

Extendicare Enters into Definitive Agreement to Sell its U.S. Business Strategic Review Conclusion Will Crystallize Significant Value for Shareholders

MARKHAM, ONTARIO – Extendicare Inc. (“Extendicare” or the “Company”) (TSX: EXE) announced today that the Company and its subsidiary, Extendicare International Inc., have entered into a definitive share purchase agreement to sell substantially all of the Company's U.S. business (the “Transaction”) to a group of investors led by Formation Capital, LLC, a healthcare-focused private investment firm, and an affiliate of Safanad Inc., a global principal investment firm (the “Purchaser”) for US\$870 million (C\$992 million at the current exchange rate). Separate from the Transaction, Extendicare has also retained rights for future upside from rent sharing above specified thresholds on certain facilities to be leased as well as proceeds from the sale of ten centers not included in this transaction.

“After an extensive strategic review process, and months of negotiating and deal structuring, we are pleased to have reached an agreement to sell our U.S. business,” said Tim Lukenda, President and CEO of Extendicare. “The purchase price reflects an attractive EBITDA multiple and will crystallize value for Extendicare shareholders.”

“This transaction realizes our stated objective of separating our U.S. and Canadian businesses, Lukenda continued. “Importantly, this transaction generates substantial cash proceeds that accelerate our vision to further grow our Canadian business and expand our service offering.”

Details of the Transaction

The purchase price will be partially settled through the assumption by the Purchaser of approximately US\$635 million of mortgage loans and other indebtedness relating to the U.S. business. An additional US\$30 million of indebtedness will be repaid at closing. After accounting for tax, working capital and other closing adjustments, the Company expects to receive net cash proceeds from the Transaction of approximately US\$222 million (C\$253 million at the current exchange rate), which is expected to close in the second quarter of 2015. The Company intends to use the proceeds from the sale to expand and grow its continuing Canadian operations.

The purchase price of US\$870 million represents a multiple of 8.8 times trailing twelve months normalized EBITDA of US\$99 million from the U.S. business, which excludes strengthening of prior period reserves for self-insured liabilities. In addition to the cash purchase price of the Transaction, Extendicare will retain an interest in an ongoing cash stream of approximately US\$6 million per year, net of upfront costs, for 15 years, plus the potential for profit sharing on certain leased centers.

As at September 30, 2014, Extendicare’s U.S. senior care portfolio was composed of: 141 owned and operated senior care centers; four centers operated under lease arrangements; ten centers operated under managed contracts; and 21 centers in Kentucky leased to a third-party operator.

Extendicare will retain ten of the U.S. skilled nursing centers, which will continue to be held for sale, and will retain its indirect wholly owned subsidiary, Virtual Care Provider, Inc., which provides a range of information technology solutions to long-term care providers, and its wholly owned Bermuda-based captive Laurier Indemnity Company, Ltd., which insures its U.S. general and professional liability risks (the “Retained Assets”).

The Transaction will be completed by the transfer to the Purchaser of all of the issued and outstanding shares of Extendicare Holdings, Inc., a subsidiary of the Company that indirectly holds all of the shares of the Extendicare subsidiaries that own and operate the U.S. business. Completion of the Transaction is subject to receiving certain U.S. state licensure approvals, lender and other third party consents and other customary conditions.

The following table reflects the approximate revenue, net operating income, Adjusted EBITDA and AFFO of the U.S. business (excluding the Retained Assets), and includes Extendicare’s consolidated expense for self-insured resident care liabilities, which includes strengthening of prior period reserves. The operations to be disposed of under the Transaction will be accounted for as discontinued operations beginning in the fourth quarter of 2014.

<i>(US\$ millions)</i>	Trailing Twelve Months Ended September 30, 2014	Nine Months Ended September 30, 2014	Twelve Months Ended December 31, 2013
Revenue	1,155.7	868.9	1,152.4
Net operating income ^{(1) (2)}	129.4	105.9	128.9
Adjusted EBITDA ⁽²⁾	83.4	73.0	83.1
Adjusted funds from operations ⁽²⁾	30.3	28.5	37.3
(1) Includes self-insured liabilities expense of:	51.8	31.5	52.9
(2) Refer to discussion of non-GAAP measures			

Guggenheim Securities acted as financial advisor, and Bennett Jones LLP acted as legal advisor to the Board of Directors and its Strategic Committee in connection with the Transaction.

BofA Merrill Lynch and Desjardins Capital Markets acted as financial advisors, and Skadden, Arps, Slate, Meagher & Flom, LLP and Goodmans LLP acted as legal advisors to Formation Capital.

ABOUT EXTENDICARE

Extendicare is a leading North American provider of post-acute and long-term senior care services. Through our network of owned and operated health care centers, our qualified and experienced workforce of 35,900 individuals is dedicated to helping people live better through a commitment to quality service that includes skilled nursing care, rehabilitative therapies and home health care services. Our 259 senior care centers in North America have capacity to care for approximately 28,400 residents.

ABOUT FORMATION CAPITAL INC.

Formation Capital, LLC is a leading private investment management firm focused on equity and debt healthcare investment opportunities. Since 1999, Formation Capital and its investors have invested over US\$5.5 billion of capital in seniors housing and care, post-acute services and health care real estate. For more information regarding Formation Capital, visit www.formationcapital.com.

ABOUT SAFANAD LIMITED

Safanad is a global principal investment firm that invests in real estate, private equity and public markets. As principal investors, Safanad preserves and grows wealth through carefully selected investments with aligned industry partners. With offices in New York, Dubai, London and Geneva, the firm seeks to identify global investment opportunities poised to deliver consistently attractive returns, where the firm's capital and investment expertise support value creation. Safanad's investment focus is primarily within the healthcare, education, financial services and retail sectors. For more information visit: www.safanad.com.

Non-GAAP Measures

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

Forward-looking Statements

Information provided by Extendicare from time to time, including this release, contains or may contain forward-looking statements concerning anticipated financial events, results, circumstances, economic performance or expectations with respect to Extendicare and its subsidiaries, including, without limitation, statements regarding: the Company's expected net cash proceeds from the transaction; the expected timing of the closing of the Transaction; the Company's intention with respect to the use of proceeds from the Transaction; the Company's interest in ongoing cash stream for 15 years; its business operations, business strategy, and financial condition. Forward-looking statements can be identified because they generally contain the words "will", "expect", "intend", "anticipate", "believe", "estimate", "project", "plan" or "objective" or other similar expressions or the negative thereof. Forward-looking statements reflect management's beliefs and assumptions and are based on information currently available, and Extendicare assumes no obligation to update or revise any forward-looking statement, except as required by applicable securities laws. These statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements of Extendicare to differ materially from those expressed or implied in the statements, including, without limitation: the Company's and the Purchaser's ability to close the transaction in the time period anticipated, if at all, which is dependent upon the parties' ability to comply with the closing conditions to the transactions, some of which are beyond the control of the parties; the Purchaser's ability to obtain financing for the transaction; the approval of the transaction by State regulators; certain termination rights of the parties under the share purchase agreement; purchase price adjustments and indemnification rights under the share purchase agreement that could reduce the net cash proceeds to the Company; and other risks relating to the business and industry of the Company that are detailed from time to time in the Company's filings with the Canadian provincial securities regulators. Given these risks and uncertainties, readers are cautioned not to place undue reliance on Extendicare's forward-looking statements. Further information can be found in the disclosure documents filed by Extendicare with the securities regulatory authorities, available at www.sedar.com and on Extendicare's website at www.extendicare.com.

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