

Extendicare Announces 2016 First Quarter Results

MARKHAM, ONTARIO – May 12, 2016 – Extendicare Inc. (“Extendicare” or the “Company”) (TSX: EXE) today reported results for the first quarter ended March 31, 2016. Results are presented in Canadian dollars unless otherwise noted.

Financial and Operational Highlights

- Financial results comparison over 2015 first quarter (*from continuing operations unless otherwise noted*):
 - Revenue of \$262.4 million, up \$60.2 million or 29.8%; same-store growth of 4.4%.
 - Long-term care revenue of \$148.8 million, up \$5.3 million or 3.7%.
 - Retirement living revenue of \$3.3 million from recent acquisitions.
 - Home health care revenue of \$97.6 million, up \$52.0 million or 113.9%, primarily from acquisition.
 - Net operating income of \$28.1 million, up \$2.3 million or 8.8%.
 - Adjusted EBITDA of \$16.5 million, up \$0.3 million, representing 6.3% of revenue.
 - AFFO from continuing operations was \$12.2 million (\$0.139 per basic share), compared to \$7.1 million (\$0.081 per basic share).
- Dividends declared of \$10.6 million in the 2016 first quarter, representing approximately 86% of AFFO of \$12.2 million for the same period.

“The first quarter reflects the start of the repositioning that we are undertaking to rebalance our business across the continuum of care,” stated Tim Lukenda, President and CEO. “We will be focused on delivering strong results from our core operations and new acquisitions over the balance of the year in addition to executing on our growth strategies in each of our operating segments.”

Conference Call and Webcast

On May 13, 2016, at 10:00 a.m. (ET), we will hold a conference call to discuss our 2016 first quarter. The call will be webcast live and archived on our website at www.extendicare.com under the “Our Investors/Events & Presentations” section. Alternatively, the call-in number is 1-866-696-5910 or 416-340-2217, followed by the passcode 9279343#. A replay of the call will be available until midnight on May 27, 2016. To access the rebroadcast, dial 1-800-408-3053 or 905-694-9451, followed by the passcode 6734935#. Slides accompanying remarks during the call will be posted to our website as part of the live webcast.

Selected Financial Information

The following is a summary of selected financial information for the three months ended March 31, 2016 and 2015.

	Three months ended March 31	
	2016	2015
<i>(thousands of dollars, unless otherwise noted)</i>		
CONTINUING OPERATIONS		
Revenue		
Long-term care	148,760	143,479
Retirement living	3,351	–
Home health care	97,616	45,627
Health technology services	8,049	9,444
Management, consulting and other	4,657	3,669
Total revenue	262,433	202,219
Operating expenses	234,352	176,404
Net operating income (NOI) ⁽¹⁾	28,081	25,815
<i>NOI margin ⁽¹⁾</i>	<i>10.7%</i>	<i>12.8%</i>
Administrative costs	9,671	8,300
Lease costs	1,885	1,328
Adjusted EBITDA ⁽¹⁾	16,525	16,187
<i>Adjusted EBITDA margin ⁽¹⁾</i>	<i>6.3%</i>	<i>8.0%</i>
AFFO (continuing operations) ⁽¹⁾	12,235	7,091
per basic share (\$)	0.139	0.081
per diluted share (\$)	0.137	0.081
AFFO ⁽¹⁾	12,235	21,843
per basic share (\$)	0.139	0.248
per diluted share (\$)	0.137	0.234
Maintenance capex (continuing operations)	1,150	839
Cash dividends declared per share	0.120	0.120
Payout ratio ^{(1) (2)}	86%	48%
Weighted average number of shares (thousands)		
Basic	88,057	88,003
Diluted	99,302	99,247

(1) NOI, NOI margin, Adjusted EBITDA, Adjusted EBITDA margin, AFFO, AFFO per share and “payout ratio” are measures used by management in evaluating operating performance. Please refer to the cautionary statements under the heading “Non-GAAP Measures” in this press release. Detailed descriptions of these terms can be found in the Company’s disclosure documents, including its Management’s Discussion and Analysis, filed with the securities regulatory authorities; these documents are available at www.sedar.com and on Extendicare’s website at www.extendicare.com.

(2) Payout ratio is calculated using dividends declared per share divided by the basic AFFO per share for the respective periods.

2016 First Quarter Summary

Consolidated net operating income from continuing operations improved by \$2.3 million, or 8.8%, to \$28.1 million in the 2016 first quarter compared to \$25.8 million in the same 2015 period, representing 10.7% and 12.8% of revenue, respectively. On a same-store basis, excluding the acquisition of a home health care business and six retirement communities, net operating income declined by \$1.5 million to \$24.3 million, representing 11.5% of revenue this quarter compared to 12.8% in the same 2015 period. Same-store net operating income from our Canadian operations improved by \$0.4 million this quarter prior to the impact of the timing of the Easter holiday, which increased labour costs by approximately

\$1.1 million; as in 2015 this statutory holiday occurred in the second quarter. The \$0.4 million improvement primarily resulted from increased business volumes in our home health care, management services, and group purchasing operations, and higher preferred accommodation revenue, partially offset by the timing of recognition of funding to match costs under the Ontario envelope system. The net operating income of our U.S. continuing operations declined by \$0.8 million, which was largely driven by a reduction in clients served by our information technology hosting subsidiary that was not sold as part of the sale of our U.S. operations in 2015.

Consolidated Adjusted EBITDA was relatively unchanged at \$16.5 million this quarter compared to \$16.2 million in the same 2015 period, representing 6.3% and 8.0% of revenue, respectively. The increase of \$0.3 million in Adjusted EBITDA, reflected growth in net operating income of \$2.3 million, partially offset by an increase in administrative and lease costs. Higher administrative and lease costs included an increase in share appreciation rights of \$0.5 million, lease costs of \$0.5 million from the new home health care acquisition, increased labour costs and professional fees in support of services related to the sold operations, recent acquisitions, an executive compensation review and the implementation of a new long-term incentive plan.

AFFO from continuing operations improved by \$5.1 million to \$12.2 million this quarter reflecting the improvement in Adjusted EBITDA of \$0.3 million, income support on the retirement acquisitions of \$1.2 million, lower net finance costs of \$2.3 million, an increase in government capital funding of \$1.0 million due to retroactive funding on two redeveloped long-term care centers, and lower current income taxes of \$0.3 million. Net finance costs included \$1.9 million of interest income realized this quarter in connection with deferred consideration from the disposed U.S. operations.

Financial Position

As at March 31, 2016, Extencicare's consolidated cash on hand totalled \$42.5 million, of which \$32.5 million was held by our Canadian operations, and \$10.0 million was held by our U.S. continuing operations.

In May 2016, we secured construction financing on the first two retirement projects under development at 65% of the estimated costs, and similar financing arrangements are anticipated for the third project. The anticipated cost to develop these retirement communities of approximately \$81 million, of which approximately \$10.7 million has been spent to date, includes all amounts through the lease-up period until stabilized NOI is achieved, as well as an implied cost of capital.

In addition, the Company has acquired six unleveraged retirement communities since October 2015, for approximately \$139 million. The purchase price for these acquisitions was paid for in cash with an intention to finance up to 65% as stabilized occupancy is achieved.

Our long-term debt totalled \$449.4 million as at March 31, 2016 (December 31, 2015 – \$454.1 million), representing approximately 39% of our gross book value, including convertible debentures. The weighted average interest rate of our long-term debt was 5.5% as at March 31, 2016, with a weighted average term to maturity of 8.8 years.

Our consolidated interest coverage ratio for the trailing twelve months ended March 31, 2016, was 4.1 times, and was 4.6 times after excluding bridge loan finance costs incurred in 2015 in connection with the acquisition of the home health care business. Interest coverage is defined as Adjusted EBITDA divided by net interest, which represents interest expense, with capitalized interest added back, net of interest revenue.

Extencicare's financial statements, including its Management's Discussion and Analysis are available on our website at www.extencicare.com under the "Our Investors/Financial Reports" section. Also, a

supplemental information package containing historical quarterly financial results and operating statistics and a list of our senior care centres can be found on the website under the same section.

May 2016 Dividend Declared

The Board of Directors of Extencicare today declared a cash dividend of \$0.04 per share for the month of May 2016, which is payable on June 15, 2016, to shareholders of record at the close of business on May 31, 2016. This dividend is designated as an “eligible dividend” within the meaning of the Income Tax Act (Canada).

ABOUT EXTENDICARE

Extencicare is a leading provider of care and services for seniors throughout Canada. Through our network of 118 operated senior care and living centres (64 owned/54 managed), as well as our home health care operations, we are committed to delivering care throughout the health care continuum to meet the needs of a growing seniors’ population in Canada. Our qualified and highly trained workforce of 23,300 individuals is dedicated to helping people live better through a commitment to quality service and a passion for what we do.

Non-GAAP Measures

Extencicare assesses and measures operating results and financial position based on performance measures referred to as “net operating income”, “NOI”, “NOI margin”, “Adjusted EBITDA”, “Adjusted EBITDA margin”, “AFFO”, “AFFO per share”, and “payout ratio”. 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 Extencicare to make cash distributions; or (ii) certain ongoing rights and obligations of Extencicare 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 Extencicare’s disclosure documents, including its Management’s Discussion and Analysis, filed with the securities regulatory authorities; these documents are available at www.sedar.com and on Extencicare’s website at www.extencicare.com.

Forward-looking Statements

Information provided by Extencicare 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 Extencicare and its subsidiaries, including, without limitation, statements regarding its business operations, business strategy, and financial condition. Forward-looking statements can be identified because they generally contain the words “expect”, “intend”, “anticipate”, “believe”, “estimate”, “project”, “plan” or “objective” or other similar expressions or the negative thereof. Forward-looking statements reflect management’s beliefs and assumptions and are based on information currently available, and Extencicare 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 Extencicare to differ materially from those expressed or implied in the statements. Given these risks and uncertainties, readers are cautioned not to place undue reliance on Extencicare’s forward-looking statements. Further information can be found in the disclosure documents filed by Extencicare with the securities regulatory authorities, available at www.sedar.com and on Extencicare’s website at www.extencicare.com.

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