

Extendicare REIT Announces 2010 Second Quarter Results *Growth in Revenue, EBITDA and AFFO*

MARKHAM, ONTARIO – Extendicare Real Estate Investment Trust (“Extendicare REIT” or the “REIT”) (TSX: EXE.UN) today reported results for the second quarter and six months ended June 30, 2010.

HIGHLIGHTS

- Revenue of \$514.4 million in Q2 2010, an increase of 2.8% over Q2 2009, exclusive of the impact of foreign exchange.
- EBITDA of \$69.6 million in Q2 2010, an increase of 6.7% over Q2 2009, exclusive of the impact of foreign exchange, mainly due to growth from same-facility operations in both the U.S. and Canada.
- EBITDA margins improved to 13.5% in Q2 2010 from 13.2% in Q2 2009 and 11.7% in Q1 2010.
- Average daily revenue rate for Medicare Part A grew by 0.7% in Q2 2010 over Q2 2009 despite a 1.1% rate reduction on October 1, 2009, while the average daily Managed Care rate declined by 0.5% from Q2 2009.
- AFFO from continuing operations of \$35.3 million (\$0.431 per basic unit) in Q2 2010, an increase of \$10.8 million over Q2 2009, exclusive of the impact of foreign exchange.
- Distributions in the first half of 2010 totalled \$34.0 million, or \$0.42 per unit, representing approximately 57% of AFFO from continuing operations for the same period.
- Cash distribution of \$0.07 per unit declared for the month of August 2010.
- Cash on hand totalled \$252.5 million at June 30, 2010.

“Extendicare REIT delivered strong results in the second quarter of 2010, recording steady improvements in revenue, EBITDA and AFFO over the same period in 2009,” said Tim Lukenda, President and CEO. “Our EBITDA margin grew this quarter to 13.5% from 11.7% in the first quarter of 2010, consistent to prior year trends. These solid results, along with the stabilization of our Skilled Mix during the period and our strong cash position, are reflective of the REIT’s prudent business plan and our ongoing focus on cost management.

“Despite the uncertainty created by numerous external factors, including the implementation of health care reform initiatives in the U.S., continuing economic weakness and signs of a delayed recovery, and growing regulatory oversight, the REIT continues to achieve stable results and maintain solid capital resources. Our five new Canadian centers continue to progress toward completion, and we look forward to celebrating the opening of the Red Deer facility in September. As we enter the second half of 2010, we remain well positioned to take advantage of opportunities for continued growth and navigate future challenges while supporting the ongoing success of our business.”

2010 SECOND QUARTER FINANCIAL REVIEW

2010 Second Quarter Comparison to 2009 Second Quarter

Revenue grew by \$15.4 million, or 2.8%, exclusive of the negative impact of the stronger Canadian dollar. Approximately \$10.4 million of the increase was due to growth in same-facility operations of 1.9% quarter over quarter as a result of funding improvements, including approximately \$3.1 million due to prior period funding settlements, partially offset by lower U.S. census levels. However, the stronger Canadian dollar offset the underlying improvement in revenue, resulting in an overall decline of \$32.2 million in revenue to \$514.4 million in the 2010 second quarter from \$546.6 million in the 2009 second quarter.

EBITDA grew by \$4.8 million, or 6.7%, exclusive of the negative impact of the stronger Canadian dollar, and as a percent of revenue improved to 13.5% from 13.2% in the 2009 second quarter. Growth from same-facility operations in both the U.S. and Canadian operations contributed \$4.0 million to the improvement, including the \$3.1 million of prior period funding settlements. Despite these improvements, the negative impact of the stronger Canadian dollar resulted in an overall decline of \$2.4 million in EBITDA to \$69.6 million in the 2010 second quarter from \$72.0 million in the 2009 second quarter.

TABLE 1	Q2	Q2	Q1
<i>(millions of dollars unless otherwise noted)</i>	2010	2009	2010
Revenue			
U.S. operations (US\$)	340.9	331.3	335.0
U.S. operations (C\$)	350.5	386.5	348.4
Canadian operations	163.9	160.1	160.4
Total Revenue	514.4	546.6	508.8
EBITDA ⁽¹⁾			
U.S. operations (US\$)	49.9	48.2	42.2
U.S. operations (C\$)	51.4	56.5	43.9
Canadian operations	18.2	15.5	15.9
Total EBITDA	69.6	72.0	59.8
EBITDA margin	13.5%	13.2%	11.7%
Average US/Canadian dollar exchange rate	1.0277	1.1672	1.0400
⁽¹⁾ Refer to discussion of non-GAAP measures.			

EBITDA from U.S. operations improved by US\$1.7 million, or 3.5%, to US\$49.9 million in the 2010 second quarter from US\$48.2 million in the 2009 second quarter, and as a percent of revenue grew to 14.7% from 14.6%. Newly built centers contributed US\$0.6 million to the improvement. Same-facility operations improved by US\$1.1 million and benefited from the following: US\$1.6 million of prior period funding settlements; improved Resource Utilization Groupings (RUGs) mix; and higher Medicaid and private-pay revenue rates, partially offset by lower census. Despite a 1.1% reduction in Medicare Part A rates effective October 1, 2009, our average Medicare Part A rate improved by 0.7% over the 2009 second quarter due to the change in mix of patients served.

EBITDA from Canadian operations improved by \$2.7 million to \$18.2 million this quarter from \$15.5 million in the 2009 second quarter, and as a percent of revenue was 11.1% and 9.7%, respectively. During the 2010 second quarter, we received one-time funding of \$1.2 million from the Alberta government to offset operating costs incurred from April 1, 2009 to March 31, 2010 to implement changes in government regulations.

2010 Second Quarter Comparison to 2010 First Quarter

In comparison to the 2010 first quarter, revenue this quarter improved by \$5.6 million, or 1.1%, and exclusive of the negative impact of the stronger Canadian dollar, revenue improved by \$9.7 million, or 1.9%. The 2010 second quarter results included prior period funding settlements of approximately \$3.7 million compared to \$3.3 million in the first quarter, for a net \$0.4 million increase and newly built centers contributed \$0.9 million to the quarter-over-quarter increase. The remaining \$8.4 million improvement was primarily due to one extra day between quarters and funding improvements, partially offset by lower U.S. census.

Our total same-facility U.S. census level this quarter reflected a seasonal decline from the 2010 first quarter of 118 average daily census (ADC). However, contrary to past seasonal trends where total and Medicare census decline from the first to the second quarter, our same-facility Medicare and Skilled Mix census increased this quarter by 16 and 4 ADC, respectively, and the percentage of Medicare and Skilled Mix census increased from 16.5% to 16.7%, and from 22.3% to 22.4%, respectively.

Revenue from U.S. operations increased by US\$5.9 million from the 2010 first quarter, of which US\$0.9 million was from new centers. Revenue from same-facility operations improved by US\$5.0 million primarily due to: prior period funding settlements of US\$1.3 million (US\$2.4 million in the second quarter compared to US\$1.1 million in the first quarter); one extra day in the quarter (approximately US\$3.4 million); a 0.8% weighted average increase in rates (approximately US\$1.6 million); and an increase in Medicare census (approximately US\$0.7 million), partially offset by a decline in remaining census levels (approximately US\$2.3 million).

Revenue from Canadian operations increased by \$3.5 million this quarter from the 2010 first quarter, and excluding lower prior period funding settlements of \$0.9 million, revenue increased by \$4.4 million between quarters. Excluding the receipt of \$1.2 million of Alberta prior period funding received this quarter, revenue from nursing home operations improved by \$3.2 million primarily due to April 1st funding improvements and the extra day in the quarter. Excluding \$2.1 million of retroactive funding received in the first quarter, home health care revenue improved by \$0.9 million due primarily to the extra day in the quarter and improved rates. Other revenue improved by \$0.3 million.

EBITDA improved by \$9.8 million between the 2010 second and 2010 first quarters, and exclusive of the stronger Canadian dollar, EBITDA improved by \$10.4 million, or 17.4%. EBITDA as a percent of revenue grew to 13.5% from 11.7% in the 2010 first quarter. Improvements in EBITDA were realized from both the U.S. and Canadian operations, as discussed in further detail below.

EBITDA from U.S. operations this quarter improved by US\$7.7 million, or 18.2%, and as a percent of revenue was 14.7% compared to 12.6% in the 2010 first quarter. New facilities contributed US\$0.3 million to the improvement in EBITDA, with growth from same-facility operations of 17.6% contributing US\$7.4 million. The revenue improvements of US\$5.0 million discussed above were further enhanced by a seasonal decline in utility costs of US\$1.6 million and a reduction in other operating expenses of US\$0.8 million.

EBITDA from Canadian operations improved by \$2.3 million to \$18.2 million in the 2010 second quarter from \$15.9 million in the 2010 first quarter, primarily due to a seasonal decline in utility costs of \$1.3 million, funding improvements and the additional day this quarter.

2010 Second Quarter Earnings from Continuing Operations

Earnings from continuing operations in the 2010 second quarter were \$14.0 million (\$0.17 per diluted unit) compared to \$29.5 million (\$0.40 per diluted unit) in the 2009 second quarter. The 2010 second quarter reflected an after-tax loss on our derivative financial instruments and foreign exchange items of \$5.4 million (pre-tax \$4.5 million) compared to a gain of \$11.7 million (pre-tax \$12.4 million) in the same 2009 period. The after-tax amounts of these derivative and foreign exchange amounts are greater than the pre-tax amounts because a portion of the items relate to foreign exchange gains or losses of a non-taxable entity. As well, the 2010 second quarter results included an after-tax impairment charge of \$1.7 million (pre-tax \$2.6 million), reflecting a decline in the fair value of two Canadian nursing homes below their carrying amounts as determined by recent appraisals and an impairment charge on a previously closed U.S. center.

TABLE 2 Components of Earnings from Continuing Operations ⁽¹⁾	Three months ended June 30			
	2010		2009	
	After -tax	Per diluted unit	After -tax	Per diluted unit
<i>(thousands of dollars except per unit amounts)</i>				
Continuing Operations before Undernoted ⁽¹⁾				
U.S. operations (US\$)	14,728		13,790	
U.S. operations (C\$)	15,169		16,339	
Canadian operations	5,887		1,891	
	21,056	\$0.26	18,230	\$0.25
Gain (loss) on derivative financial instruments and foreign exchange	(5,422)	(0.07)	11,688	0.15
Loss from asset impairment, disposals and other items	(1,656)	(0.02)	(380)	–
Earnings from continuing operations	13,978	\$0.17	29,538	\$0.40

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

Earnings from continuing operations prior to separately reported items, as outlined in Table 2 above, improved by \$2.9 million to \$21.1 million (\$0.26 per diluted unit) in the 2010 second quarter from \$18.2 million (\$0.25 per diluted unit) in the 2009 second quarter. Excluding a \$2.2 million negative impact of the stronger Canadian dollar, earnings improved by \$5.1 million primarily due to the previously discussed improvement in EBITDA and a lower effective income tax rate. Our 2010 second quarter effective tax rate on earnings prior to separately reported items was 35.8% compared to 42.1% in the 2009 second quarter. The 2010 second quarter income tax provision was favourably impacted by a \$1.0 million book-to-file adjustment for the Canadian operations. The 2009 second quarter income tax provision was at a higher effective rate primarily due to an increase in non-deductible expenses.

2010 SIX MONTH FINANCIAL REVIEW

Revenue grew by \$27.5 million, or 2.5%, exclusive of the negative impact of the stronger Canadian dollar. Approximately \$18.3 million of the increase was due to growth in same-facility operations of 1.6% as a result of funding improvements, including approximately \$3.5 million due to prior period funding settlements, partially offset by lower U.S. census levels. However, the stronger Canadian dollar offset the underlying improvement in revenue, resulting in an overall decline of \$89.0 million to \$1,023.2 million in the first half of 2010 from \$1,112.2 million in the first half of 2009 as a result of the negative impact of the stronger Canadian dollar.

EBITDA grew by \$9.7 million, or 7.2%, exclusive of the negative impact of the stronger Canadian dollar, and as a percent of revenue improved to 12.7% from 12.2% in the first half of 2009. Growth from same-facility operations in both the U.S. and Canadian operations contributed \$8.8 million to the improvement, including the \$3.5 million of prior period funding settlements. Despite these improvements, the negative impact of the stronger Canadian dollar resulted in an overall decline of \$6.2 million in EBITDA to \$129.4 million in the first half of 2010 from \$135.6 million in the first half of 2009.

TABLE 3 <i>(millions of dollars unless otherwise noted)</i>	Six months ended June 30	
	2010	2009
Revenue		
U.S. operations (US\$)	675.9	662.6
U.S. operations (C\$)	698.9	799.2
Canadian operations	324.3	313.0
Total Revenue	1,023.2	1,112.2
EBITDA ⁽¹⁾		
U.S. operations (US\$)	92.1	89.1
U.S. operations (C\$)	95.3	107.5
Canadian operations	34.1	28.1
Total EBITDA	129.4	135.6
EBITDA margin	12.7%	12.2%
Average US/Canadian dollar exchange rate	1.0338	1.2062
⁽¹⁾ Refer to discussion of non-GAAP measures.		

EBITDA from U.S. operations improved by US\$3.0 million, or 3.4%, to US\$92.1 million in the first half of 2010 from US\$89.1 million in the first half of 2009, and as a percent of revenue grew to 13.6% from 13.4%. Newly built centers contributed US\$0.7 million to the improvement. Same-facility operations improved by US\$2.3 million and benefited from the following: US\$0.4 million of prior period funding settlements (US\$2.5 million in 2010 compared to US\$2.1 million in 2009); improved RUGs mix, Medicaid and private-pay revenue rates, improved collection of accounts receivable that reduced bad debt provisions, and cost controls, partially offset by lower census. Despite a 1.1% reduction in Medicare Part A rates effective October 1, 2009, our average Medicare Part A rate improved by 1.4% over the first half of 2009 due to the change in mix of patients served.

EBITDA from Canadian operations improved by \$6.0 million to \$34.1 million in the first six months of 2010 from \$28.1 million in the first half of 2009, and as a percent of revenue was 10.5% and 9.0%, respectively. Prior period funding settlements received in the first half of 2010 accounted for \$3.0 million of the improvement. The remaining improvement of \$3.0 million was primarily due to funding enhancements net of increased field staff labour costs.

2010 Six Months Earnings from Continuing Operations

Earnings from continuing operations in the first half of 2010 were \$29.1 million (\$0.36 per diluted unit) compared to \$33.3 million (\$0.45 per diluted unit) in the first half of 2009 quarter. The 2010 results reflected an after-tax loss on our derivative financial instruments and foreign exchange items of \$1.5 million (pre-tax \$1.3 million) compared to a gain of \$6.4 million (pre-tax \$7.4 million) in the same 2009 period. As well, the 2010 results included an after-tax impairment charge of \$1.7 million (pre-tax \$2.6 million), reflecting a decline in the fair value of two Canadian nursing homes below their carrying amounts as determined by recent appraisals and an impairment charge on a previously closed U.S. center.

Earnings from continuing operations prior to separately reported items, as outlined in Table 4 below, improved by \$5.2 million (\$0.03 per diluted unit) to \$32.3 million (\$0.40 per diluted unit) in the first half of 2010 from \$27.1 million (\$0.37 per diluted unit) in the first half of 2009. Excluding a \$4.1 million negative impact of the stronger Canadian dollar, earnings improved by \$9.3 million primarily due to the previously discussed improvement in EBITDA and a lower effective income tax rate. Our effective tax rate on earnings prior to separately reported items was 40.5% in the first half of 2010 compared to 48.4% in the first half of 2009. The 2009 income tax provision was at a higher effective rate primarily due to an increase in non-deductible expenses and change in state income tax rules.

TABLE 4 Components of Earnings from Continuing Operations ⁽¹⁾	Six months ended June 30			
	2010		2009	
	After	Per	After	Per
	-tax	diluted	-tax	diluted
		unit		unit
<i>(thousands of dollars except per unit amounts)</i>				
Continuing Operations before Undernoted ⁽¹⁾				
U.S. operations (US\$)	24,163		21,090	
U.S. operations (C\$)	24,978		25,439	
Canadian operations	7,279		1,683	
	32,257	\$0.40	27,122	\$0.37
Gain (loss) on derivative financial instruments and foreign exchange	(1,467)	(0.02)	6,443	0.08
Loss from asset impairment, disposals and other items	(1,656)	(0.02)	(209)	–
Earnings from continuing operations	29,134	\$0.36	33,356	\$0.45

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

ADJUSTED FUNDS FROM OPERATIONS (AFFO)

AFFO from continuing operations this quarter and for the first half of 2010 has improved over the comparative 2009 periods and sequentially from the first quarter of 2010, due to the improvements in EBITDA, excluding the impact of foreign exchange as previously discussed. In addition, our 2010 AFFO results for the first half of the year were favourably impacted by lower facility maintenance spending in comparison to the first half of 2009, due to timing, as well as by lower current income taxes, as described below.

Our effective current tax rates on funds from continuing operations were 35.6% in the 2010 first quarter, 25.9% in the 2010 second quarter and 30.0% for the first six months of 2010. In comparison to the respective 2009 periods, these rates were 35.0%, 36.6% and 35.9%, respectively. The 2010 second quarter rate of 25.9% reflected year-to-date adjustments to timing differences from that estimated in the 2010 first quarter. As previously indicated, we anticipate that our normal annual effective rate on funds from continuing operations would be in the range of 29% to 33%, with quarterly fluctuations due to estimates of timing differences and mix of earnings between jurisdictions.

AFFO from continuing operations improved to \$35.3 million (\$0.431 per basic unit) in the 2010 second quarter from \$28.2 million (\$0.388 per basic unit) in the 2009 second quarter. Excluding a \$3.7 million negative impact of the stronger Canadian dollar, AFFO from continuing operations improved by \$10.8 million between quarters.

In comparison to the 2010 first quarter, AFFO from continuing operations improved by \$11.0 million this quarter from \$24.3 million (\$0.312 per basic unit).

For the first six months of 2010, AFFO from continuing operations improved by \$8.1 million to \$59.6 million (\$0.743 per basic unit) from \$51.5 million (\$0.706 per basic unit) in the same 2009 period, and exclusive of the impact of the stronger Canadian dollar, AFFO from continuing operations improved by \$16.2 million, or 31.5%.

Facility maintenance capital expenditures were \$5.2 million in the 2010 second quarter and \$9.8 million for the first half of 2010, each representing 1.0% of revenue. In comparison to 2009, these costs were \$7.9 million in the 2009 second quarter and \$15.2 million for the first half of 2009, each representing 1.4% of revenue. These costs fluctuate on a quarterly basis with the timing of projects and seasonality. It is our intention to expend between 1.5% and 2.0% of revenue annually, which is consistent with our objective to maintain and upgrade our centers. We are expecting to spend approximately \$35.0 million in facility maintenance capital expenditures and approximately \$55.0 million in growth capital expenditures in 2010.

Distributions declared in the first half of 2010 totalled \$34.0 million, or \$0.42 per unit, representing approximately 57% of AFFO from continuing operations of \$59.6 million, compared to a payout ratio of approximately 59% in the same 2009 period.

U.S. OPERATIONS KEY METRICS

Skilled Nursing Facility Revenue Rates

The average daily Medicare Part A rate for our wholly owned U.S. subsidiary, Extencicare Health Services, Inc. (EHSI), grew by 0.7% to US\$457.74 in the 2010 second quarter from US\$454.38 in the 2009 second quarter, despite a 1.1% reduction in rates effective October 1, 2009.

Our percentage of Medicare patients in the nine highest RUGs classifications increased to 44.9% this quarter from 41.5% in the 2009 second quarter, as well as increasing from 43.6% in the 2010 first quarter. In addition, we experienced an increase in the percentage of Medicare patients receiving therapy services to 91.1% this quarter from 89.1% in the 2009 second quarter.

EHSI's average daily Managed Care rate, excluding prior period settlement adjustments, declined by 0.5% to US\$415.60 this quarter from US\$417.72 in the 2009 second quarter. However, in comparison to the 2010 first quarter, the Managed Care rate increased by 1.4%. The changes in our average Managed Care rates reflect the type of client served during the quarter. As previously disclosed, we've experienced a decrease in our Managed Care rates from 2009 due to the termination by managed care organizations of a number of private fee-for-service Medicare Advantage plans that paid above-average rates to EHSI. Residents in those plans transferred either to other managed care plans, which in some cases have lower per diem rates, or to Medicare Part A, which generally pays higher per diem rates depending on the nature of the services provided.

Our average daily Medicaid rate, excluding prior period settlement adjustments, increased by 4.5% in the 2010 second quarter to US\$179.79 from US\$172.06 in the 2009 second quarter, as well as increasing by 0.9% from US\$178.25 in the 2010 first quarter. The impact of the higher Medicaid rates this quarter improved revenue by US\$7.5 million over the 2009 second quarter. However, approximately half of this improvement was offset by higher state provider taxes of approximately US\$3.4 million.

Total and Skilled Census

Our same-facility ADC of 14,009 for the 2010 second quarter was 181 below the 2009 second quarter level of 14,190, with a decline of 93, 50 and 43 in private, Medicaid and Medicare ADC, respectively, partially offset by an increase in Managed Care ADC of 5. We continue to be adversely impacted by the global economic downturn that has reduced disposable income of individuals and resulted in a general restraint by the public on health care spending. As we have previously noted, we have implemented a number of short and longer term tactics to reverse this decline in 2010. Our plan involves taking a more strategic approach to identifying and meeting the program and service needs of each community in which we are located.

In comparison to the 2010 first quarter ADC of 14,127, our same-facility ADC this quarter declined by 118, of which Medicaid accounted for 117 of the decline. This decline in total same-facility census from the first to the second quarter is consistent to prior years.

Contrary to past seasonal trends, our same-facility Medicare ADC increased by 16 this quarter from the 2010 first quarter, and the percentage mix of Medicare census to total increased from 16.5% to 16.7% this quarter. Notwithstanding the seasonal trends, it is our hope that these results signal the bottoming out of the census levels from which we can build through the efforts of our marketing plan.

Our Skilled Mix of residents on a same-facility basis remained stable at 22.4% this quarter in comparison to the 2009 second quarter and improved slightly from 22.3% in the 2010 first quarter. In terms of the performance of our continuing operations, which includes newly built centers, our Skilled Mix of residents improved to 22.9% this quarter from 22.4% in the 2009 second quarter, as well as increasing from 22.6% in the 2010 first quarter, reflecting the success with our new centers.

U.S. HEALTH CARE REFORM, MEDICARE AND MEDICAID UPDATE

As previously announced, the U.S. President signed into law the Patient Protection and Affordable Care Act (the "Act") in March 2010, which contained several sweeping changes to America's health insurance system. With respect to its impact on the long-term care industry, the Act proposes, among other things, reductions to Medicare Part A rates beginning in October 2011 over 10 years, adjustments to Medicare reimbursements methodologies in the adoption of MDS 3.0 and RUG-IV, and new employee health insurance requirements. The productivity adjustment to skilled nursing home rates that begins in October 2011 is estimated to reduce rates by 1%, or US\$5.0 million per year, prior to any market basket increase.

With respect to the new employee health insurance requirements imposed by the Act on all employers in the U.S., while the more significant aspects of this mandate are not effective until 2014, several provisions will impact EHSI beginning in January 2011. While it is difficult to quantify the financial impact of the new requirements, we believe the cost in providing employee health care coverage could increase beginning in 2011 by as much as US\$2.0 million to US\$3.0 million, net of mitigation strategies.

In July 2010, the Centers for Medicare & Medicaid Services (CMS) issued its final rule for payments to Medicare skilled nursing centers, resulting in a net increase in Medicare Part A rates of 1.7% effective October 1, 2010. This represents a market basket increase of 2.3% partially offset by a forecasting error adjustment of 0.6%. Our preliminary estimates indicate that this net rate increase of 1.7% would increase our Medicare revenue by approximately US\$6.8 million per annum.

In addition, CMS' final rule confirmed the implementation of MDS 3.0 on October 1, 2010, and certain elements of RUG-IV, including the elimination of concurrent therapy and the look-back period. CMS has stated that these initiatives are intended to be budget neutral. Based on our mix of patients, we anticipate that there could be an adverse impact on our average Medicare per diem rates, which could eliminate the benefit of the October 1, 2010, rate increase of 1.7%.

On June 25, 2010, CMS posted a proposed rule for the 2011 Medicare Physician Fee Schedules. This rule, which is subject to comment and amendments before its proposed implementation on January 1, 2011, would reduce our Part B inpatient and outpatient therapy billings by approximately 12% through the application of a multiple procedure payment reduction policy. Though we continue to evaluate the impact of this proposed rule, our initial estimate indicates that our outpatient therapy revenue would be reduced by US\$4.0 million, after consideration to the multiple rate increases that were received and planned to be received during 2010. The proposed rule also offers three alternatives to the current cap on Part B therapy services that expire on December 31, 2010. EHSI has estimated that therapy revenue could decline by US\$12.0 million should the exemption of the therapy cap not be extended, assuming such services are not otherwise requested by the patients and before reduction of wage costs.

With respect to Medicaid funding, based upon information we currently have, and given the uncertainty of the extension of the temporary increase in federal Medicaid matching funds beyond December 31, 2010, we do not anticipate an increase in our average Medicaid rates, net of provider taxes, for the state fiscal 2010/2011 years.

Extendicare REIT is accustomed to evolving health care funding methodologies, and believes it is well-prepared to mitigate the impact of these and future changes. Our constant and active review process will ensure our ability to execute the appropriate measures when required.

UPDATE ON STATUS OF U.S. REFINANCING

As previously announced, EHSI plans to refinance a significant portion of its debt that matures in 2011 and 2012 with mortgages insured by the U.S. Department of Housing and Urban Development (HUD). As a large portfolio corporate entity, the first significant step in this process was to receive approval of HUD in Washington for the overall scope of our planned refinancing. This approval was received in July 2010. Consequently, we may proceed with our applications, subject to an overall limit of US\$550.0 million of planned and existing HUD insured financing. Currently, EHSI has US\$36.6 million in HUD insured mortgages, and therefore has the ability to seek up to US\$513.4 million in additional HUD financing.

We expect to complete the refinancing in several phases between now and 2012. In March 2010, we refinanced two centers for US\$11.7 million as a test case. By the end of August 2010, we will have completed the submission of 19 HUD applications for centers in Michigan and Wisconsin for approximately US\$115.0 million. Upon refinancing of the Michigan properties, EHSI will repay in full its Sovereign Term Loan due in June 2011. The remaining phases of the refinancing will retire EHSI's commercial mortgage backed securitization debt prior to its maturity in November 2011 and March 2012.

OTHER RECENT DEVELOPMENTS

In July 2010, we secured a 10-year mortgage at 4.57% that is insured through the Canada Mortgage and Housing Corporation (CMHC) long-term financing program for the Red Deer project. The new financing will replace the existing construction loan in September 2010. The loan is anticipated to be approximately \$28.6 million (inclusive of CMHC fees), with monthly payments based on a 35-year amortization.

As previously disclosed in 2009, EHSI entered into an agreement to sell six of its skilled nursing facilities in Michigan (667 beds), which have been reclassified to discontinued operations. The sale of four of these centers closed on August 5, 2010, for total cash consideration of US\$15.9 million. Another center is under contract to be sold in the 2010 third quarter for US\$5.5 million. As well, the purchaser has the option to acquire the sixth center over the next year, for total consideration of US\$4.1 million.

As previously announced in April 2010, EHSI has received subpoenas from the U.S. Department of Health and Human Services (DHHS) relating to an investigation into the possible submission of claims that may be in violation of the U.S. Social Security Act, covering a period from January 1, 2007, to January 1, 2010. There have been no new developments in this matter, and we continue to provide DHHS with the documentation requested.

We believe that we are in material compliance with the reimbursement and other rules of participation in the Medicare and Medicaid programs, and continue to cooperate fully with the DHHS by gathering and submitting the requested information. Adequate internal and external resources have been put into place to ensure that there is no disruption of the care and services within our nursing and assisted living centers. While the timing and outcome of the investigation are uncertain and difficult to predict at this time, we hope for an early resolution of the investigation and will update the market as and when appropriate. We believe this investigation is indicative of the current political and regulatory health care environment in the U.S.

AUGUST 2010 DISTRIBUTION DECLARED

The Board of Trustees of the REIT today declared a cash distribution of \$0.07 per unit for the month of August 2010, which is payable to unitholders of record at the close of business on August 31, 2010, and will be paid on September 15, 2010.

Extendicare Limited Partnership (the "Partnership") also announced that it has declared a cash distribution of \$0.07 per Class B limited partnership unit for the month of August 2010, which is payable to unitholders of record at the close of business on August 31, 2010, and will be paid on September 15, 2010.

ABOUT US

Extendicare REIT is a leading North American provider of long-term and short-term senior care services through its network of owned and operated health care centers. We employ 37,800 qualified and experienced individuals dedicated to helping people live better through a commitment to quality service that includes post-acute care, rehabilitative therapies and home health care services. Our 263 senior care centers in North America have capacity for approximately 29,200 residents.

Extendicare REIT is a specified investment flow-through trust (SIFT) that has been subject to the SIFT tax since January 1, 2007.

CONFERENCE CALL AND WEBCAST

On August 6, 2010, at 10:00 a.m. (ET), we will hold a conference call to discuss our results for the 2010 second quarter. The call will be webcast live and archived in the investors/presentations & webcasts section of our website at www.extendicare.com. Alternatively, the call-in number is 1-888-789-9572 or 416-695-7806, conference ID number 7354234#. A replay of the call will be available until midnight on August 20, 2010. To access the rebroadcast, dial 1-800-408-3053 or 416-695-5800, followed by the passcode 3683111#. Slides accompanying remarks during the call will be posted to our website as part of

the live webcast. Also, a supplemental information package containing historical quarterly financial results and operating statistics can be found on the website under the investors/financial reports section.

REVISED BASIS OF PRESENTATION

Certain figures have been revised to conform with the presentation in 2010, mainly for the reclassification of non-reimbursable bad debts from operating expense to a contra-revenue account. Over the past several years, an increasing number of states have decided to refrain from reimbursing providers for the resident's co-payment portion of Medicare Part B therapy services provided to Medicaid residents who do not have the resources to pay for the services themselves. This was most recently the case in the State of Ohio. As a result, EHSI has reclassified its non-reimbursable Medicare Part B bad debt expense from operating expense to net with revenue, beginning in 2010. The impact of this reclassification in the first half of 2010 and 2009 and for the 2009 year was to reduce revenue and operating expense from continuing operations by \$3.2 million (US\$3.1 million), \$2.7 million (US\$2.2 million) and \$5.6 million (US\$4.9 million), respectively.

Non-GAAP Measures

Extendicare REIT assesses and measures operating results and financial position based on performance measures referred to as "EBITDA", "continuing health care operations before undernoted", "continuing operations before undernoted", "Distributable Income", "Funds from Operations", "Adjusted Funds from Operations" and "Adjusted Gross Book Value". 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 the REIT to make cash distributions; or (ii) certain ongoing rights and obligations of the REIT 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 operations, net earnings (loss) for the period, cash flow, or other measures of financial performance and liquidity reported in accordance with Canadian GAAP. Reconciliations of these non-GAAP measures from net earnings and/or from cash provided by operations, where applicable, are provided in this press release. Detailed descriptions of these terms can be found in the disclosure documents filed by Extendicare REIT with the securities regulatory authorities, available at www.sedar.com and on the REIT's website at www.extendicare.com.

Forward-looking Statements

Information provided by Extendicare REIT 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 the REIT and its subsidiaries, including 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 the REIT 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 the REIT 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 the REIT's forward-looking statements. Further information can be found in the disclosure documents filed by Extendicare REIT with the securities regulatory authorities, available at www.sedar.com and on the REIT's website at www.extendicare.com.

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Visit Extendicare's Website @ www.extendicare.com

EXTENDICARE REIT
Condensed Consolidated Earnings

(thousands of Canadian dollars except per unit amounts)	Three months ended		Six months ended	
	June 30		June 30	
	2010	2009	2010	2009
Revenue				
Nursing and assisted living centers				
United States	337,596	371,990	673,719	769,099
Canada	122,959	118,860	241,543	233,244
Home health – Canada	38,362	38,819	77,891	74,823
Health technology services – United States	4,139	4,794	8,285	10,245
Outpatient therapy – United States	3,758	3,505	6,694	7,236
Other	7,557	8,631	15,073	17,593
	514,371	546,599	1,023,205	1,112,240
Operating expenses	424,567	452,589	853,863	931,659
Administrative costs	17,505	18,917	34,484	38,836
Lease costs	2,612	3,097	5,420	6,191
EBITDA ⁽¹⁾	69,687	71,996	129,438	135,554
Depreciation and amortization	15,785	16,350	31,479	33,709
Accretion of asset retirement obligations	393	416	793	853
Interest expense	22,800	24,479	45,994	50,316
Interest income	(2,074)	(709)	(3,002)	(1,851)
Loss (gain) on derivative financial instruments and foreign exchange	4,505	(12,424)	1,285	(7,474)
Loss from asset impairment, disposals and other items	2,580	594	2,580	337
Earnings from continuing operations before income taxes	25,698	43,290	50,309	59,664
Income tax expense (recovery)				
Current	11,244	14,958	22,650	25,911
Future	476	(1,206)	(1,475)	397
	11,720	13,752	21,175	26,308
Earnings from continuing operations	13,978	29,538	29,134	33,356
Discontinued operations	(974)	706	(564)	545
Net earnings	13,004	30,244	28,570	33,901
Basic and Diluted Earnings per Unit (\$)				
Earnings from continuing operations	0.17	0.40	0.36	0.45
Net earnings	0.16	0.41	0.36	0.46

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

Certain 2009 figures have been revised for comparative purposes.

EXTENDICARE REIT
Condensed Consolidated Balance Sheets

	June 30	December 31
(thousands of Canadian dollars, unless otherwise noted)	2010	2009
Assets		
Current assets		
Cash and short-term investments	252,542	134,012
Restricted cash	19,322	22,361
Accounts receivable, less allowances	211,563	213,477
Income taxes recoverable	8,500	29,314
Future income tax assets	24,338	24,900
Other current assets	25,017	22,187
	541,282	446,251
Property and equipment, including construction-in-progress of \$50,880 and \$41,956, respectively	865,132	863,430
Goodwill and other intangible assets	194,883	191,514
Other assets	152,536	166,870
	1,753,833	1,668,065
Liabilities and Equity		
Current liabilities		
Accounts payable	37,708	38,372
Accrued liabilities	232,674	245,260
Accrual for self-insured liabilities	11,505	11,321
Current portion of long-term debt	99,013	28,538
	380,900	323,491
Accrual for self-insured liabilities	29,126	32,562
Long-term debt	1,157,975	1,205,494
Other long-term liabilities	68,173	67,555
Future income tax liabilities	75,799	79,866
	1,711,973	1,708,968
Unitholders' equity (deficiency)	41,860	(40,903)
	1,753,833	1,668,065
Closing US/Cdn. dollar exchange rate	1.0646	1.0510

EXTENDICARE REIT
Condensed Consolidated Cash Flows

(thousands of Canadian dollars)	Three months ended		Six months ended	
	June 30		June 30	
	2010	2009	2010	2009
Operating Activities				
Net earnings	13,004	30,244	28,570	33,901
Adjustments for:				
Depreciation and amortization	15,785	16,782	31,479	34,665
Provision for self-insured liabilities	3,942	4,988	9,433	10,313
Payments for self-insured liabilities	(8,536)	(4,443)	(11,659)	(7,563)
Future income taxes	(999)	(1,204)	(2,950)	391
Loss (gain) on derivative financial instruments and foreign exchange	4,505	(12,424)	1,285	(7,474)
Loss from asset impairment, disposals and other items	2,580	594	2,580	337
Loss (gain) from asset disposals, impairment and other items from discontinued operations	2,751	-	2,751	(1,426)
Other	2,596	2,866	5,229	6,205
	35,628	37,403	66,718	69,349
Net change in operating assets and liabilities				
Accounts receivable	10,475	9,320	2,148	24,903
Other current assets	513	608	(2,650)	(6,002)
Accounts payable and accrued liabilities	(15,394)	(4,555)	(16,930)	(12,064)
Income taxes	11,133	(8,345)	19,633	(4,843)
	6,727	(2,972)	2,201	1,994
	42,355	34,431	68,919	71,343
Investing Activities				
Growth capital expenditures	(6,901)	(12,518)	(18,517)	(25,789)
Maintenance capital expenditures	(5,173)	(7,917)	(9,759)	(15,241)
Net proceeds from dispositions	5,482	-	5,482	9,995
Other assets	(490)	384	(1,185)	(1,710)
	(7,082)	(20,051)	(23,979)	(32,745)
Financing Activities				
Issue of long-term debt	9,427	6,337	30,138	12,049
Repayment of long-term debt	(6,957)	(3,895)	(20,365)	(14,135)
Decrease (increase) in restricted cash	3,039	(29,482)	3,039	(29,482)
Decrease in investments held for self-insured liabilities	7,950	6,536	8,278	7,091
Purchase of securities for cancellation	-	-	-	(6,189)
Distributions paid	(15,968)	(14,584)	(31,086)	(30,866)
Issue of units	-	-	82,212	-
Financing costs	(476)	(2,795)	(740)	(2,832)
Other	(95)	(330)	(95)	(1,860)
	(3,080)	(38,213)	71,381	(66,224)
Foreign exchange gain (loss) on cash held in foreign currency	4,457	(1,704)	2,209	(851)
Increase (decrease) in cash and cash equivalents	36,650	(25,537)	118,530	(28,477)
Cash and cash equivalents at beginning of period	215,892	120,144	134,012	123,084
Cash and cash equivalents at end of period	252,542	94,607	252,542	94,607

EXTENDICARE REIT
Financial and Operating Statistics

	Three months ended		Six months ended	
	June 30		June 30	
(amounts in Canadian dollars, unless otherwise noted)	2010	2009	2010	2009
Earnings from Continuing Operations (millions)				
United States (US\$)	\$11.8	\$20.7	\$22.9	\$25.8
United States	\$12.1	\$24.8	\$23.6	\$31.1
Canada	1.9	4.7	5.5	2.2
	\$14.0	\$29.5	\$29.1	\$33.3
Net Earnings (millions)				
United States (US\$)	\$10.8	\$21.4	\$22.3	\$26.3
United States	\$11.2	\$25.5	\$23.1	\$31.7
Canada	1.9	4.7	5.5	2.2
	\$13.1	\$30.2	\$28.6	\$33.9
U.S. Skilled Nursing Center Statistics				
Percent of Revenue by Payor Source (same-facility basis, excluding prior period settlement adjustments)				
Medicare (Parts A and B)	33.3 %	34.1 %	33.1 %	34.4 %
Managed Care	9.5	9.6	9.5	9.5
Skilled mix	42.8	43.7	42.6	43.9
Private/other	9.0	9.4	9.1	9.3
Quality mix	51.8	53.1	51.7	53.2
Medicaid	48.2	46.9	48.3	46.8
	100.0	100.0	100.0	100.0
Average Daily Census by Payor Source (same-facility basis)				
Medicare	2,342	2,385	2,334	2,441
Managed Care	802	797	808	802
Skilled mix	3,144	3,182	3,142	3,243
Private/other	1,425	1,518	1,427	1,516
Quality mix	4,569	4,700	4,569	4,759
Medicaid	9,440	9,490	9,498	9,513
	14,009	14,190	14,067	14,272
Average Revenue per Resident Day by Payor Source (excluding prior period settlement adjustments) (US\$)				
Medicare Part A only	\$ 457.74	\$ 454.38	\$ 457.40	\$ 451.03
Medicare (Parts A and B)	499.77	497.31	499.87	492.07
Managed Care	415.60	417.72	412.75	415.12
Private/other	223.73	215.17	224.59	213.52
Medicaid	179.79	172.06	179.60	172.10
Weighted average	252.63	245.14	252.02	244.88
Average Occupancy (excluding managed centers) (same-facility basis)				
U.S. skilled nursing centers	86.9 %	88.3 %	87.2 %	88.8 %
U.S. assisted living centers	78.3	82.6	78.3	82.6
Canadian centers	98.3	97.9	98.1	97.8
Average US/Cdn. dollar exchange rate	1.0277	1.1672	1.0338	1.2062

EXTENDICARE REIT
Supplemental Information – FFO and AFFO

The following table provides a reconciliation of EBITDA to Funds from Operations (FFO), Distributable Income (DI) and Adjusted Funds from Operations (AFFO) for the periods ended June 30, 2010 and 2009.⁽¹⁾

	Three months ended		Six months ended	
	June 30		June 30	
(thousands of Canadian dollars unless otherwise noted)	2010	2009	2010	2009
EBITDA from continuing operations	69,687	71,996	129,438	135,554
Depreciation for furniture, fixtures, equipment and computers	(5,580)	(5,983)	(11,033)	(12,049)
Interest expense, net	(20,726)	(23,770)	(42,992)	(48,465)
	43,381	42,243	75,413	75,040
Current income tax expense ⁽²⁾	(11,244)	(15,448)	(22,650)	(26,911)
FFO (continuing operations)	32,137	26,795	52,763	48,129
Amortization of financing costs	2,184	2,841	4,353	5,365
Principal portion of government capital funding payments	615	574	1,226	1,150
DI (continuing operations)	34,936	30,210	58,342	54,644
Additional maintenance capital expenditures ⁽³⁾	407	(1,934)	1,274	(3,192)
AFFO (continuing operations)	35,343	28,276	59,616	51,452
AFFO (discontinued operations) ⁽⁴⁾	302	1,161	731	2,362
AFFO	35,645	29,437	60,347	53,814
Per Basic Unit (\$)				
FFO (continuing operations)	0.393	0.367	0.658	0.660
AFFO (continuing operations)	0.431	0.388	0.743	0.706
AFFO	0.435	0.404	0.752	0.738
Per Diluted Unit (\$)				
FFO (continuing operations)	0.365	0.340	0.620	0.618
AFFO (continuing operations)	0.390	0.349	0.676	0.639
AFFO	0.393	0.362	0.684	0.666
Distributions declared	17,346	15,317	34,019	30,602
Distributions declared per unit (\$)	0.2100	0.2100	0.4200	0.4200
Basic weighted average number of units (thousands)	82,576	72,914	80,221	72,913
Diluted weighted average number of units (thousands)	96,389	86,727	94,034	86,733

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

⁽²⁾ Excludes current tax with respect to the loss (gain) from derivative financial instruments, foreign exchange, asset impairment, disposals and other items that are excluded from the computation of AFFO.

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

⁽⁴⁾ The impact of discontinued operations reduces FFO, DI and AFFO by the same amount.

	Three months ended		Six months ended	
	June 30		June 30	
(thousands of Canadian dollars)	2010	2009	2010	2009
Reconciliation of Cash Provided by Operating Activities to DI & AFFO				
Cash provided by operating activities	42,355	34,431	68,919	71,343
Add (Deduct):				
Net change in operating assets and liabilities	(6,727)	2,972	(2,201)	(1,994)
Current tax expense on gain or loss from derivative financial instruments, foreign exchange, asset impairment, disposals and other items	(12)	(490)	(12)	1,250
Net provisions and payments for self-insured liabilities	4,594	(545)	2,226	(2,750)
Depreciation for furniture, fixtures, equipment and computers	(5,580)	(5,983)	(11,033)	(12,049)
Principal portion of government capital funding payments	615	574	1,226	1,150
Other	(7)	412	(52)	56
DI	35,238	31,371	59,073	57,006
Additional maintenance capital expenditures	407	(1,934)	1,274	(3,192)
AFFO	35,645	29,437	60,347	53,814