

Extendicare REIT Announces 2011 Second Quarter Results

Revenue Improved and Margin Remained Strong in the Quarter; Preparing to Mitigate Effects of Medicare Cuts for Fiscal Year 2012

Declares August Distribution of \$0.07 per unit

MARKHAM, ONTARIO – Extendicare Real Estate Investment Trust (“Extendicare REIT” or “Extendicare”) (TSX: EXE.UN) today reported results for the three and six months ended June 30, 2011, in accordance with the newly adopted International Financial Reporting Standards (IFRS) for interim financial statements. Results are presented in Canadian dollars unless otherwise noted.

HIGHLIGHTS

- Revenue was \$520.0 million in Q2 2011, a 2.7% increase over Q2 2010, excluding the adverse effect of foreign exchange.
- EBITDA was \$65.1 million in Q2 2011, a \$3.0 million decline over Q2 2010, excluding the adverse effect of foreign exchange.
- EBITDA margin was 12.5% in Q2 2011 compared to 13.5% Q2 2010.
- Average daily revenue rates for Medicare Part A and Managed Care grew by 12.8% and 6.0%, respectively, in Q2 2011 over Q2 2010.
- AFFO was \$27.3 million (\$0.328 per basic unit) in Q2 2011 compared to \$35.6 million (\$0.435 per basic unit) in Q2 2010.
- Distributions in the first half of 2011 totalled \$34.9 million, or \$0.42 per unit, representing approximately 66% of AFFO for the same period.
- Cash distribution of \$0.07 per unit declared for the month of August 2011.
- Cash on hand totalled \$314.3 million at June 30, 2011.

“In the second quarter of 2011, Extendicare delivered solid financial and operating results despite a difficult U.S. economy,” said Tim Lukenda, President and CEO of Extendicare REIT. “Though our overall Skilled Mix census remained consistent to the prior quarter, we experienced a decline in total census due to a reduction in our length of stay for short-term admissions, as well as lower hospital census and admissions. In spite of this, higher Medicare rates resulted in increased revenue for the quarter. The lack of any 2010 Medicaid rate increases that normally offset inflationary cost increases has resulted in some compression of our U.S. operating margin. Despite these pressures, our EBITDA margin remained strong at 12.5% this quarter.”

“The recent announced reductions to Medicare funding by the Centers for Medicare & Medicaid Services, or CMS, are disappointing and fail to recognize the incremental costs incurred to comply with the new reimbursement process implemented last October. The skilled nursing facility sector has contributed significantly to advancing health care reform and deficit reduction in the face of state Medicaid funding pressures and other budgetary challenges. The final rule will have adverse implications for health care providers and will likely result in job reductions in the sector at a time when the economy is already in a fragile state,” he added.

“We believe that Extendicare is a financially stable company with a conservative capital structure and payout ratio. The ownership of our real estate assets coupled with our geographic diversity position us favourably to address these challenges. We intend to implement specific operating plan changes to mitigate as much of the impact of the final rule as possible. And because we believe quality is key to our business, we continue to ensure that our residents receive quality care and services. We are confident that these efforts, combined with our strategic marketing initiatives, will enable us to be successful in this difficult environment. Consequently, we are comfortable in maintaining our distributions at the current level,” said Lukenda.

The implementation of MDS 3.0 and RUG-IV in October 1, 2010, resulted in improvements in our average daily Medicare Part A and Managed Care rates of 12.5% and 7.9% for the six-month period, respectively. Adapting to the new reimbursement process required the implementation of additional resources involved in the provision of therapy and patient assessments. The recently announced net 11.1% Medicare rate funding reduction by CMS to take effect October 1, 2011 will essentially reverse these revenue rate increases. We believe the annualized reduction in our revenue and EBITDA as a result of the parity adjustment to be approximately US\$57 million, when considering the effect on both our Medicare Part A and Managed Care rates. Though it is extremely difficult to analyze the impact of the group therapy and assessment policy changes, we estimate that after considering operational strategies, these items will reduce our EBITDA in the range of US\$13 million to US\$23 million. We have undertaken a thorough review of our operations and have begun formulating a plan to drive efficiencies and reduce costs wherever possible. Our goal with these efforts is to reduce the impact to EBITDA by between US\$15 million and US\$20 million.

In June 2011, we completed the first phase of the refinancing of our U.S. debt and closed 16 HUD-insured mortgages totalling US\$110.5 million. We have now accumulated over US\$200 million in cash in EHSI and have commitments for a further US\$171.2 million of HUD-insured mortgages. We anticipate that the majority of the refinancing will be completed by the end of 2011 and result in interest savings of US\$14 million in 2012.

2011 SECOND QUARTER FINANCIAL REVIEW

TABLE 1	Q2	Q2	Q1
<i>(millions of dollars unless otherwise noted)</i>	2011	2010	2011
Revenue			
U.S. operations (US\$)	358.0	353.7	357.6
U.S. operations (C\$)	346.6	363.5	352.5
Canadian operations	173.4	163.9	167.0
Total Revenue	520.0	527.4	519.5
EBITDA ⁽¹⁾			
U.S. operations (US\$)	49.0	51.2	46.4
U.S. operations (C\$)	47.5	52.7	45.7
Canadian operations	17.6	18.3	14.2
Total EBITDA	65.1	71.0	59.9
EBITDA margin	12.5%	13.5%	11.5%
Average US/Canadian dollar exchange rate	0.9681	1.0277	0.9856

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

2011 Second Quarter Comparison to 2010 Second Quarter

Consolidated revenue increased by \$14.0 million, or 2.7%, excluding the negative effect of the stronger Canadian dollar. New centers net of disposals (collectively “non same-facility operations”), resulted in higher revenue of \$0.2 million between periods. Growth from same-facility operations of \$13.8 million, or 2.7%, benefited from funding improvements, partially offset by lower U.S. census levels and lower prior period revenue settlements. However, the stronger Canadian dollar partially offset the underlying

improvement in revenue, resulting in an overall decline of \$7.4 million to \$520.0 million in the 2011 second quarter from \$527.4 million in the 2010 second quarter.

Consolidated EBITDA declined by \$3.0 million, excluding the negative effect of the stronger Canadian dollar, and included lower prior period revenue settlements of \$2.9 million. EBITDA was 12.5% of revenue this quarter compared to 13.5% in the 2010 second quarter. Same-facility operations in the U.S. experienced a decline of \$1.8 million, while the Canadian operations experienced a decline of \$1.1 million, as discussed below.

EBITDA from U.S. operations declined by US\$2.2 million to US\$49.0 million in the 2011 second quarter from US\$51.2 million in the 2010 second quarter, and represented 13.7% and 14.5% of revenue, respectively. Non same-facility operations contributed US\$0.5 million to EBITDA this quarter compared to US\$0.9 million in the 2010 second quarter, for a net decline of US\$0.4 million between periods. Same-facility operations declined by US\$1.8 million, and included lower prior period revenue settlements of US\$1.7 million. Cost increases of US\$12.0 million were in excess of revenue improvements of US\$10.2 million. Revenue improvements included a contribution from higher average rates of US\$17.1 million, partially offset by US\$6.1 million due to lower census levels. Our same-facility average daily census (ADC) declined by 244 over the 2010 second quarter, with a decline of 135 in private/other, 98 in Medicaid and a marginal decline of 11 in our Skilled Mix. Our same-facility Skilled Mix of residents improved to 23.2% from 22.9% in the 2010 second quarter. Our average Medicare Part A rate improved by 12.8% over the 2010 second quarter, increasing revenue by US\$12.9 million due to a combination of changes in funding and in the mix of patients served. Higher operating and administrative costs of US\$12.0 million were affected primarily by higher labour-related costs of US\$5.6 million and an increase in the provision for self-insured liabilities of US\$3.4 million, with other cost increases in food, supplies, medical equipment, advertising, utilities, travel and state provider taxes. As previously announced, we completed an actuarial review of our accrual for self-insured liabilities for the second quarter that will be in addition to the normal third quarter and year-end review. The increase in the provision for self-insured liabilities in the second quarter is a reflection of a refinement of pre-2009 claims along with settlements within the first half of 2011. The provision for unit appreciation rights, included in labour costs, was a credit of US\$0.3 million this quarter compared to nil in the 2010 second quarter.

EBITDA from Canadian operations was \$17.6 million this quarter compared to \$18.3 million in the 2010 second quarter. Excluding the \$1.2 million of prior period funding received in the 2010 second quarter, EBITDA improved by \$0.5 million this quarter, and represented 10.1% of revenue this quarter compared to 11.2% in the 2010 second quarter, or 10.5% adjusted for prior period funding. Non same-facility operations contributed EBITDA of \$0.9 million this quarter compared to \$0.5 million in the 2010 second quarter, for a net improvement of \$0.4 million between periods. Remaining same-facility operations improved by \$0.1 million, with improvements in home health care operations partially offset by a lower contribution from managed operations of approximately \$0.6 million primarily due to the completion of contracts.

2011 Second Quarter Comparison to 2011 First Quarter

In comparison to the 2011 first quarter, consolidated revenue in the second quarter improved by \$6.8 million, or 1.3%, excluding the negative effect of the stronger Canadian dollar. Growth from same-facility operations was \$4.6 million due to improvements from our Canadian operations as discussed below.

Revenue from U.S. operations improved by US\$0.4 million to US\$358.0 million this quarter from US\$357.6 million in the 2011 first quarter. Revenue from same-facility operations declined by US\$0.2 million, with improvements from higher average rates of US\$1.6 million, other revenue of US\$1.7 million and one extra day in the quarter of US\$3.6 million, offset by lower census levels of US\$6.4 million and lower prior period revenue settlements of US\$0.7 million. Our same-facility ADC

was lower by 162 this quarter, 100 ADC of which was from a decline in Skilled Mix. Our same-facility Skilled Mix of residents declined to 23.2% this quarter from 23.6% in the 2011 first quarter.

Revenue from Canadian operations improved by \$6.4 million this quarter to \$173.4 million from \$167.0 million in the 2011 first quarter. Revenue from nursing home operations increased by \$4.6 million, and included a contribution of \$1.8 million from non same-facility operations. Revenue from remaining nursing home operations improved by \$2.8 million primarily due to funding improvements, timing of recognition of funding under the Ontario flow-through envelopes and an extra day in the quarter. Home health care revenue improved by \$1.9 million primarily due to a 3.5% increase in daily volumes and the extra day in the quarter. Other revenue declined by \$0.1 million.

Consolidated EBITDA improved by \$6.0 million this quarter, excluding the negative effect of the stronger Canadian dollar, and represented 12.5% of revenue compared to 11.5% in the 2011 first quarter. Growth from same-facility operations was \$5.2 million, of which \$2.2 million was from our U.S. operations and \$3.0 million was from our Canadian operations, as discussed below.

EBITDA from U.S. operations improved by US\$2.6 million to US\$49.0 million this quarter from US\$46.4 million in the 2011 first quarter, and represented 13.7% and 13.0% of revenue, respectively. Non same-facility operations contributed US\$0.4 million. Growth from same-facility operations of US\$2.2 million resulted from lower costs of US\$2.4 million, partially offset by a decline in revenue of US\$0.2 million as discussed above. Operating and administrative costs were lower by US\$2.4 million primarily due to favourable labour-related costs of US\$3.4 million and utility costs of US\$1.5 million, partially offset by a US\$1.3 million increase in the provision for self-insured liabilities and higher other costs of US\$1.2 million, such as food, medical equipment and travel costs. The decline in labour costs of US\$3.4 million included a seasonal decline in payroll taxes of US\$3.9 million and a US\$1.4 million decline in the provision for unit appreciation rights (a credit of US\$0.3 million this quarter versus a charge of US\$1.1 million last quarter), partially offset by an extra day this quarter.

EBITDA from Canadian operations improved by \$3.4 million, or 23.9%, to \$17.6 million this quarter from \$14.2 million in the 2011 first quarter, and represented 10.1% and 8.5% of revenue, respectively. Non same-facility operations contributed \$0.4 million to EBITDA. Growth from same-facility operations of \$3.0 million, or 21.9%, was primarily due to a seasonal decline in utility costs of \$1.0 million, a lower provision for unit appreciation rights of \$0.7 million (nil this quarter versus a charge of \$0.7 million in the 2011 first quarter), funding improvements, higher home health care volumes and an extra day in the quarter.

2011 SIX MONTH FINANCIAL REVIEW

Consolidated revenue increased by \$26.3 million, or 2.5%, excluding the negative effect of the stronger Canadian dollar. Revenue from non same-facility operations was lower by \$6.5 million between periods. Growth from same-facility operations of \$32.8 million, or 3.2%, benefited from funding improvements and higher U.S. Medicare census levels, partially offset by lower Medicaid and private census levels and prior period revenue. However, the stronger Canadian dollar partially offset the underlying improvement in revenue, resulting in an overall decline of \$7.5 million to \$1,016.1 million in the first half of 2011 from \$1,023.6 million in the first half of 2010.

Consolidated EBITDA declined by \$1.0 million, or 0.8%, excluding the negative effect of the stronger Canadian dollar, and was 12.0% of revenue this period compared to 12.5% in the first half of 2010. The contribution from non same-facility operations was \$2.0 million in both periods. The \$1.0 million decline in same-facility operations resulted from improvements in U.S. operations of \$2.1 million offset by a decline of \$3.1 million from Canadian operations, as discussed below.

TABLE 2 <i>(millions of dollars unless otherwise noted)</i>	Six months ended June 30	
	2011	2010
Revenue		
U.S. operations (US\$)	715.6	705.8
U.S. operations (C\$)	699.1	729.7
Canadian operations	340.4	324.3
Total Revenue	1,039.5	1,054.0
EBITDA ⁽¹⁾		
U.S. operations (US\$)	95.4	94.0
U.S. operations (C\$)	93.2	97.2
Canadian operations	31.8	34.2
Total EBITDA	125.0	131.4
EBITDA margin	12.0%	12.5%
Average US/Canadian dollar exchange rate	0.9768	1.0338
⁽²⁾ Refer to discussion of non-GAAP measures.		

EBITDA from U.S. operations improved by US\$1.4 million, or 1.5%, to US\$95.4 million in the first half of 2011 from US\$94.0 million in the first half of 2010, and was 13.3% of revenue in both periods. Non same-facility operations contributed US\$0.6 million to EBITDA this period compared to US\$1.2 million in the first half of 2010, for a net decline of US\$0.6 million between periods. Growth in same-facility operations of US\$2.0 million, or 2.2%, resulted from higher revenue of US\$26.7 million, partially offset by higher costs of US\$24.7 million. Revenue improvements included a contribution from higher average rates of US\$34.0 million and higher Medicare census levels, partially offset by lower Medicaid and private census levels, resulting in a decline in revenue of US\$7.2 million. Our same-facility ADC declined by 209 over the first half of 2010, with a decline in private ADC of 93 and Medicaid ADC of 164, partially offset by an increase in Skilled Mix ADC of 48. Our same-facility Skilled Mix of residents improved to 23.4% from 22.7% in the first half of 2010. Our average Medicare Part A rate improved by 12.5% over the first half of 2010, increasing revenue by US\$25.9 million due to a combination of changes in funding and in the mix of patients served. Higher operating and administrative costs of US\$24.7 million were affected primarily by higher labour-related costs of US\$14.0 million and a US\$4.0 million increase in the provision for self-insured liabilities, with other cost increases in food, supplies, medical equipment, advertising, utilities, travel, and state provider taxes. The US\$14.0 million increase in labour costs was primarily due to higher staffing levels attributable in part to the implementation of MDS 3.0 and RUG-IV and a 1.2% average wage increase in nursing home operations. As well, higher payroll taxes amounted to US\$1.7 million between periods and the provision for unit appreciation rights was higher by US\$0.5 million (US\$0.8 million this period versus US\$0.3 million last period). The balance of the operating costs included increases that were in excess of inflation due to cotton, food product and gas price increases. The lack of any 2010 Medicaid rate increases that normally offset wage rate and non-wage inflationary increases has resulted in a compression of our U.S. operating margin.

EBITDA from Canadian operations was \$31.8 million in the first half of 2011 compared to \$34.2 million in the first half of 2010. Excluding the \$3.0 million of prior period funding received in the first half of 2010, EBITDA improved by \$0.6 million. EBITDA was 9.3% of revenue in the first half of 2011 compared to 10.6% in the first half of 2010, or 9.7% adjusted for prior period funding. Non same-facility operations contributed EBITDA of \$1.4 million this period compared to \$0.7 million in the first half of 2010, for a net improvement of \$0.7 million between periods. Remaining same-facility operations were lower by \$0.1 million with improvements in nursing home and home health care operations offset by a lower contribution from managed operations of approximately \$0.8 million primarily due to the

completion of contracts and a \$0.5 million increase in the provision for unit appreciation rights (\$0.7 million this period versus \$0.2 million last period).

NET EARNINGS FOR THREE AND SIX MONTHS ENDED JUNE 30, 2011

Extendicare REIT reported net earnings of \$30.3 million in the 2011 second quarter compared to net earnings of \$23.7 million in the 2010 second quarter. The comparability of net earnings is impacted by fair value adjustments on convertible debentures and on the Class B units of Extendicare Limited Partnership (the "Exchangeable LP Units"), as well as gains and losses on foreign exchange, financial instruments, asset impairment, disposal and other items. Such items are highlighted on the attached condensed consolidated earnings statement. Earnings prior to these separately reported items were \$15.3 million in the 2011 second quarter compared to \$20.8 million in the 2010 second quarter and included a \$0.8 million negative effect of the stronger Canadian dollar. In addition to the decline in consolidated EBITDA of \$3.0 million, excluding the negative effect of the stronger Canadian dollar, earnings were impacted by higher net interest and depreciation costs. Net interest costs included a charge of \$1.0 million related to the amortization of deferred financing costs associated with the modification of our commercial mortgage backed securitization (CMBS) financing that was due in November 2011 to extend the term to May 2012.

Extendicare REIT reported net earnings of \$21.9 million in the first half of 2011 compared to \$29.1 million in the same 2010 period. Earnings prior to separately reported items, as outlined on the attached condensed consolidated earnings statement, were \$25.6 million in the first half of 2011 compared to \$31.3 million in the first half of 2010 and included a \$1.4 million negative effect of the stronger Canadian dollar. In addition to the decline in consolidated EBITDA of \$1.0 million, excluding the negative effect of the stronger Canadian dollar, earnings were impacted by higher net interest and depreciation costs.

ADJUSTED FUNDS FROM OPERATIONS (AFFO)

AFFO of \$27.3 million (\$0.328 per basic unit) in the 2011 second quarter declined by \$8.3 million from AFFO of \$35.6 million (\$0.435 per basic unit) in the 2010 second quarter. Excluding the negative effect of the stronger Canadian dollar, AFFO was lower by \$7.0 million, primarily due to the \$3.0 million decline in EBITDA, higher net interest costs and increased spending of \$2.3 million in facility maintenance capital expenditures.

In comparison to the 2011 first quarter, AFFO improved by \$1.7 million this quarter from \$25.6 million (\$0.308 per basic unit). This was primarily due to the improvement in EBITDA partially offset by higher facility maintenance capital expenditures of \$2.4 million between periods.

For the first half of 2011, AFFO of \$52.9 million (\$0.636 per basic unit) was lower by \$7.4 million in comparison to the same 2010 period of \$60.3 million (\$0.752 per basic unit). Excluding a \$2.4 million negative effect of the stronger Canadian dollar, AFFO declined by \$5.0 million this period, primarily due to higher net interest costs and increased spending of \$2.7 million in facility maintenance capital expenditures, and the decline in EBITDA.

Facility maintenance capital expenditures were \$7.1 million in the 2011 second quarter, compared to \$5.2 million in the 2010 second quarter and \$4.7 million in the 2011 first quarter, representing 1.4%, 1.0% and 0.9% of revenue, respectively. For the first half of 2011, facility maintenance capital expenditures were \$11.8 million compared to \$9.8 million, representing 1.1% and 0.9% of revenue, respectively. These costs fluctuate on a quarterly basis with the timing of projects and seasonality. It is our intention to spend between 1.5% and 2.0% of revenue annually, which is consistent with our objective to maintain and upgrade our centers.

Distributions declared in the first half of 2011 totalled \$34.9 million, or \$0.42 per unit, representing approximately 66% of AFFO of \$52.9 million compared to 56% in the same 2010 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, Extendicare Health Services, Inc. (EHSI), excluding prior period settlement adjustments, increased by 12.8% this quarter to US\$515.90 from US\$457.23 in the 2010 second quarter and increased by 0.1% from the 2011 first quarter rate of US\$515.49. The improvement over the 2010 second quarter resulted from changes to the Medicare reimbursement system that took effect October 1, 2010.

Our percentage of Medicare patients in the “high” to “ultra high” RUGs classifications increased to 79.2% in the 2011 second quarter from 78.2% in the 2010 second quarter and declined from 81.1% in the 2011 first quarter. The percentage of Medicare residents receiving therapy services declined to 84.9% this quarter as compared to 91.1% in the 2010 second quarter and 86.7% in the 2011 first quarter. We believe the declines in therapy services experienced over the 2010 second quarter were primarily due to the implementation of MDS 3.0 and RUG-IV. Under the changes implemented on October 1, 2010, residents are assessed on a more frequent and in-depth basis with limitations on the look-back period and they are now classified into 66 RUGs categories (previously 53). In addition, the changes involved the elimination of billing for concurrent therapy services and for services provided by technicians.

EHSI’s average daily Managed Care rate, excluding prior period settlement adjustments, improved by 6.0% to US\$441.06 this quarter from US\$416.18 in the 2010 second quarter and declined by 1.5% over the 2011 first quarter of US\$447.77. While changes in our average Managed Care rates are reflective of the type of clients served in any particular quarter, the increase we experienced over the 2010 second quarter was largely due to the changes in the implementation of MDS 3.0 and RUG-IV that favourably impacted RUGs-based Managed Care contract rates.

Our average daily Medicaid rate, excluding prior period settlement adjustments, increased marginally by 0.5% in the 2011 second quarter to US\$180.99 from US\$180.08 in the 2010 second quarter and by 0.4% over the 2011 first quarter of US\$180.20.

Total and Skilled Census

For the first half of 2011, our same-facility Skilled Mix was marginally ahead of the same 2010 period, at 3,289 compared to 3,241. The improvement over 2010 that we experienced in the 2011 first quarter tapered off during the 2011 second quarter, resulting in a slight decrease in Skilled Mix from the 2010 second quarter of 11 ADC and a decline of 100 ADC over the 2011 first quarter. Our private and Medicaid ADC in the second quarter and first half of 2011 remained below the 2010 levels, for a total decline in same-facility ADC of 244 over the 2010 second quarter and 209 for the first half of 2010. Our same-facility Skilled Mix of residents was 23.2% in the 2011 second quarter compared to 22.9% in the 2010 second quarter and 23.6% in the 2011 first quarter. We continue to experience reduced admissions due to the slow pace of the economic recovery. We maintain a focus on aligning our clinical programs and services to meet the needs of every community in which we are located and upgrading our centers through capital expenditures to attract prospective customers.

In terms of our total operations performance, which includes both newly built centers and recently disposed ones, our Skilled Mix of residents was 23.5% this quarter, up from 22.7% in the 2010 second quarter and down from 23.8% in the 2011 first quarter.

UPDATE ON STATUS OF U.S. REFINANCING

As previously announced, EHSI is in the process of refinancing approximately US\$636 million of its debt with US\$565 million in mortgages insured by the U.S. Department of Housing and Urban Development (HUD) and cash on hand of US\$71 million. The refinancing is to be completed in stages through to December 2011. Assuming EHSI is able to secure an average interest rate of 4.9%, inclusive of mortgage insurance premium (MIP) fees, and reduce its debt by US\$71 million, its interest costs will decline by an

estimated US\$14 million per annum. Upon completion of the refinancing, EHSI anticipates having 44 unencumbered centers with an approximate value of over US\$260 million.

We have submitted 79 HUD-loan applications totalling US\$565 million. During June 2011, we completed the first phase of the refinancing and closed on 16 HUD-insured mortgages with a principal balance of US\$110.5 million, a weighted average interest rate of 4.60% (including MIP fees of 0.50%) and an average term to maturity of 32 years. A portion of the funds were used to repay the Sovereign Bank mortgages of US\$44.0 million. We anticipate that HUD will complete the processing of the balance of the loan applications in stages to enable the repayment of EHSI's CMBS financings beginning in September 2011 with final payment anticipated in December 2011.

As of August 9, 2011, EHSI has received commitments to close on a further 18 HUD loans under rate lock agreements totalling US\$171.2 million, with a weighted average interest rate (including MIP fees) of 4.54%, and a weighted average term to maturity of about 32 years. In addition, EHSI has a forward rate lock agreement of 4.58% (including MIP fees) on US\$5.7 million for one loan awaiting its loan commitment.

AUGUST 2011 DISTRIBUTION DECLARED

The Board of Trustees today declared a cash distribution of \$0.07 per unit for the month of August 2011, which is payable to unitholders of record at the close of business on August 31, 2011, and will be paid on September 15, 2011.

Extendicare Limited Partnership also announced that it has declared a cash distribution of \$0.07 per Class B limited partnership unit (the "Exchangeable LP Units") for the month of August 2011, which is payable to unitholders of record at the close of business on August 31, 2011, and will be paid on September 15, 2011.

ABOUT US

Extendicare REIT 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 37,900 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 258 senior care centers in North America have capacity to care for approximately 28,000 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 10, 2011, at 10:00 a.m. (ET), we will hold a conference call to discuss our results for the 2011 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 1-866-696-5910 or 416-340-2217, conference ID number 5201633#. A replay of the call will be available until midnight on August 26, 2011. To access the rebroadcast, dial 1-800-408-3053 or 905-694-9451, followed by the passcode 4341341#. 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

The financial information presented herein has been prepared on the basis of IFRS for interim financial statements and is expressed in Canadian dollars unless otherwise stated. Our unaudited interim financial statements for the three and six months ended June 30, 2010 have been restated to reflect our adoption of IFRS, with effect from January 1, 2010. Details of the impact of the transition to IFRS were provided in Extencicare REIT's unaudited interim report for the three months ended March 31, 2011.

Non-GAAP Measures

Extencicare REIT assesses and measures operating results and financial position based on performance measures referred to as "EBITDA", "earnings before separately reported gains/losses and distributions on Exchangeable LP Units", "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 Extencicare REIT to make cash distributions; or (ii) certain ongoing rights and obligations of Extencicare 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 Extencicare REIT with the securities regulatory authorities, available at www.sedar.com and on Extencicare's website at www.extencicare.com.

Forward-looking Statements

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

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Extendicare REIT

Condensed Consolidated Earnings

<i>(in thousands of Canadian dollars)</i>	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Revenue				
Nursing and assisted living centers				
United States	333,760	350,665	674,069	704,534
Canada	130,480	122,959	256,421	241,543
Home health – Canada	41,021	38,362	80,100	77,891
Health technology services – United States	4,827	4,139	9,209	8,285
Outpatient therapy – United States	3,445	3,758	6,782	6,694
Management, consulting and other services	6,485	7,556	12,978	15,072
Total revenue	520,018	527,439	1,039,559	1,054,019
Operating expenses	435,105	436,220	872,741	882,157
Administrative costs	17,168	17,515	36,442	34,492
Lease costs	2,664	2,739	5,417	5,999
Total expenses	454,937	456,474	914,600	922,648
EBITDA ⁽¹⁾	65,081	70,965	124,959	131,371
Depreciation and amortization	18,714	18,232	37,937	36,368
(Gain) loss from asset impairment, disposals and other items	(942)	4,031	(373)	4,031
Results from operating activities	47,309	48,702	87,395	90,972
Finance costs				
Interest expense	23,070	22,016	45,369	44,426
Interest income	(1,041)	(2,076)	(1,830)	(3,011)
Accretion costs	499	534	1,006	1,083
Distributions on Exchangeable LP Units	652	674	1,314	1,360
Fair value adjustments	(14,881)	(11,916)	3,707	(2,753)
(Gain) loss on foreign exchange and financial instruments	31	4,505	(1,005)	1,285
Net finance costs	8,330	13,737	48,561	42,390
Earnings before income taxes	38,979	34,965	38,834	48,582
Income tax expense (recovery)				
Current	12,187	12,220	22,296	23,857
Deferred	(3,486)	(947)	(5,346)	(4,388)
	8,701	11,273	16,950	19,469
Net earnings	30,278	23,692	21,884	29,113
Add (deduct):				
Fair value adjustment on convertible debentures, net of tax	(7,576)	(4,780)	457	213
Fair value adjustment on Exchangeable LP Units	(7,305)	(6,766)	3,250	(3,389)
(Gain) loss on foreign exchange and financial instruments, net of tax	(90)	5,422	(1,078)	1,467
(Gain) loss from asset impairment, disposals and other items, net of tax	(672)	2,583	(255)	2,583
Distributions on Exchangeable LP Units	652	674	1,314	1,360
Earnings (loss) before separately reported gains/losses and distributions on Exchangeable LP Units	15,287	20,825	25,572	31,347

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

Extencicare REIT

Condensed Consolidated Statements of Financial Position

	June 30 2011	December 31 2010
<i>(in thousands of Canadian dollars, unless otherwise noted)</i>		
Assets		
Current assets		
Cash and short-term investments	314,312	267,759
Restricted cash	9,790	10,095
Accounts receivable, less allowance	201,340	212,610
Income taxes recoverable	2,754	3,182
Other current assets	25,354	23,670
Total current assets	553,550	517,316
Non-current assets		
Property and equipment, <i>including construction-in-progress of \$24,555 and \$17,470, respectively</i>	1,176,376	1,206,656
Goodwill and other intangible assets	107,124	110,272
Other assets	114,592	126,200
Deferred tax assets	18,482	19,190
Total non-current assets	1,416,574	1,462,318
Total Assets	1,970,124	1,979,634
Liabilities and Equity		
Current liabilities		
Accounts payable	33,405	36,167
Accrued liabilities	210,963	230,113
Accrual for self-insured liabilities	15,566	16,013
Current portion of long-term debt	582,061	571,168
Income taxes payable	6,847	-
Exchangeable LP units	32,229	29,264
Total current liabilities	881,071	882,725
Non-current liabilities		
Provisions	29,555	29,848
Accrual for self-insured liabilities	31,220	30,535
Long-term debt	688,239	670,028
Other long-term liabilities	46,351	44,155
Deferred tax liabilities	197,640	209,349
Total non-current liabilities	993,005	983,915
Total liabilities	1,874,076	1,866,640
Unitholders' equity	96,048	112,994
Total Liabilities and Equity	1,970,124	1,979,634
<i>Closing US/Cdn. dollar exchange rate</i>	<i>0.9645</i>	<i>0.9946</i>

Extendicare REIT

Condensed Consolidated Cash Flows

<i>(in thousands of Canadian dollars)</i>	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Operating Activities				
Net earnings	30,278	23,692	21,884	29,113
Adjustments for:				
Depreciation and amortization	18,714	18,232	37,937	36,368
Provision for self-insured liabilities	6,982	3,942	12,797	9,433
Payments for self-insured liabilities	(2,300)	(8,536)	(11,704)	(11,659)
Deferred taxes	(3,486)	(947)	(5,346)	(4,388)
Current taxes	12,187	12,220	22,296	23,857
(Gain) loss from asset impairment, disposals and other items	(942)	4,031	(373)	4,031
Net finance costs	8,330	13,737	48,561	42,390
Interest capitalized	(123)	(270)	(234)	(506)
Other	62	7	239	52
	69,702	66,108	126,057	128,691
Net change in operating assets and liabilities				
Accounts receivable	6,158	10,464	8,645	2,158
Other current assets	(2,470)	513	(5,620)	(2,650)
Accounts payable and accrued liabilities	(9,752)	(11,500)	(15,923)	(17,143)
	63,638	65,585	113,159	111,056
Interest paid	(24,735)	(24,529)	(43,107)	(42,886)
Interest received	1,054	2,087	1,827	3,001
Income taxes paid	(11,960)	(1,732)	(14,993)	(4,118)
	27,997	41,411	56,886	67,053
Investing Activities				
Purchase of property, equipment and software	(13,004)	(11,804)	(25,275)	(27,770)
Acquisition of nursing centre, net of cash acquired	-	-	(7,299)	-
Net proceeds from dispositions	4,805	5,482	4,805	5,482
Other assets	(868)	(490)	(755)	(1,185)
	(9,067)	(6,812)	(28,524)	(23,473)
Financing Activities				
Issue of long-term debt, excluding line of credit	110,079	9,427	123,380	30,138
Repayment of long-term debt, excluding line of credit	(50,980)	(6,957)	(61,085)	(20,365)
Issue on line of credit	2,962	-	10,344	-
Repayment on line of credit	(7,265)	-	(14,051)	-
Decrease in restricted cash	51	3,039	305	3,039
Decrease (increase) in investments held for self-insured liabilities	(6,448)	7,950	6,662	8,278
Distributions paid on REIT Units	(15,166)	(15,294)	(30,284)	(29,726)
Issue of units	-	-	-	82,212
Financing costs	(9,623)	(476)	(12,123)	(740)
Other	424	(95)	597	(95)
	24,034	(2,406)	23,745	72,741
Foreign exchange (loss) gain on cash held in foreign currency	(1,218)	4,457	(5,554)	2,209
Increase in cash and cash equivalents	41,746	36,650	46,553	118,530
Cash and cash equivalents at beginning of period	272,566	215,892	267,759	134,012
Cash and cash equivalents at end of period	314,312	252,542	314,312	252,542

EXTENDICARE REIT
Financial and Operating Statistics

<i>(amounts in Canadian dollars, unless otherwise noted)</i>	Three months ended		Six months ended	
	June 30		June 30	
	2011	2010	2011	2010
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)	35.8 %	33.8 %	36.1 %	33.6 %
Managed Care	10.2	9.5	10.2	9.5
Skilled mix	46.0	43.3	46.3	43.1
Private/other	8.0	9.0	8.1	9.0
Quality mix	54.0	52.3	54.4	52.1
Medicaid	46.0	47.7	45.6	47.9
	100.0	100.0	100.0	100.0
Average Daily Census by Payor Source (same-facility basis)				
Medicare	2,381	2,431	2,429	2,418
Managed Care	858	819	860	823
Skilled mix	3,239	3,250	3,289	3,241
Private/other	1,303	1,438	1,345	1,438
Quality mix	4,542	4,688	4,634	4,679
Medicaid	9,431	9,529	9,420	9,584
	13,973	14,217	14,054	14,263
Average Revenue per Resident Day by Payor Source (excluding prior period settlement adjustments) (US\$)				
Medicare Part A only	\$ 515.90	\$ 457.23	\$ 513.88	\$ 456.79
Medicare (Parts A and B)	555.03	499.38	551.98	499.38
Managed Care	441.06	416.18	443.79	411.46
Private/other	228.04	222.74	224.47	223.58
Medicaid	180.99	180.08	180.81	179.87
Weighted average	266.27	252.15	266.12	251.30
Average Occupancy (excluding managed centers) (same-facility basis)				
U.S. skilled nursing centers	86.0 %	86.4 %	86.3 %	86.7 %
U.S. assisted living centers	68.1	65.2	68.2	64.9
Canadian centers	97.8	98.4	97.8	98.2
Purchase of Property, Equipment and Software (thousands)				
Growth expenditures	\$6,041	\$6,902	\$13,699	\$18,517
Facility maintenance	7,086	5,172	11,810	9,759
Deduct: capitalized interest	(123)	(270)	(234)	(506)
	\$13,004	\$11,804	\$25,275	\$27,770
Average U.S./Cdn. dollar exchange rate	0.9681	1.0277	0.9768	1.0338

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, 2011 and 2010. ⁽¹⁾

<i>(in thousands of Canadian dollars unless otherwise noted)</i>	Three months ended		Six months ended	
	June 30		June 30	
	2011	2010	2011	2010
EBITDA	65,081	70,965	124,959	131,371
Depreciation for furniture, fixtures, equipment and computers	(5,611)	(5,580)	(11,488)	(11,033)
Accretion costs	(499)	(534)	(1,006)	(1,083)
Interest expense, net	(22,029)	(19,940)	(43,539)	(41,415)
	36,942	44,911	68,926	77,840
Current income tax expense ⁽²⁾	(11,693)	(12,232)	(21,799)	(23,869)
FFO	25,249	32,679	47,127	53,971
Amortization of financing costs	2,871	1,934	4,802	3,868
Principal portion of government capital funding payments	651	615	1,299	1,226
DI	28,771	35,228	53,228	59,065
Additional maintenance capital expenditures ⁽³⁾	(1,475)	408	(322)	1,274
AFFO	27,296	35,636	52,906	60,339
Per Basic Unit (\$) ⁽⁴⁾				
FFO	0.304	0.399	0.567	0.673
AFFO	0.328	0.435	0.636	0.752
Per Diluted Unit (\$) ⁽⁴⁾				
FFO	0.282	0.362	0.530	0.616
AFFO	0.304	0.393	0.590	0.684
Distributions declared ⁽⁴⁾	17,484	17,346	34,937	34,019
Distributions declared per unit (\$) ⁽⁴⁾	0.2100	0.2100	0.4200	0.4200
Basic weighted average number of units (thousands) ⁽⁴⁾	83,230	82,576	83,156	80,221
Diluted weighted average number of units (thousands) ⁽⁴⁾	96,980	96,389	96,938	94,034

⁽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⁾ Per unit amounts, distributions declared and the number of units are based on the total of the REIT Units and Exchangeable LP Units.

<i>(in thousands of Canadian dollars)</i>	Three months ended		Six months ended	
	June 30		June 30	
	2011	2010	2011	2010
Reconciliation of Cash Provided by Operating Activities to DI & AFFO				
Cash provided by operating activities	27,997	41,411	56,886	67,053
Add (Deduct):				
Net change in operating assets and liabilities, including interest and taxes	9,332	(6,467)	6,052	(1,703)
Current tax on fair value adjustments, gain/loss on foreign exchange, financial instruments, asset impairment, disposals and other items	494	(12)	497	(12)
Net provisions and payments for self-insured liabilities	(4,682)	4,594	(1,093)	2,226
Distributions on Exchangeable LP Units	652	674	1,314	1,360
Depreciation for furniture, fixtures, equipment and computers	(5,611)	(5,580)	(11,488)	(11,033)
Principal portion of government capital funding payments	651	615	1,299	1,226
Other	(62)	(7)	(239)	(52)
DI	28,771	35,228	53,228	59,065
Additional maintenance capital expenditures	(1,475)	408	(322)	1,274
AFFO	27,296	35,636	52,906	60,339