulting services, and is recognized as these services are provided and equipment is delivered to our customers.

In addition, EHSI derives outpatient therapy revenue in the U.S. by providing rehabilitation therapy services to outside third parties at its clinics. This revenue source is primarily from Managed Care, workers' compensation, self-pay clients and partly from Medicare and Medicaid. Revenue is recognized in the period in which services are provided.

In Canada, fees charged for its nursing centers and home health care services are regulated by provincial authorities, and provincial programs fund a substantial portion of these fees. Revenue is recorded in the period in which services and products are provided.

Assisted living center revenue in the U.S. and Canada is primarily derived from private-pay residents and is recognized in the period in which the services are provided and at rates established by the Company based upon the services provided and market conditions in the area of operation.

Extendicare also offers management, consulting, group purchasing, accounting and administrative services to third parties in both Canada and the United States. Revenue is recorded in the period in which services are provided.

q) Finance Costs and Finance Income

Finance costs include: interest expense on long-term debt; accretion of the discount on provisions, decommissioning provisions and the convertible debentures issued subsequent to the 2012 Conversion (*note 14*); losses on the change in fair value of financial liabilities designated as FVTPL (refer to *note 3(o)*); and losses in foreign exchange on non-Canadian based financial assets. Finance income includes interest income on funds invested, gains on the change in fair value of financial liabilities designated as FVTPL, and gains in foreign exchange on non-Canadian based financial assets.

r) Income Taxes

Extendicare and its subsidiaries are subject to income taxes as imposed by the jurisdictions in which they operate, in accordance with the relevant tax laws of such jurisdictions. The provision for income taxes for the period comprises current and deferred income tax.

Current income tax is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the jurisdictions in which we operate. Deferred income tax is calculated using tax rates anticipated to apply in the periods that the temporary differences are expected to reverse. With respect to the Company's investment in its foreign subsidiaries, the Company uses the tax rate applicable to dividend distributions, which is based on management's judgement on when the temporary difference will reverse.

The income tax rates used to measure deferred tax assets and liabilities are those rates enacted or substantially enacted at the reporting date, and are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. For the convertible debentures that are designated as financial liabilities valued at FVTPL (*note 3(o)*), a deferred tax asset is not recorded should the fair value of the convertible debentures be in excess of the principal balance of the convertible debentures.

Current and deferred income tax assets and liabilities are offset when there is a legally enforceable right of offset; and the income taxes are levied by the same taxation authority on either the same taxable entity or different taxable entities, which intend either to settle current tax liabilities and assets on a net basis or to realize the assets and settle the liabilities simultaneously, for each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

In assessing whether the deferred tax assets are realizable, management considers whether it is probable (which the Company has defined as "more likely than not") that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment.

Tax uncertainties are evaluated on the basis of whether it is more likely than not that a tax position will ultimately be sustained upon examination by the relevant taxing authorities. Tax uncertainties are measured using a probability adjusted or expected value model whereby amounts are recorded if there is any uncertainty about a filing position, determined by multiplying the amount of the exposure by the probability that the entity's filing position will not be sustained. The assessment of tax uncertainties relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Company to change its judgement regarding the adequacy of existing tax liabilities. Such changes to tax liabilities will impact tax expense in the period that such a determination is made.

s) Discontinued Operations

A discontinued operation is a component of the Company's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale. Classification as a discontinued operation occurs upon disposal or earlier, if the operation meets the criteria to be classified as held for sale. When an operation is classified as a discontinued operation, the comparative statement of earnings and cash flow information is re-presented as if the operation had been discontinued from the start of the comparative period.

4. NEW ACCOUNTING POLICIES ADOPTED

Effective January 1, 2013, Extendicare adopted three new accounting amendments and standards issued by IASB: IAS 1 "Presentation of Financial Statements", IFRS 13 "Fair Value Measurement", and IFRS 19 "Post-employment Benefits", all of which are discussed below.

Other new accounting amendments and standards effective commencing this year include: IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements and Consolidated Financial Statements", and IFRS 12 "Disclosure of Interests in Other Entities and Consolidated Financial Statements"; adoption of these standards resulted in no impact to Extendicare's financial position, earnings or cash flows.

Presentation of Financial Statements – Other Comprehensive Income

Amendments to IAS 1 "Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income" require entities to group together items within other comprehensive income (OCI) that may be reclassified to the profit or loss section of the statement of earnings and to separately group together items that will not be reclassified to the profit or loss section of the statement of earnings. As these amendments required changes in the presentation of items in OCI, the impact of adoption did not have a material impact on the financial position, earnings or cash flows.

Fair Value Measurement

IFRS 13 “Fair Value Measurement” is a new standard that replaces the fair value measurement guidance contained in individual standards with a single source of fair value measurement guidance. The standard also establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements to provide information that enables financial statement users to assess the methods and inputs used to develop fair value measurements and, for recurring fair value measurements that use significant unobservable inputs (Level 3), the effect of the measurements on profit or loss or OCI. Upon adoption of this standard, the Company enhanced its disclosure (*note 27(b)*) and also changed its fair value basis at which the convertible unsecured subordinated debentures due in 2014 are measured (*note 14*); the impact of the adoption was not significant.

Post-employment Benefits

The amended version of IAS 19 “Employee Benefits” requires: (i) the recognition of actuarial gains and losses immediately in OCI; (ii) the recognition of expected return on plan assets in profit or loss to be calculated based on the rate used to discount the defined benefit obligation; and (iii) the enhancement of disclosure requirements for defined benefit plans, providing better information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in those plans. There was no material impact on the adoption of these amendments as the Company had already elected to immediately recognize actuarial gains and losses in OCI, and the plan assets are not material.

5. FUTURE CHANGES IN ACCOUNTING POLICIES

The following new standards, amendments to standards and interpretations are effective for annual periods beginning on or after January 1, 2014, and have not been applied in preparing the financial results for the year ended December 31, 2013.

Financial Instruments

IFRS 9 “Financial Instruments”, which replaces IAS 39 "Financial Instruments: Recognition and Measurement", addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 replaces the four categories of financial assets as required by IAS 39 with two measurement categories as follows: (i) those measured at fair value; and (ii) those measured at amortized cost. Changes in fair value will be recorded in net earnings under IFRS 9 instead of through OCI under IAS 39. For financial liabilities measured at fair value, fair value changes due to changes in the Company’s credit risk are presented in OCI instead of through net earnings unless this would create an accounting mismatch. An accounting mismatch may occur when financial liabilities that are measured at fair value are managed with assets that are measured at fair value through profit or loss. A mismatch could arise because the entire change in the fair value of the financial assets would be presented in net earnings but a portion of the change in the fair value of the related financial liabilities would not. The date of application has not been determined. The Company is assessing the potential impact of this standard.

Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities

Amendments to IAS 32, which establishes disclosure requirements that are intended to help clarify for financial statement users the effect or potential effect of offsetting arrangements on an entity’s financial position. These amendments are effective for the annual period beginning on January 1, 2014. The Company is in the process of assessing the impact of the adoption of these amendments, and does not expect that they will have a material impact on its consolidated financial statements.

Levies

IFRS 21 “Levies” clarifies that an entity recognizes the full amount of a liability for a levy during the period in which the activity that triggers payment occurs, as identified by the relevant legislation, instead of amortizing the expense over a period of time. This standard does not apply to income taxes or fines and penalties from governments, and is effective for annual periods beginning on or after January 1, 2014. The Company is in the process of assessing the impact of the adoption of this interpretation on its consolidated financial statements.

6. ACCOUNTS RECEIVABLE

	2013	2012
Trade receivables	**173,472**	165,572
Retroactive rate accruals	**16,308**	25,903
Other receivables	**30,863**	29,438
Total receivables - net of allowance (*note 27(a)*)	**220,643**	220,913
Less: non-current portion *(note 11)*	**(9,848)**	(11,395)
Accounts receivable	**210,795**	209,518

7. OTHER CURRENT ASSETS

	2013	2012
Assets held for sale *(note 8)*	**36,418**	3,121
Other	**25,475**	28,287
Other current assets	**61,893**	31,408

8. DISPOSAL GROUP HELD FOR SALE

In December 2013, EHSI decided to sell 11 nursing centers located in various states due to poor operational performance and the need for future capital expenditures. EHSI reclassified the assets and liabilities of these nursing centers to current assets and liabilities. EHSI expects to complete the sale of these centers during the next 12 months. In December 2013, EHSI recorded an impairment charge of $7.3 million (US$6.8 million) to reduce the net book value of the properties to their estimated fair value less costs to sell *(note 20).*

As at December 31, 2012, disposal group held for sale comprised two closed nursing centers in Washington and Alberta, and two Ontario nursing centers that were closed upon completion of new centers in 2013 *(note 9).* All three Canadian properties in Alberta and Ontario were sold in 2013 *(note 20).*

Assets of Disposal Group Held for Sale

	2013	2012
Cash	**189**	**-**
Restricted cash	**213**	**-**
Accounts receivable	**7,781**	
Other current assets	**478**	**-**
Property and equipment	**27,757**	3,121
Total assets held for sale *(note 7)*	**36,418**	3,121

Liabilities of Disposal Group Held for Sale

	2013	2012
Accounts payable and accrued liabilities	**4,752**	-
Deferred compensation	**2**	-
Decommissioning provisions	**1,242**	512
Long-term debt	**10,360**	-
Total liabilities held for sale *(note 12)*	**16,356**	512

9. PROPERTY AND EQUIPMENT

	Land & Land Improvements	Buildings	Furniture & Equipment	Leasehold Improvements	Construction in Progress	Total
Cost or Deemed Cost						
January 1, 2012	167,136	1,129,429	160,420	8,975	18,770	1,484,730
Additions	2,874	12,128	14,920	493	55,977	86,392
Government grants	-	-	-	-	(3,813)	(3,813)
Interest capitalized	-	-	-	-	873	873
Transfer to assets held for sale	(997)	(11,814)	(379)	-	-	(13,190)
Disposals	-	-	(672)	-	(5)	(677)
Write-off of fully-depreciated assets	(153)	(2,573)	(6,611)	(8)	-	(9,345)
Impairment loss *(note 20)*	-	(17,796)	-	-	-	(17,796)
Reversal of impairment loss *(note 20)*	73	15,996	-	-	-	16,069
Transfer from construction-in-progress	1	6,537	1,594	(167)	(7,965)	-
Reclass and other	(2)	(813)	1	-	(1,054)	(1,868)
Effect of movements in exchange rates	(2,898)	(16,480)	(2,460)	(133)	(95)	(22,066)
December 31, 2012	166,034	1,114,614	166,813	9,160	62,688	1,519,309
Additions	**572**	**7,194**	**12,680**	**523**	**34,421**	**55,390**
Government grants	**-**	**(37,007)**	**-**	**-**	**-**	**(37,007)**
Interest capitalized	**-**	**-**	**-**	**-**	**1,232**	**1,232**
Transfer to assets held for sale	**(7,054)**	**(24,743)**	**(9,091)**	**(228)**	**(29)**	**(41,145)**
Disposals	**-**	**-**	**(42)**	**-**	**-**	**(42)**
Write-off of fully-depreciated assets	**(22)**	**(3,175)**	**(4,130)**	**(36)**	**-**	**(7,363)**
Impairment loss *(notes 10 and 20)*	**(1,476)**	**(2,659)**	**(165)**	**-**	**-**	**(4,300)**
Transfer from construction-in-progress	**2,205**	**82,325**	**8,131**	**(849)**	**(91,812)**	**-**
Reclass and other	**68**	**(375)**	**(222)**	**(1,291)**	**(204)**	**(2,024)**
Effect of movements in exchange rates	**9,163**	**52,767**	**8,438**	**442**	**218**	**71,028**
December 31, 2013	**169,490**	**1,188,941**	**182,412**	**7,721**	**6,514**	**1,555,078**
Accumulated Depreciation						
January 1, 2012	12,703	190,242	84,185	4,687	-	291,817
Additions	5,893	46,031	17,143	987	-	70,054
Transfer to assets held for sale	(103)	(10,058)	(253)	-	-	(10,414)
Disposals	-	-	(529)	-	-	(529)
Write-off of fully-depreciated assets	(153)	(2,573)	(6,611)	(8)	-	(9,345)
Reclass and other	(1)	(345)	6	(148)	-	(488)
Effect of movements in exchange rates	(260)	(1,676)	(1,371)	(75)	-	(3,382)
December 31, 2012	18,079	221,621	92,570	5,443	-	337,713
Additions	**6,187**	**48,382**	**17,683**	**756**	**-**	**73,008**
Transfer to assets held for sale	**(1,028)**	**(5,549)**	**(6,998)**	**(20)**	**-**	**(13,595)**
Disposals	**-**	**-**	**(42)**	**-**	**-**	**(42)**
Write-off of fully-depreciated assets	**(22)**	**(3,175)**	**(4,130)**	**(36)**	**-**	**(7,363)**
Reclass and other	**69**	**(83)**	**(157)**	**(1,419)**	**-**	**(1,590)**
Effect of movements in exchange rates	**1,292**	**8,248**	**5,121**	**279**	**-**	**14,940**
December 31, 2013	**24,577**	**269,444**	**104,047**	**5,003**	**-**	**403,071**
Carrying amounts						
At December 31, 2012	147,955	892,993	74,243	3,717	62,688	1,181,596
At December 31, 2013	**144,913**	**919,497**	**78,365**	**2,718**	**6,514**	**1,152,007**

The cost of assets included in property and equipment under finance leases was $88.5 million (December 31, 2012 – $87.0 million) with accumulated depreciation of $25.0 million (December 31, 2012 – $22.2 million) (*note 14).*

ECI completed the construction of two Ontario redevelopment projects during 2013: a new 256-bed nursing center in Sault Ste. Marie was completed in March 2013 and opened to residents in April 2013; another new 180-bed nursing center in Timmins was completed and opened to residents in October 2013. The construction costs of these projects amounted to approximately $80 million and these new centers replaced two owned centers (287 class “C” beds) and one leased center (95 interim beds) in the communities.

Upon the opening of each of these nursing centers, ECI is entitled to receive capital funding from the Government of Ontario, subject to ECI operating the centers as prescribed under the guidelines of the Ministry of Health and Long-Term Care (Ontario), as part of the program to redevelop existing class “C” beds in Ontario. The funding provides for a payment of $14.30 per bed per day upon the opening of each center, and continues for a period of 25 years. This funding has been discounted at the applicable Ontario government bond rates, and the present value is recorded as a note receivable within other assets, with an offset to the cost of buildings upon inception; as this funding is received over time, the accretion of the note receivable is recognized in interest revenue as part of net finance costs within net earnings.

In May 2012, EHSI entered into an agreement to lease all 21 of its Kentucky skilled nursing centers (1,762 beds) to an experienced third-party long-term care operator based in Texas that operates, through its affiliates, in a number of other states. Nineteen of the centers (1,545 beds) were leased effective July 1, 2012, and the remaining two centers (217 beds) were leased effective October 1, 2012. Under the agreement, the operating leases have 10-year terms with two five-year extensions at the option of the operator. The aggregate annual lease revenue for the first four years is US$15.0 million with a minimum rent escalation of 2.5% in year five, and 3% per year thereafter, depending on whether the operator elects to acquire the centers at the specified period defined in the lease. If certain conditions are met, the operator has the option to purchase all of the centers during the initial lease term at agreed-upon per bed amounts. A pre-tax loss of $3.6 million (US$3.6 million) was recorded in 2012 relating to this Kentucky transaction *(note 20)*.

Between 2008 and 2011, forgivable loans were granted by several regional Health Authorities in the Province of Alberta for a portion of construction costs of a nursing and an assisted living center in Red Deer, a designated assisted living center in Lethbridge and a nursing center in Edmonton. In 2011, forgivable loans were granted from a municipality in the Province of Ontario for a nursing center in Timmins. As at December 31, 2012, all forgivable loans in respect of these projects had been received. The forgivable government loans received were accounted for as government grants as the likelihood of triggering repayment is remote. All grants were netted with other costs and included in construction-in-progress until the development was completed and were netted with the cost of the building upon completion.

Interest is capitalized in connection with the construction of centers and is amortized over their estimated useful life at 5.86% for 2013 and 2012. Interest capitalized in 2013 was $1.2 million (2012 – $0.9 million).

10. GOODWILL AND OTHER INTANGIBLE ASSETS

	2013	2012
Goodwill		
Balance at beginning of year	**70,503**	73,323
Disposals	**-**	(418)
Impairment loss	**(3,775)**	(1,080)
Effect of movements in exchange rates	**3,912**	(1,322)
Balance at end of year	**70,640**	70,503
Other Intangible Assets		
Gross carrying value at beginning of year	**40,991**	36,547
Additions	**362**	4,365
Write-off of fully amortized assets	**(120)**	(168)
Other	**157**	930
Effect of movements in exchange rates	**2,506**	(683)
Gross carrying value at end of year	**43,896**	40,991
Accumulated amortization at beginning of year	**(28,701)**	(22,601)
Amortization	**(4,921)**	(6,751)
Write-off of fully amortized assets	**120**	168
Other	**146**	(7)
Effect of movements in exchange rates	**(1,951)**	490
Accumulated amortization at end of year	**(35,307)**	(28,701)
Net carrying value	**8,589**	12,290
Goodwill and other intangible assets	**79,229**	82,793

Goodwill

The carrying value of goodwill is reviewed at each reporting date to determine whether there exists any indication of impairment. If any indication exists, then the assets' recoverable amount is estimated and an impairment loss is recognized if the carrying amount of the asset or its related CGU exceeds the estimated recoverable amount (*note 20*).

In 2013, EHSI recognized a net pre-tax recovery of $0.1 million (US$0.1 million), consisting of a goodwill impairment of $3.7 million (US$3.6 million), an $11.9 million (US$11.5 million) impairment on certain properties and a $15.7 million (US$15.2 million) reversal of a previously recorded impairment loss on property and equipment. An additional impairment was recognized in December 2013, but it did not affect goodwill (*note 20*).

In January 2012, EHSI completed the sale of its group purchasing organization (GPO), resulting in a reduction in goodwill of $0.4 million or US$0.4 million (*note 23*).

In 2012, EHSI recognized a net pre-tax impairment loss of $0.2 million (US$0.2 million), consisting of a goodwill impairment of $1.1 million (US$1.1 million), a $15.2 million (US$15.5 million) impairment on certain properties and a $16.1 million (US$16.4 million) reversal of a previously recorded impairment loss on property and equipment (*note 20*).

Other Intangible Assets

Other intangible assets comprise computer software, purchased licenses and non-compete agreements. Computer software represents the majority of other intangible assets with a gross and net carrying value of $39.0 million and $4.8 million, respectively (December 31, 2012 – $36.6 million and $8.4 million).

11. OTHER ASSETS

	2013	2012
Investments held for self-insured liabilities: available-for-sale securities, at fair value	**118,827**	115,025
Notes, mortgages and amounts receivable	**84,896**	50,037
Medicare and Medicaid settlement receivables, less allowance of nil *(note 6)*	**9,848**	11,395
	213,571	176,457

Investments Held for Self-insured Liabilities

Extendicare holds investments within its Bermuda-based captive insurance company for self-insured liabilities that are subject to insurance regulatory requirements and are categorized as held to maturity or available for sale. The investment portfolio comprises U.S. dollar-denominated cash, money market funds and investment-grade corporate and government securities. Certain of these investments in the amount of $19.4 million (US$18.2 million), (December 31, 2012 – $18.9 million, or US$19.0 million), have been pledged as collateral for letters of credit issued by the banker of the Company's captive insurance company in favour of ceding companies. As at December 31, 2013, all investments were categorized as available for sale.

	2013	2012
Fixed income securities, with maturities due:		
In one year or less	**1,214**	6,194
After 1 year through 5 years	**-**	11,010
	1,214	17,204
Cash and money market funds	**94,717**	88,366
Equities	**22,896**	9,455
	118,827	115,025

Financial assets include the following available-for-sale securities:

	2013	2012
U.S. Treasuries	**1,214**	17,204
Equities	**22,896**	9,455
	24,110	26,659

Notes, Mortgages and Amounts Receivable

Included in notes, mortgages and amounts receivable were $66.8 million (December 31, 2012 – $34.3 million) of discounted amounts receivable due from government agencies. These represented amounts funded by the Ontario government for a portion of nursing center construction costs. As each center was opened, a receivable from the government was recorded based on applying a discount rate equivalent to the yield on an Ontario government bond for an equivalent duration. The two new Ontario centers qualify for construction funding of $14.30 per bed per day over 25 years *(note 9)*, and all existing centers are funded at $13.30 per bed per day over 20 years. The amounts were discounted at rates ranging from 3.6% to 6.5%, and were treated as a reduction in the cost of the property and equipment related to the center.

Medicare and Medicaid Settlement Receivables

Settlement receivables from both Medicare and Medicaid state programs at December 31, 2013, totalled $13.3 million (December 31, 2012 – $23.7 million), with no allowance. EHSI's Medicare settlement receivables primarily relate to reimbursable Part A co-insurance receivables. Medicaid settlement receivables pertain to cost-based reimbursement programs. Differences between the final settlement and amounts previously recorded are reported as adjustments to revenue in the period of determination. The amounts expected to be substantially collected within one year are reported as current accounts receivable, and the remaining amounts totalling $9.8 million (December 31, 2012 – $11.4 million) were reported in other assets.

12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2013	2012
Accounts payable	**31,030**	35,508
Accrued liabilities	**198,359**	202,401
Liabilities held for sale *(note 8)*	**16,356**	512
Total	**245,745**	238,421

13. PROVISIONS

	Accrual for Self-insured Liabilities	Decommissioning Provisions	Total
January 1, 2012	79,423	26,105	105,528
Provisions recorded	40,807	-	40,807
Provisions used	(23,933)	(17)	(23,950)
Reclass	1,019	(517)	502
Accretion	427	1,694	2,121
Effect of movements in exchange rates	(1,813)	(414)	(2,227)
December 31, 2012	95,930	26,851	122,781
Less: current portion	21,888	-	21,888
	74,042	26,851	100,893
January 1, 2013	**95,930**	**26,851**	**122,781**
Provisions recorded	**54,482**	**-**	**54,482**
Provisions used	**(42,720)**	**-**	**(42,720)**
Reclass	**(294)**	**(1,281)**	**(1,575)**
Accretion	**883**	**1,823**	**2,706**
Effect of movements in exchange rates	**7,028**	**1,408**	**8,436**
December 31, 2013	**115,309**	**28,801**	**144,110**
Less: current portion	**28,052**	**-**	**28,052**
	87,257	**28,801**	**116,058**

Accrual for Self-insured Liabilities

Within the long-term care industry, operators including the Company are subject to lawsuits alleging negligence, malpractice, or other related claims. The Company maintains liability insurance policies through third-party insurers as well as retaining a portion of the risk within its Bermuda-based captive insurance company at a level that the Company believes to be adequate based upon the nature and risks of its business, historical experience and industry standards, along with the type of insurance coverage commercially available in the marketplace.

The accrual for self-insured liabilities is based on management's best estimate of the ultimate cost to resolve general and professional liability claims, including both known claims and claims that have been incurred but not yet reported by the end of the reporting period. The Company estimates the value of losses that may occur within its self-insured retention levels, based upon individual assessment of the settlement, using historical information and industry data, supported by actuarial projections, advice from legal counsel, consultants and external risk management. General and professional liability claims are the most volatile and significant type of risks for which the Company self-insures, furthermore, claim payments for any particular policy year can occur over a period of several years that are limited by state or provincial regulations. Actual results can differ materially from the estimates made due to a number of factors including the assumptions used by management and other market forces.

Management regularly evaluates and periodically engages an independent third-party actuary to provide a report to determine the appropriateness of the carrying value of this liability. Assumptions underlying the determination of the liability are limited by the uncertainty of predicting future events and assessments regarding expectations of several factors. Such factors include, but are not limited to: the frequency and severity of claims, which can differ materially by jurisdiction; trends in claims along with unique and identifiable settlements; coverage limits of third-party reinsurance; the effectiveness of the claims management process; and the outcome of litigation. Therefore, management's estimate of the accrual for general and professional liability claims is significantly influenced by assumptions that are subject to judgement by management and the actuary, which may cause the provision to fluctuate significantly from one reporting period to another.

Management estimates and allocates a portion of the general and professional liability claim payments as current on the statement of financial position.

Decommissioning Provisions

The decommissioning provisions relate to possible asbestos remediation of Extendicare's pre-1980 constructed centers (*note 3(m)*).

14. LONG-TERM DEBT

	Interest rate	**Year of Maturity**		**2013**	2012
			US$	C$	C$
EHSI (payable in US$)					
HUD mortgages	3.20% - 5.75%	2022 - 2047	*542,229*	**576,715**	521,576
Line of credit	variable	2015	*2,100*	**2,234**	8,059
PrivateBank loans	variable	2013	-	**-**	33,774
Finance lease obligations	0% - 6.56%	2014 - 2016	*2,132*	**2,267**	2,640
Notes payable	0%	2014	*68*	**72**	4,048
			546,529	**581,288**	570,097
Financing costs			*(17,860)*	**(18,995)**	(19,234)
			528,669	**562,293**	550,863
Extendicare Inc. and Canadian Subsidiaries (payable in C$)					
Convertible unsecured subordinated debentures	6.0%	2019		**121,590**	120,915
Convertible unsecured subordinated debentures	5.7%	2014		**114,226**	117,325
CMHC mortgages	2.22% - 7.7%	2014 - 2037		**175,762**	189,209
Non-CMHC mortgages	4.14% - 5.637%	2020 - 2038		**95,688**	15,533
Finance lease obligations	6.41% - 7.19%	2026 - 2028		**105,711**	110,343
Construction loans	5.558% - 5.637%	2038		**-**	39,652
				612,977	592,977
Financing costs				**(10,434)**	(11,605)
				602,543	581,372
Total debt net of financing costs				**1,164,836**	1,132,235
Less: current portion				**148,051**	93,448
				1,016,785	1,038,787

EHSI Debt

REFINANCINGS

During 2012, EHSI completed the refinancing of approximately US$636 million of debt with approximately US$506 million of mortgages insured by the U.S. Department of Housing and Urban Development (HUD) and US$130 million of cash on hand. During 2011 and 2012, EHSI closed on 68 HUD loans totalling US$506.3 million in connection with this refinancing, with a weighted average interest rate of approximately 4.33%, inclusive of mortgage insurance premiums (MIP), and term to maturity of about 33 years.

In July 2010, EHSI received approval as a corporate entity to proceed with HUD applications, subject to an overall limit of US$550.0 million, and in December 2011, received approval to increase the financing capacity to an overall limit of US$585.0 million, which expires in September 2014. EHSI already had approximately US$27 million of HUD loans issued prior to this refinancing plan. In April 2013, EHSI closed on six HUD loans totalling US$37.7 million to refinance the PrivateBank loans. These HUD loans have a weighted average interest rate of 3.66% (including MIP of 0.65%) and term to maturity of approximately 32 years. Consequently, EHSI utilized approximately US$572 million of its US$585.0 million overall limit. As at December 31, 2013, EHSI had approximately 57 unencumbered centers, which includes 19 centers that are leased to a third-party operator in Kentucky.

In July 2012, EHSI prepaid US$10.3 million of HUD-insured mortgages with a weighted average interest rate including MIP of 5.77% and closed on new HUD-insured mortgages totalling US$11.2 million with a weighted average interest rate including MIP of 3.55%. EHSI recorded a $0.8 million (US$0.8 million) loss on refinancing and retirement of debt associated with this refinancing (*note 20*).

HUD MORTGAGES

As at December 31, 2013, EHSI has a total of 82 HUD-insured mortgages, which are secured by 82 skilled nursing centers and two assisted living facilities, of which two centers with HUD mortgages totalling US$10.1 million were classified as liabilities held for sale (*note 8*). These mortgages have an average remaining term of 30 years with fixed interest rates ranging from 3.20% to 5.75% and a weighted average interest rate of 4.30%. Depending on the mortgage agreement, prepayments are generally allowed, with HUD approval, only after 12 months or 24 months from the inception of the mortgage, and in the first year thereafter, prepayments are subject to penalties between 8% and 10% of the remaining principal balances. The prepayment penalties decrease each subsequent year by 1% until no penalty is required. As at December 31, 2013, US$179.0 million of the mortgages could not be prepaid, US$369.1 million were subject to prepayment fees between 8% and 10%, and US$4.2 million were subject to prepayment fees of 2%.

All HUD-insured mortgages are non-recourse loans to EHSI. All mortgages are subject to HUD regulatory agreements that require escrow reserve funds to be deposited with the loan servicer for MIP, property taxes, insurance and for capital replacement expenditures. As at December 31, 2013, EHSI had escrow reserve funds of $6.3 million (US$5.9 million) with the loan servicers that are reported within other current assets, and replacement reserve funds of $11.5 million (US$10.8 million) in other non-current assets. In addition, cash for working capital purposes may only be distributed semi-annually to EHSI from the real estate special purpose entities within the HUD mortgage structures. As at December 31, 2013, restricted cash for working capital was $16.6 million (US$15.7 million), $0.2 million (US$0.2 million) of which was included in assets held for sale *(note 8)*.

CMBS FINANCING

EHSI’s commercial mortgage backed securitization (CMBS) financing due in May 2012 (the “May 2012 CMBS Financing”), was completed on October 16, 2006, for US$500.0 million through commercial mortgage backed securities. The original maturity date was November 11, 2011, but this date was extended to May 11, 2012, under the Loan Modification Agreement described below. It had a fixed interest rate of 6.6525%, with interest-only monthly payments for the first three years, and monthly principal and interest payments thereafter, based upon a 25-year amortization.

In May 2011, EHSI signed an agreement to modify its May 2012 CMBS Financing (the “Loan Modification Agreement”) for a fee of US$5.4 million. The Loan Modification Agreement extended the maturity date from November 2011 to May 2012 and, during the period between August 2011 and May 2012, allowed EHSI to prepay in part and release properties from this loan without any prepayment yield maintenance payment. The Loan Modification Agreement enhanced the ability to complete the closing of the HUD mortgages in stages.

In August and October 2011, we prepaid US$194.9 million and US$172.4 million, respectively, of the May 2012 CMBS Financing. In February 2012, we prepaid the final US$109.9 million of May 2012 CMBS Financing (*note 20*).

CREDIT FACILITY

In 2012, EHSI entered into a new US$100.0 million senior secured revolving credit facility (the "EHSI Credit Facility") with a three-year term to June 2015 and floating-rate interest based on a pricing grid, to replace its US$70.0 million credit facility that matured in June 2012. This new credit facility consists of a US$80.0 million real estate based facility that was finalized in June 2012, and a US$20.0 million accounts receivable based credit facility that was finalized in September 2012. At EHSI's option, the interest rate is either the eurodollar rate, with a floor set at 1%, plus a margin from 4% to 4.50%, or the U.S. prime rate plus a margin from 3% to 3.50%, with the specific margin based on EHSI's consolidated leverage ratio as defined in the EHSI Credit Facility.

The EHSI Credit Facility is used to back letters of credit and for general corporate purposes, and requires EHSI to comply with various financial covenants, including fixed charge coverage, debt leverage and tangible net worth ratios. It contains customary covenants and events of default and is subject to various mandatory prepayment and commitment reductions. If an event of default occurs, the lenders may accelerate the maturity of the loan under the EHSI Credit Facility, charge a default rate of interest, and/or foreclose on the mortgages and other collateral securing the EHSI Credit Facility. EHSI is permitted to make voluntary prepayments at any time.

The maximum amount available to be borrowed under the US$80.0 million portion of the EHSI Credit Facility is determined based on the lesser of: (i) 50% of the appraised values of the 20 skilled nursing centers collateralizing the EHSI Credit Facility, or (ii) an amount based on the actual net cash flow of these centers for the last 12 months. This US$80.0 million real estate based facility is secured by mortgages on 20 skilled nursing centers and is guaranteed by EHSI's parent, Extendicare Holdings, Inc., and certain of EHSI's domestic subsidiaries. EHSI's entities that are HUD borrowers or HUD operators are classified as specified non-recourse subsidiaries and unrestricted subsidiaries under the EHSI Credit Facility; however, the entities are considered restricted subsidiaries solely with respect to certain financial covenants. As at December 31, 2013, the maximum amount available was US$66.4 million.

The maximum amount available to be borrowed under the US$20.0 million portion of the EHSI Credit Facility is based upon 80% of eligible receivables that are less than 90 days old. As at December 31, 2013, the maximum amount available was US$20.0 million.

In total, the maximum amount available to be borrowed as at December 31, 2013, was US$86.4 million, of which EHSI had drawn US$2.1 million, and issued US$8.3 million under letters of credit, leaving US$76.0 million of the maximum available for future working capital and corporate purposes, subject to leverage requirements. The letters of credit of US$8.3 million are in favour of workers' compensation programs, which renew annually and mature in June and July of 2014.

PRIVATEBANK LOANS

As mentioned above, in April 2013, EHSI closed on six HUD loans totalling US$37.7 million, at which time, the PrivateBank loans with an aggregate balance of US$33.8 million were repaid in full, resulting in a loss of US$0.4 million (*note 20*).

NOTES PAYABLE

In November 2013, the final instalment of US$4.0 million was paid on notes payable which related to seller notes arising from the 2007 acquisition of Tendercare (Michigan) Inc. (Tendercare) *(note 20).*

FINANCE LEASE OBLIGATIONS

In November 2010, EHSI entered into a 10-year finance lease for a 100-bed skilled nursing center in South Bend, Indiana. In December 2012, EHSI exercised its option under the agreement and purchased this center for US$13.2 million in cash, consisting of the US$12.5 million in repayment of the finance lease obligation and a US$0.7 million purchase of additional property and equipment.

Finance lease obligations are payable as follows:

	2013			2012		
	Future Minimum Lease Payments	**Interest**	**Present Value of Minimum Lease Payments**	Future Minimum Lease Payments	Interest	Present Value of Minimum Lease Payments
Less than one year	**1,626**	**75**	**1,551**	808	124	684
Between one and five years	**736**	**20**	**716**	2,081	125	1,956
	2,362	**95**	**2,267**	2,889	249	2,640

Canadian Debt

CONVERTIBLE UNSECURED SUBORDINATED DEBENTURES

In 2012, Extendicare issued $126.5 million of aggregate principal amount of 6.00% convertible unsecured subordinated debentures due September 30, 2019, convertible at $11.25 per Common Share (the “2019 Debentures”). The initial offering of $110.0 million closed on September 25, 2012, for net proceeds of $104.8 million; and the exercise of the over-allotment option for $16.5 million closed on October 1, 2012, for additional net proceeds of $15.9 million, securing total net proceeds of $120.7 million on this offering.

Interest on the 2019 Debentures is payable semi-annually in March and September. The 2019 Debentures may not be redeemed by the Company prior to October 1, 2015, except in the event of the satisfaction of certain conditions after a change of control has occurred. On or after October 1, 2015, but prior to October 1, 2017, these debentures may be redeemed by the Company in whole at any time or in part from time to time, at a price equal to the principal amount thereof plus accrued and unpaid interest, on a notice of not more than 60 days and not less than 30 days prior, provided that the volume-weighted average trading price of the Common Shares on the TSX for the 20 consecutive trading days ending on the fifth trading day immediately preceding the date on which notice of redemption is given is not less than 125% of the conversion price. On and after October 1, 2017, these debentures may be redeemed by the Company in whole at any time or in part from time to time, at a price equal to the principal amount thereof plus accrued and unpaid interest, on a notice of not more than 60 days and not less than 30 days prior.

Upon the occurrence of a change of control, whereby more than 66.67% of the Common Shares are acquired by any person, or group of persons acting jointly, each holder of the 2019 Debentures may require the Company to purchase their debentures at 101% of the principal. If 90% or more of the debentureholders do so, the Company has the right, but not the obligation, to redeem all the remaining outstanding 2019 Debentures.

Upon closing of the initial offering on September 25, 2012, the debt and equity components of the 2019 Debentures were bifurcated as the financial instrument is considered a compound instrument with $105.0 million classified as a liability and the residual $5.0 million classified as equity attributable to the conversion option. Following the completion of the exercise of the over-allotment option on October 1, 2012, the bifurcation of the 2019 Debentures resulted in $120.7 million classified as a liability and the residual $5.8 million classified as equity. The liability portion of the 2019 Debentures is recorded at amortized cost. The fees and transaction costs allocated to the debt component are amortized over the term of the 2019 Debentures using the effective interest method and recognized as part of net finance costs.

Extendicare completed a public offering of convertible unsecured subordinated debentures in June 2008 (the “2013 Debentures”) and June 2007 (the “2014 Debentures”), (collectively the “REIT Issued Convertible Debentures”). On October 29, 2012, Extendicare redeemed the outstanding aggregate principal amount of the 2013 Debentures of $91.8 million, and paid all accrued and unpaid interest thereof for a total payment of $94.0 million *(note 20)*. With respect to the 2014 Debentures, the aggregate principal balance outstanding at December 31, 2013, was $113.9 million and is due on June 30, 2014. The 2014 Debentures have a $19.90 conversion price, and a 5.7% coupon rate with interest payable semi-annually in June and December. These were designated as financial liabilities valued at fair value, with changes in fair value recognized in net earnings as part of net finance costs. Fair value is based on the closing price of the publicly traded convertible debentures on each reporting date. Other than the relevant redemption dates, the redemption features, terms and conditions are identical to the 2019 Debentures described above. As of July 1, 2012, the 2014 Debentures may be redeemed by the Company in whole at any time or in part from time to time at a price equal to the principal amount thereof plus accrued interest, on a notice of not more than 60 days and not less than 30 days prior.

CMHC MORTGAGES

Extendicare's Canadian subsidiaries have various mortgages insured through the Canada Mortgage and Housing Corporation (CMHC) program. The CMHC mortgages are secured by several Canadian financial institutions at rates ranging from 2.22% to 7.7% with maturity dates through to 2037.

Effective August 1, 2013, ECI renewed its existing CMHC mortgage on three Ontario nursing centers for a term of five years at a fixed rate of 3.08%. This mortgage was renewed at its maturing balance of $15.4 million.

In January 2014, ECI committed to the renewal of its existing $6.4 million CMHC mortgage on an Ontario nursing center for a 10-year term at a fixed rate of 3.62%, effective March 1, 2014.

NON-CMHC MORTGAGES

ECI has completed the refinancing of three Manitoba nursing centers in September 2013, with conventional mortgages totalling $26.0 million at a fixed rate of 4.14% for a term of seven years. The existing mortgages had a balance of $15.3 million at June 30, 2013, maturing in November 2013. Two Ontario nursing centers were opened in April and October of 2013, following which their construction loans totalling $69.9 million were converted to conventional mortgages (*see "construction loans" below*).

FINANCE LEASE OBLIGATIONS

ECI obtained financing of $125.4 million in 2001 from BCP Long-Term Care Facilities Inc. (BCP) to build eight Ontario nursing centers and entered into another arrangement in 2003 with BCP for $14.4 million of financing for an additional Ontario nursing home. ECI is operating the centers for BCP under 25-year finance lease arrangements at an average effective rate of 6.99%.

Finance lease obligations are payable as follows:

	2013			2012		
	Future Minimum Lease Payments	**Interest**	**Present Value of Minimum Lease Payments**	Future Minimum Lease Payments	Interest	Present Value of Minimum Lease Payments
Less than one year	**12,104**	**7,141**	**4,963**	12,104	7,472	4,632
Between one and five years	**48,416**	**24,767**	**23,649**	48,416	26,341	22,075
More than five years	**104,404**	**27,305**	**77,099**	116,508	32,872	83,636
	164,924	**59,213**	**105,711**	177,028	66,685	110,343

CONSTRUCTION LOANS

In October 2011, ECI secured conventional long-term financing on its Timmins and Sault Ste. Marie centers in Ontario. The first two years of the loans are for construction with interest-only payments, following which the loans will be amortized over 25 years. The Timmins and Sault Ste. Marie loans contain fixed rates for the full 27-year term of 5.558% and 5.637%, respectively, with a requirement to maintain a minimum debt service coverage ratio. The Sault Ste. Marie center and the Timmins center opened in April and October of this year (*note 9*); consequently, the corresponding loans were converted to conventional mortgages in the third and fourth quarters of 2013, respectively.

Other

RBC LINE OF CREDIT AND LETTERS OF CREDIT

Extendicare has a demand credit facility with the Royal Bank of Canada (the "RBC Credit Facility") that, as at December 31, 2013, was secured by 13 class "C" nursing centers in Ontario and is guaranteed by certain Canadian subsidiaries of Extendicare. During 2013, the demand working capital line was reduced to $64.0 million from $70.0 million following the completion of two new nursing centers in northern Ontario, which resulted in the transfer of licensed beds from nursing centers that secured the line to conventional financing for the new centers.

As at December 31, 2013, Extendicare had letters of credit totalling $42.3 million issued under the working capital line, of which $42.0 million was issued to secure executive pension obligations, and $0.3 million related to construction projects. The RBC Credit Facility has no financial covenants, but does contain normal and customary terms, including the periodic re-appraisal of the centers that could limit the maximum amount available under the working capital line.

RESTRICTED CASH

Restricted cash consists mainly of $16.4 million (US$15.5 million) held pursuant to the HUD regulatory agreements for working capital purposes, and cash designated for future capital expenditure in Indiana.

UNDRAWN BORROWING FACILITIES

The Company has the following undrawn borrowing facilities:

	2013	2012
Variable Rate		
Expiring within one year	**21,679**	26,864
Expiring beyond one year	**80,834**	88,845
Total	**102,513**	115,709

FINANCING COSTS

Financing costs are deducted from long-term debt and are amortized using the effective interest method over the term of the debt. Financing costs included as part of long-term debt amounted to $29.4 million at December 31, 2013 (2012 – $30.8 million). The decrease of $1.4 million in 2013 related primarily to the addition of $1.5 million of costs associated with amortization charges included in finance costs, partially offset by financing of new and refinancing of existing debt and changes in foreign exchange.

Below is a summary of the financing costs:

		2013		**2012**
EHSI *(payable in US$)*	*US$*	C$	*US$*	C$
HUD mortgages	*16,222*	**17,253**	*16,611*	16,528
Line of credit	*1,638*	**1,742**	*2,541*	2,528
PrivateBank loans	-	**-**	*179*	178
	17,860	**18,995**	*19,331*	19,234
Extendicare Inc. and Canadian Subsidiaries *(payable in C$)*				
Convertible unsecured subordinated debentures		**4,525**		5,284
CMHC mortgages		**4,455**		5,161
Non-CMHC mortgages		**1,065**		54
Finance lease obligations		**389**		429
Construction loans		**-**		677
		10,434		11,605
Total financing costs		**29,429**		30,839
Less: current portion		**3,519**		3,027
		25,910		27,812

PRINCIPAL REPAYMENTS

Principal repayments on long-term debt, exclusive of finance lease obligations and liabilities held for sale, are as follows:

Year	***Amount***
2014	144,761
2015	27,352
2016	32,000
2017	43,202
2018	30,433
2019 and beyond	813,153
	1,090,901

INTEREST RATES

The weighted average interest rate of all long-term debt at December 31, 2013, was approximately 4.9% (2012 – 5.0%). At December 31, 2013, 99.8% of the long-term debt, excluding financing costs, was at fixed rates.

15. OTHER LONG-TERM LIABILITIES

	2013	2012
Accrued pension plan obligation *(note 26)*	**32,989**	33,619
Deferred compensation	**10,839**	11,322
Share appreciation rights	**183**	217
Future lease commitments	**1,683**	1,680
Other	**453**	1,187
	46,147	48,025

Deferred Compensation

EHSI maintains an unfunded deferred compensation plan offered to all corporate employees defined as highly compensated by the U.S. Internal Revenue Code in which participants may defer up to 10% of their base salary. EHSI will match up to 50% of the amount deferred. EHSI also maintains non-qualified deferred compensation plans covering certain executive employees.

Share Appreciation Rights Plan

Upon completion of the 2012 Conversion, the unit appreciation rights plan (the "UARP") and all outstanding unit appreciation rights under the UARP, were amended to replace references to the REIT and the REIT Units to Extendicare Inc. and Common Shares, respectively. SARs are granted at the discretion of the Board. Any director, officer or employee of Extendicare or its affiliates is eligible to participate.

A summary of the SARs that have been granted to date by the Board to senior management and the directors as at December 31st is as follows:

	2013		2012	
	Share Appreciation Rights	Weighted Average Vesting Price	Share Appreciation Rights	Weighted Average Vesting Price
Outstanding, beginning of year	**1,616,750**	**$ 9.66**	1,462,417	$ 9.49
Granted	**474,000**	**6.52**	614,000	8.11
Vested	**(488,750)**	**10.02**	(389,667)	6.64
Forfeited	**(129,501)**	**9.09**	(70,000)	9.47
Outstanding, end of year	**1,472,499**	**$ 8.58**	1,616,750	$ 9.66

The fair value of SARs was measured based on the Black-Scholes model. The inputs used in the fair value measurement for 2013 and 2012 were as follows:

	2013	2012
Share price	**$6.58**	$7.68
Volatility	**21.00%**	20.00%
Risk-free interest rate	**0.91% - 1.17%**	0.92% - 1.14%
Strike price	**$6.52 - $11.16**	$7.58 - $11.16
Expected remaining life	**0.2 years - 2.6 years**	0.2 years - 2.2 years

The vesting price represents the price at which the respective SARs were granted, and equates to the minimum Common Share price at which they can be vested. As at December 31, 2013, 1,472,499 SARs were outstanding, with an average remaining contractual life of 1.3 years (December 31, 2012 – 1.3 years). There was a nominal recovery in 2013 (2012 – $0.3 million was expensed in net earnings as an increase to the obligation in SARs). The total liability was $0.2 million included in other long-term liabilities as at December 31, 2013 and 2012.

Awards under the SARP cliff vest after three years, subject to conditions as described below, and permit the participants to receive, at the election of the Board, either a payment in cash or equivalent value of Common Shares acquired on the TSX. Vesting of SARs is subject to continued employment of the participant, with pro-rating provisions in the event of the participant's death, retirement or termination of employment as described below, a minimum Common Share price, and may also be subject to achieving operating performance measures, as determined by the Board at the date of grant.

Consideration for vested SARs is equal to the appreciation in the Fair Market Value of the vested SARs from the date of grant of the SAR, plus Accrued Distributions.

The SARP contains provisions providing for adjustments in the event of a corporate reorganization, including an amalgamation or merger of the Company with or into another entity, or in the event of a change in control (as defined in the SARP). Upon termination of employment (for cause) of a participant, all of his or her SARs (vested and unvested) shall be cancelled and terminated without payment. In the event of the death, retirement, or termination of employment (other than for cause) of a participant, that occurs on or after the first anniversary date of the date of grant of a particular SAR, the number of SARs available to vest for the remaining term of such grant is pro-rated based on the elapsed time since the date of grant. The balance of the number of SARs under such grant shall be cancelled and terminated without payment. If the date of any such event occurs prior to the first anniversary date of the date of grant of a particular SAR, then such SAR is cancelled and terminated without payment.

Future Lease Commitments

The effects of scheduled rent increases included in minimum lease payments are recognized on a straight-line basis over the lease term. The amount recorded as future lease commitments represents the cumulative excess of lease expense computed on a straight-line basis for the lease term over actual lease payments.

16. SHARE CAPITAL

2012 Conversion

At a special meeting held on May 8, 2012, Extendicare REIT received 97.72% approval from holders of REIT Units (the “Unitholders”) of the plan to convert from an income trust structure to a corporate structure. The 2012 Conversion received all of the necessary third-party and regulatory approvals, including the approval of the TSX, and was completed effective July 1, 2012.

Under the 2012 Conversion, Unitholders had their REIT Units exchanged for Common Shares of Extendicare on the basis of one Common Share for each REIT Unit held. In addition, Extendicare assumed all of the obligations of the REIT in respect of its outstanding REIT Issued Convertible Debentures, of which the 2014 Debentures remain outstanding. As a result, holders of the REIT Issued Convertible Debentures are entitled to receive Common Shares on the same basis that REIT Units were previously issuable on the conversion thereof. The Common Shares commenced trading on the TSX on July 5, 2012, under the trading symbol “EXE” and the REIT Units were de-listed concurrently. The 2013 Debentures and the 2014 Debentures continued trading on the TSX under the trading symbols “EXE.DB” and “EXE.DB.A”, respectively.

There were no changes resulting from the 2012 Conversion to the members of the Board or senior management of Extendicare.

Authorized Capital

Extendicare is authorized to issue an unlimited number of Common Shares and that number of preferred shares of Extendicare (the “Preferred Shares”), issuable in series, equal to 50% of the number of Common Shares that are issued and outstanding at the time of the issuance of any series of Preferred Shares, for consideration and on terms and conditions that the Board may determine without the approval of shareholders.

COMMON SHARES

Each Common Share is transferable and represents an equal and undivided beneficial interest in the assets of the Company. Each Common Share entitles the holder to one vote at all meetings of shareholders of the Company. Shareholders are entitled to receive dividends from the Company if, as and when declared by the Board. During 2013, the Company declared cash dividends of $0.60 per share.

PREFERRED SHARES

Preferred Shares may at any time and from time to time be issued in one or more series. There are currently no Preferred Shares issued.

	Share Capital		Unit Capital	
	Shares	Amount	Units	Amount
Balance at January 1, 2012	-	$ -	84,121,488	$ 453,150
2012 Conversion	85,028,197	460,262	(85,028,197)	(460,262)
Transactions with shareholders/unitholders				
DRIP	974,779	7,275	906,709	7,112
Purchase of shares for cancellation in excess of book value	(13,600)	(74)	-	-
Balance at December 31, 2012	85,989,376	$ 467,463	-	$ -
Balance at January 1, 2013	**85,989,376**	**$ 467,463**	**-**	**$ -**
Transactions with shareholders				
DRIP	**1,277,135**	**9,017**	**-**	**-**
Balance at December 31, 2013	**87,266,511**	**$ 476,480**	**-**	**$ -**

Distribution Reinvestment Plan

The Company has implemented a Distribution Reinvestment Plan (DRIP) pursuant to which shareholders who are residents in Canada may elect to reinvest their cash distributions in additional Common Shares, or prior to the 2012 Conversion, in additional REIT Units or Exchangeable LP Units, as the case may be, on the date of the distribution, at a price equal to 97% of the volume-weighted average trading price of the Common Shares on the TSX for the five trading days immediately preceding the corresponding date of distribution. During 2013, the Company issued 1.3 million Common Shares at a value of $9.0 million in connection with the DRIP (2012 – 0.9 million REIT Units at a value of $7.1 million and 1.0 million Common Shares at a value of $7.3 million).

Normal Course Issuer Bid

On July 5, 2012, Extendicare received the approval of the TSX to commence a normal course issuer bid (the “Bid”) to purchase for cancellation up to 4.0 million Common Shares, representing approximately 4.8% of the public float on July 1, 2012. The Bid commenced on July 9, 2012, and provided Extendicare with flexibility to repurchase Common Shares for cancellation until July 8, 2013. The Company did not acquire any shares for cancellation under the Bid during 2013. In July 2012, Extendicare acquired for cancellation 13,600 Common Shares at a cost of $0.1 million (average cost of $7.81 per share).

17. EQUITY RESERVES

Equity reserves are included in AOCI and comprise fair value, and translation reserves, as follows:

	Unrealized Gains/Losses on AFS Securities	Realized Gains/Losses on AFS Securities	Total Fair Value Reserve	Translation Reserve	Total Equity Reserves
Balance, January 1, 2012	1,132	(759)	373	(13,634)	(13,261)
Recognized during the year	1,505	(315)	1,190	(4,867)	(3,677)
Balance, December 31, 2012	2,637	(1,074)	1,563	(18,501)	(16,938)
Recognized during the year	**2,882**	**(335)**	**2,547**	**18,580**	**21,127**
Balance, December 31, 2013	**5,519**	**(1,409)**	**4,110**	**79**	**4,189**

Fair Value Reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial assets until the investments are derecognized or impaired.

Translation Reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

18. REVENUE

EHSI derived approximately 77% of its revenue from services provided under the federal (Medicare) and state (Medicaid) programs in 2013 and 79% in 2012. The Medicare program pays each participating center a prospectively set rate for each resident, which is based on the resident's acuity. Most Medicaid programs fund participating centers using a case-mix based system, paying prospectively set rates. With respect to Medicaid in states that utilize retrospective reimbursement systems, nursing centers are paid on an interim basis for services provided, subject to adjustments based upon allowable costs, which are generally submitted in cost reports on an annual basis. In these states, revenue is subject to adjustments as a result of cost report settlements with the state.

Funding received by ECI for its nursing centers and home health care services is regulated by provincial authorities. Revenue from provincial programs represented approximately 68% of ECI's nursing home revenue, and approximately 98% of ECI's home health care revenue for 2013 (2012 – 66% and 97%).

19. EXPENSES BY NATURE

	2013	2012
Employee wages and benefits	**1,363,514**	1,363,719
Food, drugs, supplies and other variable costs	**172,363**	180,984
Property based and other costs	**321,749**	298,471
Total operating expenses and administrative costs	**1,857,626**	1,843,174
Lease costs	**11,096**	10,986
Total expenses	**1,868,722**	1,854,160

20. LOSS FROM ASSET IMPAIRMENT, DISPOSALS AND OTHER ITEMS

	2013	2012
Asset impairment	**8,075**	2,806
Debt settlement	**675**	545
Loss on Kentucky lease transaction	**-**	3,649
2012 Conversion costs	**-**	930
2013 strategic review	**2,081**	-
Gain on disposals	**(1,419)**	-
Other	**229**	-
Loss from asset impairment, disposals and other items	**9,641**	7,930

Impairment

We are required to assess for impairment of goodwill on an annual basis, and we performed this assessment for the U.S. operations in the third quarters of 2013 and 2012. Goodwill and corporate assets are allocated to EHSI's CGUs. The carrying value of the assets is then compared to the recoverable amount for each CGU to determine if there is any impairment. The recoverable amount of a CGU is determined to be the greater of fair value less costs to sell and value-in-use calculations. Any impairment loss is allocated first to goodwill, and the remainder to property and equipment. An impairment loss on goodwill cannot be reversed in the future. In respect of property and equipment, if future assessments indicate that there is a change in the estimates used to determine the recoverable amount, the impairment loss will be reversed subject to certain limits.

The determination of recoverable amounts can be significantly impacted by estimates related to current market valuations, current and future economic conditions in the geographical markets of each CGU, and management's strategic plans within each of its markets. Estimates and assumptions used in the determination of the impairment loss were based upon information that was known at the time, along with the future outlook.

The key assumptions used to determine recoverable amounts were as follows:

	2013	2012
Capitalization rates:		
Nursing centers	**11.8%**	12.6%
Assisted living centers	**8.5%**	8.6%
Maintenance capital expenditure per bed	**US$350**	US$300
Management fee as a % of revenue	**5.0%**	5.0%

The recoverable amount calculations used discounted pre-tax cash flow projections determined from financial projections based upon both historical and forecasted amounts on which capitalization rates were applied. The calculation was based on the following key assumptions:

- Cash flows were projected based upon historical financial performance along with the forecast impact of Medicare rate reductions in the coming year and past experience on average daily census, factoring in the historical maintenance capital expenditures and management fees.
- Capitalization rates were based on industry standards on recent transactions.

In September 2013, EHSI recognized a net pre-tax recovery of $0.1 million (US$0.1 million), consisting of a goodwill impairment of $3.7 million (US$3.6 million), an $11.9 million (US$11.5 million) impairment on certain properties and a $15.7 million (US$15.2 million) reversal of a previously recorded impairment loss on property and equipment.

In December 2013, EHSI decided to sell 11 nursing centers, and expects to complete the sale during the next 12 months. Consequently, EHSI recorded an impairment charge of $7.3 million (US$6.8 million) to reduce the net book value of the properties to fair value *(note 8)*.

As for the Canadian operations, based upon the impairment assessment we performed at the end of the year, we recognized a net pre-tax impairment loss of $0.8 million on certain properties.

According to the impairment assessment performed in 2013, a 10-basis point increase in the capitalization rate would cause a $0.1 million increase in goodwill impairment of our U.S. operations and no impairment of goodwill on our Canadian operations, assuming all other variables remained constant.

In September 2012, EHSI recognized a net pre-tax impairment loss of $0.2 million (US$0.2 million), consisting of a goodwill impairment of $1.1 million (US$1.1 million), impairment of $15.2 million (US$15.5 million) on certain properties and a $16.1 million (US$16.4 million) reversal of a previously recorded impairment loss on property and equipment (*note 10*).

In September 2012, ECI recorded an impairment loss of $2.6 million to reduce to fair value an Ontario nursing center that was subsequently closed upon completion of a new center. Also recorded was a debt settlement charge of $0.1 million related to the prepayment penalty on the mortgage for this property.

2013 – Other

In 2013, we recorded charges totalling $0.7 million on the early retirement of debt, in connection with the refinancing of the PrivateBank loans in April 2013 and the Manitoba nursing centers in August 2013 (*note 14*).

As previously disclosed in May 2013, the Board, through its strategic committee (the "Strategic Committee"), has been undertaking a review of strategic alternatives relating to a 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. Extendicare confirms that the Strategic Committee continues its work on this initiative and the Company is currently negotiating with one party towards a transaction that may involve the lease and/or sale of some or all of our U.S. assets or business. There is no certainty that a transaction will be completed in the near term, if at all. Material details will be disclosed to the public when available. The Company incurred $2.1 million in advisor fees in 2013 in connection with these activities.

Upon discontinuation of the Alberta home health care operations in August 2013, a charge of $0.2 million was incurred, mostly related to the outstanding lease payments.

During 2013, we sold three Canadian properties that had been closed following the completion of three newly built centers in the same communities: a closed Sault Ste. Marie, Ontario, nursing center (120 beds) for $1.2 million in July 2013, a closed Alberta nursing center (113 beds) for $1.4 million in October 2013, and a closed Timmins, Ontario, nursing center (119 beds) for $1.1 million in November 2013, resulting in pre-tax gains of $0.4 million, $0.4 million and $0.6 million, respectively.

2012 – Other

In May 2012, EHSI entered into an agreement to lease all 21 of its Kentucky skilled nursing centers to an experienced third-party long-term care operator based in Texas that operates through its affiliates in a number of other states (*note 9)*. As a result of this transaction, a pre-tax loss of $3.6 million (US$3.6 million) was recorded in 2012.

In July 2012, EHSI prepaid US$10.3 million of HUD-insured mortgages with a weighted average interest rate including MIP of 5.77%. EHSI recorded a $0.8 million (US$0.8 million) loss on refinancing and retirement of debt associated with this transaction.

On October 29, 2012, Extendicare recognized a debt settlement gain of $0.4 million resulting from the redemption of the outstanding aggregate principal amount of the 2013 Debentures of $91.8 million (*note 14*).

Extendicare incurred $0.9 million for transaction costs relating to the 2012 Conversion (*notes 1 and 16*).

21. FINANCE COSTS AND FINANCE INCOME

Convertible Debentures

The fair value adjustment on REIT Issued Convertible Debentures was a gain of $3.1 million for 2013, compared to $4.8 million for 2012. This related to the remeasurement of the liability at fair value at the end of each period.

Transactions between Canadian and U.S. Subsidiaries

We recorded foreign exchange losses of $0.5 million for 2013 and $1.1 million for 2012. These related primarily to the payment of dividends from U.S. subsidiaries to Canadian subsidiaries.

22. EARNINGS PER SHARE

Earnings per share presented have been calculated as if the 2012 Conversion occurred on January 1, 2012. Prior to the 2012 Conversion, the unit capital was considered to be a financial liability, which met certain criteria, allowing it to be presented as equity. As a result, the Company did not previously disclose earnings per unit as the Company did not have equity instruments as defined in IAS 33 Earnings per Share. Upon the 2012 Conversion, the Common Shares meet the definition of an equity instrument; consequently, earnings per share can be computed.

Basic earnings per share are calculated using the weighted average number of shares outstanding during the period. Diluted earnings per share, using the “if-converted” method and to the extent the conversion is dilutive, assume all convertible securities have been converted at the beginning of the period, or at the time of issuance, if later, and any charges or returns on the convertible securities, on an after-tax basis, are removed from net earnings. The after-tax interest on convertible debentures have been removed from net earnings and the weighted average number of shares has been increased by the number of shares, which would be issued on conversion of the convertible debentures, pro-rated for the number of days in the year the convertible debentures were outstanding.

The following table reconciles the numerator and denominator of the basic and diluted earnings per share computation.

	2013	2012
Numerator for Basic and Diluted Earnings per Share		
Earnings from continuing operations		
Net earnings for basic earnings per share	**5,252**	62,656
Less: gain from discontinued operations, net of tax	**-**	(35,033)
Earnings from continuing operations for basic earnings per share	**5,252**	27,623
Add: after-tax interest on convertible debt	**12,016**	10,531
Less: after-tax gain on fair value adjustment on financial instruments	**(3,099)**	(4,823)
Earnings from continuing operations for diluted earnings per share	**14,169**	33,331
Net earnings		
Net earnings for basic earnings per share	**5,252**	62,656
Add: after-tax interest on convertible debt	**12,016**	10,531
Less: after-tax gain on fair value adjustment on financial instruments	**(3,099)**	(4,823)
Net earnings for diluted earnings per share	**14,169**	68,364
Denominator for Basic and Diluted Earnings per Share		
Weighted average number of shares for basic earnings per share	**86,738,363**	85,039,470
Shares issued if all convertible debt was converted	**16,969,570**	15,380,627
Total for diluted earnings per share	**103,707,933**	100,420,097
Basic Earnings per Share *(in dollars)*		
Earnings from continuing operations	**0.06**	0.32
Earnings from discontinued operations	**-**	0.42
Net earnings	**0.06**	0.74
Diluted Earnings per Share *(in dollars)*		
Earnings from continuing operations	**0.06**	0.32
Earnings from discontinued operations	**-**	0.36
Net earnings	**0.06**	0.68

23. DISCONTINUED OPERATIONS

In January 2012, EHSI completed the sale of its GPO to Navigator Group Purchasing, a subsidiary of Managed Health Care Associates, Inc. for $56.7 million (US$56.0 million) and recorded a gain of $56.5 million (US$55.7 million), or $35.0 million after tax (US$34.5 million). GPO's operations have been reclassified as discontinued operations (*note 10*).

The following is a summary of results of all discontinued operations with prior periods re-presented accordingly.

	2012
Results from Discontinued Operations	
Other revenue	-
Operating expenses	-
Lease costs	-
Total expenses	-
Earnings before depreciation and amortization	-
Depreciation and amortization	-
Gain on asset disposals	(56,453)
Earnings before income taxes	56,453
Income tax expense	21,420
Earnings from discontinued operations	35,033
Cash Flows from Discontinued Operations	
Net cash from operating activities	693
Net cash from investing activities	56,323
Net cash from financing activities	-
Effect on cash flows	57,016

24. INCOME TAXES

Extendicare is the successor to Extendicare REIT following the 2012 Conversion (*note 1*). Extendicare REIT was a Canadian unincorporated, open-ended limited purpose trust established under the laws of the Province of Ontario by a deed of trust, and was a mutual fund trust and a specified investment flow-through (SIFT) trust for income tax purposes. The REIT was subject to the tax regime applicable to SIFT trusts (the "SIFT Rules") since January 1, 2007.

Under the SIFT Rules, an income trust that is a SIFT trust is subject to tax in respect of certain income that is distributed to its unitholders, at rates that are substantially equivalent to the general corporate tax rate applicable to Canadian corporations. Distributions from income in respect of which this tax is payable will be treated in the same manner as taxable dividends from a taxable Canadian corporation in the hands of unitholders and will be eligible for the enhanced dividend tax credit if paid to an individual resident in Canada. This distribution tax does not apply to distributions by a SIFT trust of taxable dividends received (or deemed to be received) by a SIFT trust from a Canadian corporation or income earned from non-Canadian subsidiaries. Corporate subsidiaries of the REIT were not subject to tax under the SIFT Rules but were instead subject to corporate income tax in the jurisdictions in which they operated.

Tax Recognized in Net Earnings

	2013	2012
Current Tax Expense		
Current year	**13,850**	31,924
Utilization of losses	**(6,007)**	(2,736)
Accelerated tax depreciation	**(4,225)**	(4,124)
Other prior year adjustments	**929**	1,665
	4,547	26,729
Deferred Tax Expense (Recovery)		
Origination and reversal of temporary difference	**(7,846)**	4,111
Utilization of losses	**6,007**	2,736
Accelerated tax depreciation	**4,225**	3,612
Change in statutory tax rate	**-**	805
Change in recognized deductible temporary differences	**(3,590)**	(6,001)
	(1,204)	5,263
Total tax expense	**3,343**	31,992
Tax expense from continuing operations	**3,343**	10,572
Tax expense from discontinued operations	**-**	21,420
Total tax expense	**3,343**	31,992

In respect of the 2009 income tax filings of our U.S. operations, we filed a one-time retroactive change in our U.S. tax accounting method to accelerate the tax depreciation and to expense certain previously capitalized assets that had occurred over the previous seven years. Instead of capitalizing certain expenditures, the tax accounting change expenses those that are frequently required to maintain our properties. This retroactive change is subject to review by the U.S. Internal Revenue Service (IRS).

As a result of this tax accounting change, a recovery of federal and state cash taxes of $24.9 million (US$21.8 million) was recorded in the 2009 fourth quarter, which were received through a reduction of our 2010 U.S. tax instalments. In addition, as at December 31, 2013, further recoveries totalling $15.9 million (US$15.0 million) have been recorded in the years 2010 through 2013. An equal offset to these recoveries, excluding interest, was charged to the deferred income tax provision that will be reversed over time.

Tax Recognized in Other Comprehensive Income (Loss)

	2013			2012		
	Before Tax	**Tax Recovery**	**Net of Tax**	Before Tax	Tax Recovery	Net of Tax
Foreign currency translation differences for foreign operations	**18,580**	**-**	**18,580**	(4,867)	-	(4,867)
Available-for-sale financial assets	**2,547**	**-**	**2,547**	1,190	-	1,190
Deferred benefit plan actuarial losses	**(229)**	**61**	**(168)**	(1,400)	415	(985)
	20,898	**61**	**20,959**	(5,077)	415	(4,662)

Effective Tax Rate

The major factors that caused variations from the expected combined Canadian federal and provincial statutory income tax rates were as follows**:**

	2013	2012
Earnings from continuing operations before income taxes	**8,595**	38,195
Income taxes at statutory rates of 26.5%	**2,277**	10,121
Income tax effect relating to the following items:		
Tax rate variance of foreign subsidiaries	**2,836**	2,156
Foreign exchange loss	**137**	292
Reversal of previously recognized items	**(2,286)**	(3,640)
Non-deductible items	**1,630**	2,088
Non-taxable income	**(958)**	(1,585)
Other items	**(293)**	1,140
	3,343	10,572

Summary of Operating and Capital Loss Carryforwards

At December 31, 2013, Extendicare's U.S. corporate subsidiaries had net operating loss carryforwards available for U.S. state income tax purposes of $30.4 million (US$28.6 million), which expire in the years 2015 through 2032, and had $11.6 million (US$10.9 million) of net operating loss carryforwards available for U.S. federal income tax purposes, which expire in the years 2021 through 2033. In addition, Extendicare's Canadian corporate subsidiaries had $6.9 million of net operating loss carryforwards available for Canadian federal income tax purposes, which expire in the years 2015 through 2032. To the extent that it is more likely than not that some or all of the deferred tax assets will not be realized, no deferred tax asset has been established.

At December 31, 2013, there were capital losses of $20.3 million (2012 – $21.5 million) available for Canadian income tax purposes that can be carried forward indefinitely to apply against future capital gains. No deferred tax assets have been recognized for the future tax benefit of these capital losses of $2.7 million (2012 – $2.9 million).

Net deferred tax liabilities increased in 2013 by $11.9 million to $192.4 million from $180.5 million at December 31, 2012. Management believes it is more likely than not that Extendicare's corporate subsidiaries will realize the benefits of these deductible differences.

Recognized Deferred Tax Assets and Liabilities

Net deferred tax liabilities comprise the following:

	2013	2012
Deferred tax assets	**7,531**	21,917
Deferred tax liabilities	**199,954**	202,417
Deferred tax liabilities, net	**192,423**	180,500

Deferred income taxes are provided for temporary differences between the carrying values of assets and liabilities and their respective tax values as well as available tax loss carryforwards. The significant components of deferred income tax assets and liabilities and the movement in these balances during the year were as follows:

	Balance January 1 2012	**Recognized in Net Earnings**	**Recognized in Other Comprehensive Loss**	**Other**	**Recognized in Other Comprehensive Loss re: FX**	**Balance December 31 2012**
Deferred tax liabilities						
Property and equipment	234,298	233	-	-	(4,501)	230,030
Leasehold rights	265	(265)	-	-	-	-
Other	18,416	(2,918)	-	-	(297)	15,201
	252,979	(2,950)	-	-	(4,798)	245,231
Deferred tax assets						
Self-insurance reserves	13,304	(5,116)	-	-	(260)	7,928
Employee benefit accruals	20,664	(3,897)	415	-	(252)	16,930
Operating loss carryforwards	10,897	(1,149)	-	-	70	9,818
Deferred revenue	4,443	(960)	-	-	-	3,483
Accounts receivable reserves	2,439	1,182	-	-	(59)	3,562
Decommissioning provision	8,550	608	-	-	(147)	9,011
Other	13,108	1,119	-	-	(228)	13,999
	73,405	(8,213)	415	-	(876)	64,731
Deferred tax liabilities, net	179,574	5,263	(415)	-	(3,922)	180,500

	Balance January 1 2013	**Recognized in Net Earnings**	**Recognized in Other Comprehensive Income**	**Other**	**Recognized in Other Comprehensive Income re: FX**	**Balance December 31 2013**
Deferred tax liabilities						
Property and equipment	**230,030**	**(3,713)**	**-**	**-**	**13,870**	**240,187**
Other	**15,201**	**4,743**	**-**	**1,023**	**1,281**	**22,248**
	245,231	**1,030**	**-**	**1,023**	**15,151**	**262,435**
Deferred tax assets						
Self-insurance reserves	**7,928**	**647**	**-**	**-**	**555**	**9,130**
Employee benefit accruals	**16,930**	**(78)**	**61**	**-**	**505**	**17,418**
Operating loss carryforwards	**9,818**	**(6,925)**	**-**	**-**	**71**	**2,964**
Deferred revenue	**3,483**	**(91)**	**-**	**-**	**-**	**3,392**
Accounts receivable reserves	**3,562**	**1,771**	**-**	**-**	**301**	**5,634**
Decommissioning provision	**9,011**	**1,729**	**-**	**-**	**545**	**11,285**
Other	**13,999**	**5,181**	**-**	**-**	**1,009**	**20,189**
	64,731	**2,234**	**61**	**-**	**2,986**	**70,012**
Deferred tax liabilities, net	**180,500**	**(1,204)**	**(61)**	**1,023**	**12,165**	**192,423**

25. COMMITMENTS AND CONTINGENCIES

Operating Lease Commitments

At December 31, 2013, the Company was committed under non-cancellable leases requiring future minimum rentals as follows:

	Operating Leases
2014	8,468
2015	6,757
2016	6,319
2017	5,704
2018	4,663
2019 and beyond	5,994
Total minimum payments	37,905

Property and Equipment Commitments

As at December 31, 2013, outstanding capital expenditure commitments for EHSI totalled $9.5 million (US$9.0 million), $6.4 million (US$6.0 million) of which represented a commitment entered into in August 2013 to purchase an Ohio skilled nursing center (108 beds) that is currently being leased; and those for ECI totalled $3.3 million, which related to the remaining costs on the Timmins redevelopment project (*note 9*).

Finance Lease Obligations

In June 2009, EHSI entered into an agreement with an unrelated party who constructed a 100-bed skilled nursing center in South Bend, Indiana. Effective November 2010, under the terms of the agreement, EHSI entered into a 10-year finance lease and recorded a US$12.5 million purchase of property and equipment and a US$12.5 million finance lease obligation. In December 2012, EHSI exercised its option under the agreement and purchased this center for US$13.2 million in cash, consisting of the US$12.5 million in repayment of the finance lease obligation and a US$0.7 million purchase of property and equipment (*note 14*).

In September 2009, EHSI entered into an agreement with the company controlled by the former shareholders of Tendercare, which includes a partial interest of Mr. Lukenda, our President and Chief Executive Officer, and his immediate family *(note 29)*. EHSI owns a 120-bed skilled nursing center in Lansing, Michigan. Effective January 1, 2011, under the terms of the agreement and immediately following the renovation of the center, EHSI entered into a 10-year operating lease for US$0.4 million per annum. The center was certified in March 2011, and the lease expires on January 1, 2021.

ALC Spin-Off

In connection with the distribution by Extendicare of shares of Assisted Living Concepts, Inc. (ALC) to shareholders of Extendicare in 2006, Extendicare, EHSI and ALC entered into a number of transactions and agreements including a separation agreement (the “Separation Agreement”) and a number of agreements relating to the transfer of assisted living centers from EHSI to ALC. Pursuant to the Separation Agreement, ALC has agreed to indemnify, defend and hold harmless Extendicare and certain of its related parties for identifiable losses relating to or arising from certain specified matters, including matters relating to or arising from ALC’s assisted living care business and Extendicare has agreed to indemnify, defend and hold harmless ALC and certain related parties from certain other specified matters, including matters relating to those assets and liabilities that were not transferred to ALC as part of the separation.

LTC MASTER LEASES

Both ALC and EHSI are the lessees under lease agreements with LTC Properties, Inc. (LTC) (the “LTC Master Leases”), which cover 37 assisted living properties operated solely by ALC that are not part of EHSI’s operations. LTC declined to remove EHSI as a party to the leases at the time of the distribution of ALC by Extendicare to its shareholders in 2006 and accordingly, EHSI continues to be directly liable to LTC for rent payments and other obligations owing under the LTC Master Leases, notwithstanding that EHSI does not have any financial interest in the operations of the 37 centers. The Separation Agreement entered into between Extendicare and ALC provides that ALC will indemnify EHSI against any expenses, liabilities and costs incurred by EHSI, including rent payments relating to the LTC Master Leases. The aggregate minimum rental payments for the 2013 calendar year were approximately US$11.8 million and will increase by 2% for the

2014 calendar year. The leases expire in December 2014, and in January 2014, LTC announced that it does not intend to renew the leases with ALC.

In July 2013, all of the outstanding shares of ALC were acquired by an affiliate of TPG Capital, L.P. (TPG), a global private investment firm, for cash. Management does not believe that this transaction will have an impact on either EHSI being a co-tenant under the LTC Master Leases, nor the indemnification between Extendicare and ALC provided within the Separation Agreement.

Extendicare has not recorded any potential liability for this exposure.

2006 DISTRIBUTION

In connection with the spin-off of ALC in 2006, EHSI received a note upon the transfer of ALC to its Canadian affiliate, which note was subsequently repaid by way of cash, settlement against other notes and dividends of US$476.6 million. Based upon internal calculations, management believes there was sufficient surplus and basis as to not attract any Canadian taxes from the transactions relating to the repayment of the note. Extendicare and its Canadian affiliates are currently under audit by the Canada Revenue Agency (CRA). Should the CRA determine that the available surplus was less than the amount determined by management, Canadian capital gains taxes would apply to the shortfall.

Legal Proceedings and Regulatory Actions

The provision of health care services is subject to complex federal, state and provincial laws and regulations, including laws and regulations that are intended to prevent health care fraud and abuse. Extendicare and its consolidated subsidiaries are defendants in various actions and proceedings that are brought against them from time to time in connection with their operations. Recently adopted U.S. health care reform legislation has resulted in an increase in government oversight of the long-term care industry and, as a result, long-term care providers, including Extendicare, are experiencing an increase in government surveys, investigations, audits and scrutiny of their operations. In such circumstances, Extendicare cooperates in responding to information requests and takes the necessary corrective actions. Extendicare accrues for costs that may result from investigations to the extent that an outflow of funds is probable and a reliable estimate of the amount of the associated costs can be made.

As a result of any determination that Extendicare has violated the U.S. Social Security Act or other applicable laws and regulations in connection with a government investigation or otherwise, or in connection with any settlement of an allegation of the same, Extendicare may incur significant costs, fines, civil monetary penalties, recoupments and administrative penalties (including suspension or exclusion from participation in Medicare, Medicaid and other provider programs) and suffer other sanctions. Among other things, as part of the settlement of any investigation or as a result of litigation relating to an investigation, the Company may be required to assume specific procedural and financial obligations under a corporate integrity agreement, which would typically require the Company to retain a third-party monitor and to implement various new reporting and employee training requirements, and/or other arrangement with the government. Any of these outcomes could have a material adverse effect on the business, results of operations and consolidated financial position of Extendicare.

As previously disclosed, EHSI has received subpoenas from the U.S. Department of Health and Human Services, Office of the Inspector General (OIG) relating to the submission of claims that the OIG believes may be in violation of the U.S. Social Security Act. Starting in November 2012, representatives of the OIG and the U.S. Department of Justice (DOJ) have been meeting with senior representatives of EHSI to discuss the OIG’s and DOJ’s investigations into the submission of claims that relate to the quality of care provided to residents and patients of EHSI’s skilled nursing centers and the provision of rehabilitation services. EHSI has continued to work cooperatively with the OIG and DOJ and settlement discussions between EHSI and the OIG and DOJ have been ongoing with a view to resolving the investigations on a nationwide basis. The settlement discussions include the requirement that EHSI enter into a corporate integrity agreement with the OIG, the principal terms and conditions of which have not been agreed to. If EHSI enters into a corporate integrity agreement or incurs any fines, penalties or recoupment as part of a settlement of the OIG and DOJ investigations described above, it would not be an admission by EHSI that EHSI or any of its subsidiaries provided substandard patient care or medically unnecessary rehabilitation services. As at February 26, 2014, settlement discussions between the OIG and DOJ and EHSI and its outside counsel were not sufficiently advanced for EHSI to be able to predict the possible outcomes of the investigations (or any possible related litigation if a settlement with the OIG and DOJ is not reached) and the Company is unable to reliably estimate the range or the amount of the associated costs or loss that may be incurred. Any settlement or the outcome of any related litigation could involve the payment of substantial sums and other sanctions that could have a material adverse effect on the Company's business, results of operations or consolidated financial position. EHSI believes that it is in material compliance with the U.S. Social Security Act and other applicable federal and state laws and regulations.

26. EMPLOYEE BENEFITS

Retirement compensation arrangements are maintained for certain employee groups as described below.

Defined Benefit Plans

Extendicare has pension arrangements for certain of its executives, which include a registered defined benefit pension plan, as well as a supplementary plan that provide pension benefits in excess of statutory limits. Both of these plans have been closed to new entrants for several years. The plans are exposed to various risks, including longevity risk, currency risk, interest rate risk and market risks.

The different types of defined benefit plans of the Company are listed below.

	Funded Defined Benefit Plan		**Unfunded Supplementary Defined Benefit Plan**		**Total**	
	2013	2012	**2013**	2012	**2013**	2012
Fair value of plan assets	**5,664**	5,683	**-**	-	**5,664**	5,683
Present value of obligations	**7,267**	7,648	**33,605**	33,840	**40,872**	41,488
Deficit	**(1,603)**	(1,965)	**(33,605)**	(33,840)	**(35,208)**	(35,805)

FUNDING

As required by law, the registered defined benefit pension plan benefits are funded through a trust, and the Company is responsible for meeting the statutory obligations for funding this plan. The funding requirement for past service is determined based on separate actuarial valuations for funding purposes, which are completed every three years. The most recent actuarial review was performed effective October 1, 2012, and was completed in early 2013.

The supplementary plan is unfunded and pension benefits are secured through a letter of credit that is renewed annually. We do not set aside assets for this plan and the benefit payments are funded from our cash from operations.

DEFINED BENEFIT OBLIGATIONS

	2013	2012
Present Value of Defined Benefit Obligations		
Accrued benefit obligations		
Balance at beginning of year	**41,488**	40,840
Current service cost	**156**	162
Benefits paid	**(2,851)**	(2,621)
Interest costs	**1,512**	1,587
Actuarial losses	**567**	1,520
Balance at end of year	**40,872**	41,488
Plan assets		
Fair value at beginning of year	**5,683**	5,644
Employer contributions	**87**	-
Expected return on assets	**338**	257
Actual return on plan assets	**207**	217
Benefits paid	**(651)**	(435)
Fair value at end of year	**5,664**	5,683
Defined benefit obligations	**35,208**	35,805

The expected contribution for the coming year is approximately $2.3 million.

	2013	2012
Reported in Extendicare's Statements of Financial Position		
Current accrued liabilities	**2,219**	2,186
Other long-term liabilities *(note 14)*	**32,989**	33,619
Accrued benefit liability at end of year	**35,208**	35,805

EFFECT OF CHANGES TO DEFINED BENEFIT OBLIGATIONS

	2013	2012
Expense Recognized in Net Earnings		
Annual benefit plan expense		
Current service costs	**156**	162
Interest cost	**1,305**	1,370
Plan benefit expense recognized in the year – included in operating expenses and administrative costs	**1,461**	1,532

	2013	2012
Actuarial Gains or Losses Recognized in Other Comprehensive Income (Loss)		
Amount accumulated in accumulated deficit at January 1	**(6,462)**	(5,477)
Actuarial loss arising from changes in:		
Discount rate	**3,034**	(1,115)
Mortality assumption	**(2,548)**	-
Other experience	**(1,053)**	(405)
Return on assets	**338**	121
Income tax recovery on actuarial loss	**61**	414
Amount recognized in accumulated deficit at December 31	**(6,630)**	(6,462)

PLAN ASSETS

	2013	2012
Equities	**66%**	64%
Fixed income securities	**34%**	33%
Cash and short-term investments	**—**	3%
	100%	100%

ACTUARIAL ASSUMPTIONS

	2013	2012
Discount rate for year-end accrued obligation	**4.50%**	3.75%
Discount rate for period expense	**3.75%**	4.00%
Rate of compensation increase	**2.0%**	2.0%
Income Tax Act limit increase	**3.0%**	3.0%
Average remaining service years of active employees	**4**	5

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

Extendicare determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Company considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and those that have terms to maturity approximating the terms of the related pension liability.

Changes to the following actuarial assumptions, while holding the other assumptions constant, would have affected the defined benefit obligation and related expense for 2013 by the amounts shown below.

	Increase (Decrease) in Benefit Obligation	Increase (Decrease) in Net Earnings
Discount rate:		
1% increase	(3,918)	(104)
1% decrease	4,670	150
Rate of compensation increase		
1% increase	47	(4)
1% decrease	(46)	4
Income Tax Act limit increase		
1% increase	-	-
1% decrease	-	-
Mortality rate		
10% increase	(692)	32
10% decrease	753	(37)

Defined Contribution Plans

Both Canada and the U.S. offer defined contribution plans. Canada maintains registered savings and defined contribution plans, while EHSI maintains defined contribution retirement 401(k) savings plans in the U.S. Canada matches up to 120% of the employees' contributions according to seniority, subject to a maximum based on the salary of the plan participants. Contributions expensed by Canada in 2013 and 2012 were $12.5 million and $11.9 million, respectively. EHSI pays a discretionary matching contribution. Contributions expensed by EHSI in 2013 and 2012 were US$2.7 million and US$1.5 million, respectively.

27. MANAGEMENT OF RISKS AND FINANCIAL INSTRUMENTS

a) Management of Risks

REFINANCING RISK

The 2014 Debentures mature on June 30, 2014, and require Extendicare to either repay the 2014 Debentures in full or refinance them through the capital markets. Management continues to closely monitor the financial markets and believes that the Company has the full financial capacity and ability to execute a plan to complete the refinancing. Although management has the confidence to complete the refinancing, there can be no assurance given that the Company will succeed in the refinancing of the 2014 Debentures prior to their maturity.

MANAGEMENT OF LIQUIDITY RISK

Liquidity risk is the risk that the Company will encounter difficulty in meeting its contractual obligations. We manage our liquidity risk through the use of budgets and forecasts. Cash requirements are monitored regularly based on actual financial results and actual cash flows to ensure that there are sufficient resources to meet operational requirements. We ensure that there are sufficient funds for declared and payable distributions and any other future commitments at any point in time. In addition, since there is a risk that long-term debt may not be refinanced or may not be refinanced on as favourable terms or with interest rates as favourable as those of the existing debt, we attempt to appropriately structure the timing of contractual long-term debt renewal obligations and exposures.

The following are the contractual maturities of financial liabilities, including estimated interest payments:

As at December 31, 2013	Carrying Amount	Contractual Cash Flows	Less than 1 Year	1-2 Years	2-5 Years	More than 5 Years
Convertible debentures	**235,816**	**294,910**	124,767	7,590	22,770	139,783
Line of Credit	**2,234**	**2,479**	123	2,356	-	-
HUD mortgages	**576,715**	**1,037,369**	35,070	34,990	104,559	862,750
HUD mortgages - held for sale[1]	**10,708**	**18,440**	647	646	1,930	15,217
CMHC mortgages	**175,762**	**224,827**	24,922	18,367	77,485	104,053
Non-CMHC mortgages	**95,688**	**168,501**	7,091	7,321	21,899	132,190
Finance lease obligations	**107,978**	**167,286**	13,730	12,774	36,378	104,404
Notes payable	**72**	**72**	72	-	-	-
Accounts payable and accrued liabilities	**229,389**	**229,389**	229,389	-	-	-
Accounts payable and accrued liabilities - held for sale[1]	**4,752**	**4,752**	4,752	-	-	-
	1,439,114	**2,148,025**	440,563	84,044	265,021	1,358,397

[1]These items have been classified as liabilities held for sale, and are included as part of accounts payable and accrued liabilities *(note 8)*.

As at December 31, 2012	Carrying Amount	Contractual Cash Flows	Less than 1 Year	1-2 Years	2-5 Years	More than 5 Years
Convertible debentures	**238,240**	**301,404**	14,084	124,767	22,770	139,783
Line of Credit	**8,059**	**9,328**	423	423	8,482	-
HUD mortgages	**521,576**	**960,532**	31,704	31,662	94,715	802,451
PrivateBank loans	**33,774**	**35,800**	35,800	-	-	-
CMHC mortgages	**189,209**	**243,785**	35,857	23,117	70,769	114,042
Non-CMHC mortgages	**15,533**	**16,277**	16,277	-	-	-
Finance lease obligations	**112,983**	**179,917**	12,912	13,205	37,292	116,508
Construction loans	**39,652**	**75,255**	2,408	2,980	8,946	60,921
Notes payable	**4,048**	**4,346**	4,312	34	-	-
Accounts payable and accrued liabilities	**237,909**	**237,909**	237,909	-	-	-
	1,400,983	**2,064,553**	391,686	196,188	242,974	1,233,705

The gross outflows presented above represent the contractual undiscounted cash flows.

MANAGEMENT OF CREDIT RISK

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the Company by failing to discharge its obligation. The nature and maximum exposure to credit risk as at December 31 was:

	Carrying Amount	
	2013	2012
Cash and short-term investments	**95,999**	71,398
Restricted cash *(note 14)*	**18,668**	28,680
Total receivables, net of allowance [1] *(note 6)*	**220,643**	220,913
Investments held for self-insured liabilities *(note 11)*	**118,827**	115,025
Notes, mortgages and amounts receivable *(note 11)*	**84,896**	50,037
	539,033	486,053

[1] Includes non-current portion.

Cash and Short-term Investments

The majority of our cash and short-term investments are held with highly rated financial institutions in Canada and the United States.

Restricted Cash

The restricted cash is cash held mainly for collateral and regulatory requirements with no credit risk (*note 14*).

Total Receivables, Net of Allowance

The maximum exposure to credit risk for accounts receivable at the reporting date is the carrying value of each class of receivable, denominated in the following currencies. The Company does not hold any collateral as security.

		2013			2012	
		Carrying Amount			Carrying Amount	
	U.S. Dollar	**Canadian Dollar**	**Total**	U.S. Dollar	Canadian Dollar	Total
Trade receivables	**155,973**	**17,499**	**173,472**	146,667	18,905	165,572
Retroactive rate receivables	**13,287**	**3,021**	**16,308**	23,652	2,251	25,903
Other receivables	**14,297**	**16,566**	**30,863**	17,412	12,026	29,438
	183,557	**37,086**	**220,643**	187,731	33,182	220,913

Receivables from U.S. and Canadian government agencies, which are included in accounts receivable, notes, mortgages and amounts receivable, and Medicare and Medicaid settlement receivables, represented the only concentrated group of credit risks for the Company. As at December 31, 2013, receivables from government agencies represented approximately 71% of the total receivables. Management does not believe that there is significant credit risk associated with these government agencies other than possible funding delays. Management continuously monitors reports from trade associations or notes from provincial, state or federal agencies that announce possible delays that are rare to occur and usually associated with changes of fiscal intermediaries or changes in information technology or forms.

Receivables, other than those from government agencies, consist of receivables from various payors and do not represent any concentrated credit risks to the Company. There is no significant exposure to any single party.

As at December 31, 2013, the U.S. operations (mainly EHSI) had trade receivables of $156.0 million (2012 – $146.7 million), which were fully performing and collectible in the amounts outlined above. EHSI continuously monitors the collection of all trade receivables and assesses the collectability of accounts on an individual basis in addition to the aging of the balances by payor type. The majority of balances between 90 and 365 days pertain to residents awaiting confirmation of Medicaid eligibility or those involving deferred claims with Health Maintenance Organizations (HMOs); whereas the balances over 365 days primarily involve claims against private residents that were denied HMO or Medicaid benefits. In 2013, EHSI incurred a provision for receivable impairment of $19.1 million (2012 – $18.4 million).

As at December 31, 2013, retroactive rate receivables of $13.3 million (2012 – $23.7 million) primarily pertain to reimbursable bad debt claims under the Medicare program along with rate settlements involving cost-based state Medicaid programs with retrospective systems of reimbursement.

As at December 31, 2013, ECI had trade receivables of $17.5 million (2012 – $18.9 million) which were fully performing and collectible in the amounts outlined above. ECI continuously monitors the collection of all trade receivables and assesses the collectability of accounts on an individual basis in addition to the aging of the balances by payor type. The majority of balances over 365 days involve amounts due from private individuals. ECI incurred a provision for receivable impairment of $0.6 million in each of 2013 and 2012.

The aging analysis of these trade receivables is as follows:

	2013	2012
Current	**103,316**	101,330
Between 30 and 90 days	**61,618**	48,900
Between 90 and 365 days	**25,755**	25,741
Over 365 days	**11,719**	8,053
Less: provision for receivable impairment	**(21,155)**	(18,452)
	181,253	165,572
Less: assets held for sale	**(7,781)**	-
Total	**173,472**	165,572

Movements on the Company's provision for receivable impairment are as follows:

	2013	2012
At January 1	**18,452**	16,675
Increase in provision for receivable impairment	**19,745**	18,951
Receivables written off as uncollectible	**(18,293)**	(16,827)
Other	**1,251**	(347)
At December 31	**21,155**	18,452

The increase in provision for receivables impairment has been included in operating expenses in net earnings. In general, amounts charged to the provision for impairment of trade receivables are written off when there is no expectation of recovering additional cash.

Investments for Self-insured Liabilities

The Company's investments held for self-insured liabilities include investments in corporate or government fixed-rate bonds with ratings above a rating of AAA- along with U.S. treasuries. Cash held for self-insured liabilities are with high-quality financial institutions. The Company limits the amount of exposure to any one institution.

Notes, Mortgages and Amounts Receivable

Included in notes, mortgages and amounts receivable were $66.8 million (2012 – $34.3 million) of discounted amounts receivable due from government agencies. These represent amounts funded by the Ontario government for a portion of nursing home construction costs over a 20-year or 25-year period *(note 11)*. The Company does not believe there is any credit exposure for these amounts due from government agencies.

MANAGEMENT OF CURRENCY RISK

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Company finances and secures Canadian debt on only Canadian operations and assets; and similarly, finances and secures U.S. debt on only U.S. operations and assets. Therefore, there is no currency exposure in respect of the valuation of assets and associated debt. The Company can raise capital to finance its U. S. operations through cross-border loans or an injection of capital. Intercompany advances to the U.S. operations for acquisitions or growth expenditures are subsequently repaid. Any cross-border transactions are subject to exchange fluctuations that may result in realized gains or losses as and when the balances are settled and upon the payment of interest on such loans, as well as any cross-border dividend or return of capital.

Our exposure to foreign currency risk as at December 31, 2013 and 2012, was as follows:

(in thousands of US$)	**2013**	2012
Assets		
Current assets	**275,906**	254,320
Property and equipment, goodwill and other intangibles, and other assets	**970,682**	1,051,882
Liabilities		
Current liabilities	**196,351**	225,651
Long-term debt and other liabilities	**795,363**	805,502
Net asset exposure	**254,874**	275,049

Net Earnings Sensitivity Analysis

The majority of the Company's operations are conducted in the United States, which accounted for approximately 63% of its total revenue in 2013.

Every one cent strengthening of the Canadian dollar against the U.S. dollar would impact net earnings and OCI by the amounts shown below. This analysis assumes that all other variables, in particular the interest rates, remain constant.

Unfavourable impact	**2013**	2012
Net earnings	**-**	-
Other comprehensive income	**(2,549)**	(2,750)

Cash Flow Sensitivity

All of the Company's dividends are denominated in Canadian dollars; therefore, to the extent these dividends are funded by our U.S. operations, the Company is subject to currency risk. To limit the exposure of converting the Company's U.S. cash flow into Canadian dollars, we monitor the U.S. to Canadian dollar and, should the conditions be considered favourable, implement a foreign currency hedging strategy through the purchase of FCFCs.

The Company maintains risk management control systems to monitor foreign currency cash flow risk attributable to its outstanding or forecasted debt obligations as well as its offsetting hedge positions. We do not enter into financial instruments for trading or speculative purposes.

MANAGEMENT OF INTEREST RATE RISK

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company assesses interest rate risk by continuously identifying and monitoring changes in interest rates that may adversely impact expected future cash flows and by evaluating hedging opportunities. The Company maintains risk management control systems to monitor interest rate risk attributable to its outstanding or forecasted debt obligations as well as its offsetting hedge positions.

In order to meet its monthly dividends, the Company has limited the amount of debt that may be subject to changes in interest rates. As at December 31, 2013, 99.8% of our outstanding long-term debt was at fixed rates and $2.2 million of long-term debt was subject to interest rate fluctuations. We do not enter into financial instruments for trading or speculative purposes.

The interest rate profile of our interest-bearing financial instruments at December 31, 2013 and 2012, was as follows:

	Carrying Amount	
	2013	2012
Fixed-rate instruments:		
Investments held for self-insured liabilities [1]	**81,964**	97,108
Less: long-term debt [2]	**1,192,031**	1,121,241
long-term debt - held for sale [2] *(note 8)*	**10,708**	-
Net liability in fixed-rate instruments	**1,120,775**	1,024,133
Variable-rate instruments:		
Long-term debt [2]	**2,234**	41,833
Total liability in variable-rate instruments	**2,234**	41,833

[1] Excludes variable-rate instruments.

[2] Includes current portion and excludes netting of financing costs.

Fair Value Sensitivity Analysis for Fixed-rate Instruments

We do not designate interest rate derivatives as hedging instruments under a fair-value hedge accounting model; therefore, changes in interest rates would not affect net earnings with respect to these fixed-rate instruments. As at December 31, 2013, there were no fixed-rate instruments designated as held for trading; therefore, changes in interest rates will not have any impact on net earnings for these instruments.

Fair Value Sensitivity Analysis for Variable-rate Instruments

All long-term debt with variable rates are classified as other financial liabilities, which are measured at amortized cost using the effective interest method of amortization; therefore, changes in interest rates would not affect OCI with respect to variable-rate debt.

Cash Flow Sensitivity Analysis for Variable-rate Instruments

A change of 100 basis points in interest rates would have increased or decreased net earnings by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

Favourable (unfavourable) impact		**2013**		2012
	100bp Increase	**100bp Decrease**	100bp Increase	100bp Decrease
Net earnings	**(15)**	**15**	**(353)**	**353**

b) Fair Values of Financial Instruments

As at December 31, 2013	**Loans and Receivables**	**Available for Sale**	**Designated at Fair Value**	**Other Financial Liabilities**	**Total Carrying Amount**	**Fair Value**
Financial assets:						
Cash and short-term investments	**95,999**	**-**	**-**	**-**	**95,999**	**96,005**
Restricted cash	**18,668**	**-**	**-**	**-**	**18,668**	**18,668**
Invested assets(1)	**442**	**-**	**-**	**-**	**442**	**442**
Trade and other receivables	**216,608**	**-**	**-**	**-**	**216,608**	**215,999**
Notes, mortgages and amounts receivable(2)	**88,931**	**-**	**-**	**-**	**88,931**	**94,402**
Investments held for self-insured liabilities	**-**	**118,827**	**-**	**-**	**118,827**	**118,827**
	420,648	**118,827**	**-**	**-**	**539,475**	**544,343**
Financial liabilities:						
Accounts payable	**-**	**-**	**-**	**31,030**	**31,030**	**31,030**
Long-term debt excluding convertible debentures(2)(3)	**-**	**-**	**-**	**958,449**	**958,449**	**954,568**
Convertible debentures	**-**	**-**	**114,226**	**121,590**	**235,816**	**241,991**
	-	**-**	**114,226**	**1,111,069**	**1,225,295**	**1,227,589**

(1) Included in other current assets.

(2) Includes current portion.

(3) Excludes financing costs.

As at December 31, 2012	Loans and Receivables	Available for Sale	Designated at Fair Value	Other Financial Liabilities	Total Carrying Amount	Fair Value
Financial assets:						
Cash and short-term investments	71,398	-	-	-	71,398	71,398
Restricted cash	28,680	-	-	-	28,680	28,680
Invested assets(1)	458				458	458
Trade and other receivables	217,989	-	-	-	217,989	217,480
Notes, mortgages and amounts receivable(2)	52,961	-	-	-	52,961	59,079
Investments held for self-insured liabilities	-	115,025			115,025	115,025
	371,486	115,025	-	-	486,511	492,120
Financial liabilities:						
Accounts payable	-	-	-	35,508	35,508	35,508
Long-term debt excluding convertible debentures(2)(3)	-	-	-	924,834	924,834	988,917
Convertible debentures	-	-	117,325	120,915	238,240	247,620
	-	-	117,325	1,081,257	1,198,582	1,272,045

(1) Included in other current assets.

(2) Includes current portion.

(3) Excludes financing costs.

BASIS FOR DETERMINING FAIR VALUES

The following summarizes the significant methods and assumptions used in estimating the fair values of financial instruments reflected in the previous table.

Fair values for investments designated as available for sale are based on quoted market prices.

Items designated as loans and receivables include cash, accounts receivable as well as notes, mortgages and amounts receivable. Accounts receivable, including other long-term receivables, are recorded at amortized cost. The carrying values of accounts receivable approximate fair values due to their short-term maturities, with the exception of certain settlement receivables from third-party payors that are anticipated to be collected beyond one year. The fair values of these settlement receivables are estimated based on discounted cash flows at current borrowing rates. Notes, mortgages and amounts receivable primarily consist of notes and amounts receivable from government agencies, and other third-party notes. The fair values for these instruments are based on the amount of future cash flows associated with each instrument, discounted using current applicable rates for similar instruments of comparable maturity and credit quality. The fair values of convertible debentures are based on the closing price of the publicly traded convertible debentures on each reporting date, and the fair values of mortgages and other debt are estimated based on discounted future cash flows using discount rates that reflect current market conditions for instruments with similar terms and risks.

FAIR VALUE HIERARCHY

We use a fair value hierarchy to categorize the type of valuation techniques from which fair values are derived. Our use of quoted market prices (Level 1), internal models using observable market information as inputs (Level 2) and internal models without observable market information as inputs (Level 3) for the following financial instruments recorded at fair value were as follows:

As at December 31, 2013	**Level 1**	**Level 2**	**Level 3**	**Total**
Available-for-sale securities	118,827	-	-	118,827
Financial liabilities designated at fair value through profit or loss	-	114,226	-	114,226

As at December 31, 2012	Level 1	Level 2	Level 3	Total
Available-for-sale securities	115,025	-	-	115,025
Financial liabilities designated at fair value through profit or loss	-	117,325	-	117,325

28. CAPITAL MANAGEMENT

The Company's objective is to preserve a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. We seek to balance the need for maintaining an attractive payout ratio while preserving adequate capital to grow the business by acquisition or internal growth. There were no changes in the Company's approach to capital management during the year.

The Company must access the capital markets periodically to fund acquisitions, growth capital expenditures and certain other expenditures. We monitor the capital markets to assess the conditions for raising capital and the cost of such capital relative to the return on any acquisitions or growth capital projects. Funds raised in the capital markets that are not deployed in acquisitions or growth projects are held in high-quality investments with surplus cash held in secure institutions. We manage our cash position and prepare monthly cash flow projections over the remaining and future fiscal period, and we continuously monitor the level, nature and maturity dates of debt and level of leverage and interest coverage ratios to ensure our compliance with debt covenants. We provide information to the Board on a regular basis in order to carefully evaluate any significant cash flow decisions.

Economic Environment

The global and U.S. economy has had an indirect impact on the long-term care industry since the 2008 downturn due to the unprecedented loss of jobs in the U.S., reduction of health care benefits along with the loss of disposable income for elective health care services. As a result, there has been a reduction in admissions to our U.S. nursing centers and a concerted effort by federal, provincial and state governments to restrain or reduce funding of health programs. In response to the economic environment, Extendicare has undertaken several courses of action to minimize risks and maintain liquidity, including:

- reducing growth projects along with divestiture of underperforming assets and non-core businesses;
- implementing significant cost reduction initiatives;
- refinancing a significant portion of long-term debt with low-cost government-insured mortgages;
- monitoring cash usage; and
- maintaining solid banking relationships.

For the near term, there are no indications that the economy and economic risks affecting the industry are improving. Therefore, Extendicare plans to continue to monitor and implement steps to address these challenges. Below is a summary of the past and future uncertainties and significant risks that could have a material impact on Extendicare and its subsidiaries.

STATE, PROVINCIAL AND FEDERAL FUNDING AND REGULATORY PRESSURE

Reductions in Medicaid, Medicare and provincial funding for long-term care due to the economic downturn could have a material adverse effect on our earnings. Our business is highly labour intensive, with labour costs representing approximately 73% of our consolidated operating costs for 2013 and 2012. As a result of resident care needs and regulatory requirements, we have limited ability to reduce or manage our labour costs. In addition, any escalation of regulatory pressure by CMS, state or provincial level government agencies could have a negative impact on our operating costs and thereby reduce our earnings.

A number of states in which we operate have faced severe budgetary shortfalls, resulting in reductions in Medicaid funding or increases at rates below inflation. The temporary increase in funding for state Medicaid programs, through the federal medical assistance percentage, or FMAP funding increase, ended on June 30, 2011. As a result, a number of states are facing considerable financial pressures that could result in future Medicaid rate reductions, despite some economic improvement in certain regions.

Effective October 1, 2011, CMS implemented reductions in Medicare funding to skilled nursing centers, along with other changes. We have taken measures to help mitigate the adverse effect of the elimination of group therapy and the assessment process changes, such as employing more therapists and improving productivity. In addition, EHSI took action to reduce operational and corporate office staff and realize savings in supplies, drugs, and third-party service arrangements with vendors, the majority of which were implemented by October 1, 2011, and the balance by the beginning of 2012. None of these cost saving measures involved a reduction of direct care staffing at our centers.

Normal Course Issuer Bid

On July 5, 2012, Extendicare received approval of the TSX for the Bid *(note 16)*. There were no purchases for cancellation made under a similar normal course issuer bid that expired on January 10, 2012.

Capital Structure

The Company defines its capital structure to include long-term debt, net of cash and short-term investments, and share/unit capital.

	2013	2012
Current portion of long-term debt [1]	**148,051**	93,448
Long-term debt [1]	**1,016,785**	1,038,787
Total debt	**1,164,836**	1,132,235
Less: cash and short-term investments	**(95,999)**	(71,398)
Net debt	**1,068,837**	1,060,837
Share capital	**476,480**	467,463
	1,545,317	1,528,300

[1] Net of financing costs.

Dividends

The declaration and payment of future distributions is at the discretion of our Board and will be dependent upon a number of factors including results of operations, requirements for capital expenditures and working capital, future financial prospects of Extendicare, debt covenants and obligations, and any other factors deemed relevant by the Board. If our Board determines that it would be in Extendicare's best interests, it may reduce, for any period, the amount and frequency of dividends to be distributed to holders of Common Shares.

Financial Covenants

EHSI is subject to external financial covenant requirements pursuant to the EHSI Credit Facility on the level of debt to earnings and cash flow of its operations; and ECI is also subject to external requirements for certain of its loans on the level of debt to cash flow of its operations *(note 14)*. Management and the Board monitor these covenant ratios on a monthly and quarterly basis, respectively. The Company was in compliance with all these covenants as at December 31, 2013.

29. RELATED PARTY TRANSACTIONS

a) Transactions with Key Management Personnel

Tim Lukenda, Extendicare's President and Chief Executive Officer, is the former President of Tendercare (Michigan) Inc. (Tendercare), a company acquired by EHSI in 2007, in which Mr. Lukenda owned an approximate 4.6% direct and indirect interest. Mr. Lukenda's employment contract provides a mechanism and process that effectively removes him from the decision-making process in situations where a conflict of interest may arise on any matter between the Company and his previous employer, or with respect to any financial interest that Mr. Lukenda or his family have with the Company.

In connection with the purchase of Tendercare, the acquired working capital was subject to annual adjustments over a four-year period. The final working capital adjustment was paid in the third quarter of 2012, bringing EHSI's total payments to US$5.5 million.

In 2008, ECI acquired LTC Professional Insurance Company, Ltd., Tendercare's affiliated insurance company, for a nominal amount. Consideration for the acquisition was adjusted for annually based upon the actuarial liabilities determined at the end of each year through to 2012. The final adjusting payment of US$0.5 million was made in March 2013, bringing the total adjustments to US$5.6 million.

In July 2013, ECI sold one of its closed centers for $1.2 million to a company owned by members of Mr. Lukenda's family, of which Mr. Lukenda owns an approximate 7.1% direct and indirect interest.

In addition, with respect to other long-term care centers that are partly owned by Mr. Lukenda and his immediate family, ECI provides certain management services to a long-term care center in Ontario, Canada, and prior to April 2013, ECI operated under lease arrangements, a second long-term care center in Ontario. In addition, EHSI operates under lease arrangements, a skilled nursing center in Michigan, and until August 2013, EHSI provided certain management services to an assisted living center in Michigan.

b) Compensation of Key Management Personnel

The remuneration of directors and other key management personnel of the Company during the years ended December 31, 2013 and 2012, was as follows:

	2013	2012
Short-term benefits	**4,040**	4,257
Post-employment benefits	**221**	213
Share appreciation rights	**(26)**	(77)
	4,235	4,393

30. SEGMENTED INFORMATION

The Company has two reportable operating segments: United States operations and Canadian operations. These operations are managed independently of each other because of their geographic areas and regulatory environments. Each operation retains its own management team and is responsible for compiling its own financial information.

Through its subsidiaries, Extendicare operates long-term care centers in the United States and Canada. Also offered in the United States are medical specialty services, such as post-acute care and rehabilitative therapy services, as well as health technology services, while home health care services are provided in Canada.

Intersegment adjustments in the following tables reflect the reversal of intercompany amounts that are eliminated prior to the preparation of the Company’s consolidated financial statements.

	United States	**Canada**	**Eliminations**	**Total**
Total Assets				
2013	1,325,870	525,424	(2,206)	1,849,088
2012	1,299,540	508,571	(195)	1,807,916
Total Liabilities				
2013	1,054,825	758,603	(2,206)	1,811,222
2012	1,027,261	726,190	(195)	1,753,256
Total Capital Expenditures				
2013	28,485	28,500	-	56,985
2012	31,930	53,046	-	84,976

				2013
	United States	**Canada**	**Eliminations**	**Total**
CONTINUING OPERATIONS				
Revenue				
Nursing and assisted living centers	**1,216,569**	**568,870**	**-**	**1,785,439**
Home health care	**-**	**174,087**	**-**	**174,087**
Health technology services	**22,348**	**-**	**-**	**22,348**
Outpatient therapy	**13,360**	**-**	**-**	**13,360**
Rent, management, consulting and other services	**19,227**	**10,004**	**-**	**29,231**
Total revenue	**1,271,504**	**752,961**	**-**	**2,024,465**
Operating expenses	**1,137,620**	**655,748**	**-**	**1,793,368**
Administrative costs	**43,500**	**20,758**	**-**	**64,258**
Lease costs	**6,599**	**4,497**	**-**	**11,096**
Total expenses	**1,187,719**	**681,003**	**-**	**1,868,722**
Earnings before depreciation, amortization, loss from asset impairment, disposals and other items	**83,785**	**71,958**	**-**	**155,743**
Depreciation and amortization	**59,395**	**18,534**	**-**	**77,929**
Loss from asset impairment, disposals and other items	**7,678**	**1,963**	**-**	**9,641**
Earnings before net finance costs and income taxes	**16,712**	**51,461**	**-**	**68,173**
Interest expense	**29,004**	**34,412**	**-**	**63,416**
Accretion of decommissioning provisions	**1,474**	**349**	**-**	**1,823**
Other accretion	**883**	**674**	**-**	**1,557**
Loss on foreign exchange and financial instruments	**-**	**519**	**-**	**519**
Finance costs	**31,361**	**35,954**	**-**	**67,315**
Interest revenue	**467**	**4,171**	**-**	**4,638**
Fair value adjustments	**-**	**3,099**	**-**	**3,099**
Finance income	**467**	**7,270**	**-**	**7,737**
Net finance costs	**30,894**	**28,684**	**-**	**59,578**
Earnings (loss) before income taxes	**(14,182)**	**22,777**	**-**	**8,595**
Income tax expense (recovery)				
Current	**3,295**	**1,252**	**-**	**4,547**
Deferred	**(6,311)**	**5,107**	**-**	**(1,204)**
Total income tax expense	**(3,016)**	**6,359**	**-**	**3,343**
Net earnings (loss)	**(11,166)**	**16,418**	**-**	**5,252**

				2012
	United States	Canada	Eliminations	Total
CONTINUING OPERATIONS				
Revenue				
Nursing and assisted living centers	1,259,858	550,302	-	1,810,160
Home health care	-	170,343	-	170,343
Health technology services	25,453	-	-	25,453
Outpatient therapy	13,229	-	-	13,229
Rent, management, consulting and other services	9,912	8,316	-	18,228
Total revenue	1,308,452	728,961	-	2,037,413
Operating expenses	1,147,034	632,985	-	1,780,019
Administrative costs	43,923	19,232	-	63,155
Lease costs	6,465	4,521	-	10,986
Total expenses	1,197,422	656,738	-	1,854,160
Earnings before depreciation, amortization, loss from asset impairment, disposals and other items	111,030	72,223	-	183,253
Depreciation and amortization	58,414	18,391	-	76,805
Loss from asset impairment, disposals and other items	4,656	3,274	-	7,930
Earnings before net finance costs and income taxes	47,960	50,558	-	98,518
Interest expense	32,598	32,708	-	65,306
Accretion of decommissioning provisions	1,334	360	-	1,694
Other accretion	427	181	-	608
Loss on foreign exchange and financial instruments	-	1,103	-	1,103
Finance costs	34,359	34,352	-	68,711
Interest revenue	402	3,163	-	3,565
Fair value adjustments	-	4,823	-	4,823
Finance income	402	7,986	-	8,388
Net finance costs	33,957	26,366	-	60,323
Earnings before income taxes	14,003	24,192	-	38,195
Income tax expense				
Current	2,913	2,265	-	5,178
Deferred	3,171	2,223	-	5,394
Total income tax expense	6,084	4,488	-	10,572
Earnings from continuing operations	7,919	19,704	-	27,623
DISCONTINUED OPERATIONS				
Earnings from discontinued operations, net of income taxes	35,033	-	-	35,033
Net earnings	42,952	19,704	-	62,656

31. SIGNIFICANT SUBSIDIARIES

The following is a list of the significant subsidiaries as at December 31, 2013, all of which are 100% directly or indirectly owned by the Company.

	Jurisdiction of Incorportion
Extendicare (Canada) Inc.	Canada
Extendicare Health Services, Inc.	Delaware
Extendicare Health Facilities, Inc.	Wisconsin
Extendicare Homes, Inc.	Delaware
Fir Lane Terrace Convalescent Center, Inc.	Washington
Indiana Health and Rehabilitation Centers Partnership	Delaware
Laurier Indemnity Company, Ltd.	Bermuda
Marshall Properties Inc.	Indiana
Northern Health Facilities, Inc.	Delaware
Tendercare (Michigan) Inc.	Michigan