EXTENDICARE
3000 Steeles Avenue East, Markham, Ontario L3R 9W2
Tel: (905) 470-4000 Fax: (905) 470-5588

NEWS RELEASE

FOR IMMEDIATE RELEASE
February 27, 2013

Extendicare Announces 2012 Fourth Quarter and Year-end Results

MARKHAM, ONTARIO – Extendicare Inc. (“Extendicare” or the “Company”) (TSX: EXE) today reported results for the fourth quarter and year ended December 31, 2012. Results are presented in Canadian dollars unless otherwise noted.

HIGHLIGHTS (variances exclude effect of foreign exchange)

Q4 Financial Results

- Revenue was $497.0 million in Q4 2012, a decline of $24.4 million over Q4 2011, primarily related to the exit from Kentucky, while same-facility operations grew by $4.9 million.
- Average daily revenue rates for Medicare Part A and Managed Care in Q4 2012 increased by 1.4% and 3.2%, respectively, over Q4 2011, and increased by 0.9% and 1.2%, respectively, over Q3 2012.
- EBITDA was $52.9 million in Q4 2012, and excluding reserve adjustments in Q4 2011 and Q3 2012, was $2.2 million higher than Q4 2011, and $4.6 million higher than Q3 2012.
- EBITDA margin, excluding reserve adjustments, was 10.7% in Q4 2012 compared to 9.7% in Q4 2011 and 9.7% in Q3 2012.
- Continuing strong operating performance from Canadian operations, generating EBITDA margin of 10.3% in Q4 2012 compared to 8.3% in Q4 2011 and 11.0% in Q3 2012.
- AFFO from continuing operations, excluding reserve adjustments, was $26.8 million ($0.312 per basic share) in Q4 2012 compared to $22.4 million ($0.268 per basic share) in Q4 2011 and $22.2 million ($0.260 per basic share) in Q3 2012.

2012 Financial Results

- Average daily revenue rates for Medicare Part A and Managed Care in 2012 declined by 8.4% and 2.4%, respectively, over 2011.
- EBITDA, excluding reserve adjustments, was $199.8 million in 2012, a decline of $44.5 million over 2011, of which $37.5 million was from same-facility operations.
- EBITDA margin, excluding reserve adjustments, was 9.8% in 2012 compared to 11.6% in 2011.
- Continuing strong operating performance from Canadian operations, generating EBITDA margin of 9.9% in 2012 compared to 9.4% in 2011.
- AFFO from continuing operations, excluding reserve adjustments, was $101.2 million ($1.190 per basic share) in 2012 compared to $107.6 million ($1.290 per basic share) in 2011.
- Distributions in 2012 totalled $71.5 million, or $0.84 per share, representing 85% of AFFO for the same period, or 71% excluding the strengthening of prior years’ reserves.

“In 2012, Extendicare sustained disappointing financial and operational results due to reductions in Medicare funding, declines in occupancy related to persistent U.S. economic weakness and growth in alternative care settings, as well as the impact of previously announced increases in our provision for self-insured liabilities,” said Tim Lukenda, President and CEO of Extendicare. “At the same time, we have continued to build a strong, stable financial base for the Company to enable us to chart a steady course through this uncertainty and remain focused on the delivery of quality care and services to residents in our centers in North America.”

“Given the current state of the U.S. debt ceiling discussions, we expect continued pressure on Medicare rates in the near term. Despite this uncertainty, we have continued to upgrade our centers and have created 14 Active Life Transition Units that have demonstrated positive returns on our investment. We continue to build strategic alliances with our key health care partners in each of our markets as networks begin to develop. During the year, we finalized the leasing of all 21 of our skilled nursing centers in the State of Kentucky to a third-party operator, thereby achieving our planned exit of operations due to the heightened litigation environment in the state. This step was taken in the interest of our Company and its shareholders and is in line with our policy of conservative risk management and continuous performance improvement. We have continued to take other proactive steps to reduce the growth in liability claims and we did not require a further adjustment to prior years’ reserves in the fourth quarter of 2012,” he added.

MEDICARE UPDATES

As previously announced, the net market basket increase for October 2012 was 1.8%, which consisted of a market basket increase of 2.5% minus a productivity adjustment of 0.7%. We estimate that the impact of this 1.8% funding increase will provide us with additional Medicare revenue of approximately US$6.0 million per annum. However, as previously indicated, the Special U.S. Joint Select Committee on Deficit Reduction, also known as the “Super Committee”, failed to make a recommendation to reduce government spending by January 15, 2012 and the long-term care industry was facing automatic Medicare funding reductions of 2% effective January 2, 2013, as a result of sequestration. These cuts have been delayed until March 1, 2013, by the signing into law of the *American Taxpayer Relief Act of 2012* (ATRA), and will become automatic unless new legislation is passed. A 2% funding reduction is estimated to reduce our Medicare revenue by approximately US$6.7 million per annum.

Effective October 2012, the Centers for Medicare & Medicaid Services (CMS) established a requirement for pre-approval by a physician of claims over US$3,700 for physical and speech therapy and a similar pre-approval process for claims over US$3,700 for occupational therapy. Approval or denial of therapy services beyond these caps is determined on an individual basis and, therefore, the impact cannot be precisely determined. During the 2012 fourth quarter, we recorded negative revenue adjustments of US$1.0 million for denials of therapy services over the cap. The ATRA has extended these therapy cap requirements until December 31, 2013. The impact of these therapy caps may be mitigated to a certain extent by reductions in staffing and, in some cases, residents paying privately for these services.

In addition, the ATRA has delayed, until January 1, 2014, a 27% reduction of Medicare Part B rates previously scheduled to have commenced on January 1, 2013. The impact of the 27% Part B rate reduction on our therapy revenue was estimated to be US$11 million per annum. We continue to dialogue with policymakers about the impact of the Part B fee reduction and therapy caps on access to care and quality of life for our residents.

PROVISION FOR SELF-INSURED LIABILITIES

The results of our independent actuarial review conducted at year end did not necessitate a further strengthening of reserves for our pre-2012 claims in the 2012 fourth quarter. For the year ended December 31, 2012, we have made provisions for self-insured liabilities of $40.8 million (US$40.8 million), of which $16.6 million (US$16.6 million) related to the strengthening of our prior years’ reserves. In comparison, for the 2011 year, our provision for self-insured liabilities was $65.3 million (US$66.0 million), of which $42.8 million (US$43.3 million) related to prior years' reserves. The strengthening of our prior years' reserves was primarily attributable to claims in the State of Kentucky and settlement of certain pre-2012 claims in other states. Excluding prior years' reserve adjustments, our provision for self-insured liabilities was US$24.2 million in 2012 compared to US$22.7 million in 2011. Our claims experience in Kentucky has accounted for more than 50% of our provision for self-insured liabilities over the past two years. We had anticipated that following our exit from that state in mid-2012, our provision for self-insured liabilities would be reduced by approximately US$12 million per annum. However, an increase in claims in other states has offset this anticipated reduction.

2012 FOURTH QUARTER FINANCIAL REVIEW

TABLE 1	**Q4**	**Q4**	**Q3**
(millions of dollars unless otherwise noted)	**2012**	**2011**	**2012**
Revenue			
U.S. operations (US$)	**313.6**	342.2	316.2
U.S. operations (C$)	**310.8**	350.3	314.6
Canadian operations	**186.2**	181.5	183.9
Total Revenue	**497.0**	531.8	498.5
EBITDA (1)			
U.S. operations (US$)	**33.9**	24.1	17.2
U.S. operations (C$)	**33.7**	25.1	17.0
Canadian operations	**19.2**	15.0	20.3
Total EBITDA	**52.9**	40.1	37.3
EBITDA margin	**10.7%**	7.5%	**7.5%**
Average U.S./Canadian dollar exchange rate	**0.9916**	1.0217	**0.9956**

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

2012 Fourth Quarter Comparison to 2011 Fourth Quarter

Consolidated revenue from continuing operations declined by $24.4 million, excluding a $10.4 million negative effect of a stronger Canadian dollar. Disposals that included the impact of leasing out our Kentucky centers, net of new centers (collectively "non same-facility operations"), resulted in lower revenue of $29.3 million between periods. Growth in revenue from same-facility operations of $4.9 million was primarily from the Canadian operations with the U.S. operations essentially flat.

Revenue from U.S. operations declined by US$28.6 million to US$313.6 million in the 2012 fourth quarter compared to US$342.2 million in the 2011 fourth quarter. Non same-facility operations generated revenue of US$3.7 million this quarter compared to US$33.3 million in the 2011 fourth quarter, for a net decline of US$29.6 million. Revenue from same-facility operations improved by US$1.0 million between periods. Higher average rates increased our same-facility revenue by approximately US$8.5 million, while lower census levels reduced revenue by US$8.2 million. The remaining improvement of US$0.7 million related primarily to an increase in prior period settlement adjustments of US$1.4 million and growth in health technology services revenue of US$2.2 million, partially offset by declines in nursing ancillary and other revenue of US$2.9 million. Our same-facility average daily census (ADC) was lower by 201 this quarter, primarily due to a decline in Skilled Mix ADC of 191. Our same-facility Skilled Mix ADC represented 21.4% of residents this quarter compared to 22.5% in the 2011 fourth quarter.

Revenue from Canadian operations grew by $4.7 million to $186.2 million in the 2012 fourth quarter from $181.5 million in the 2011 fourth quarter. Non same-facility operations contributed $0.3 million to the improvement. Growth from same-facility operations of $4.4 million was favourably impacted by a reversal of prior period revenue in the 2011 fourth quarter of $2.0 million, with the remainder primarily due to nursing center funding enhancements and increased home health care volumes.

Consolidated EBITDA from continuing operations was $52.9 million this quarter, or 10.7% of revenue. Excluding the $11.4 million increase in prior years' reserves for self-insured liabilities recorded in the 2011 fourth quarter, EBITDA that quarter was $51.5 million, or 9.7% of revenue. This resulted in an increase in EBITDA of $1.4 million between quarters. Excluding a $0.8 million negative effect of a stronger Canadian dollar, EBITDA improved by $2.2 million, with growth from same-facility operations of $6.2 million, partially offset by a decline of $4.0 million from non same-facility operations. A discussion of the segmented U.S. and Canadian operations follows.

EBITDA from U.S. operations was US$33.9 million this quarter, or 10.8% of revenue. Excluding the US$11.2 million increase in prior years' reserves for self-insured liabilities recorded in the 2011 fourth quarter, EBITDA that quarter was US$35.3 million, or 10.3% of revenue. This resulted in a decline in EBITDA of US$1.4 million between quarters. EBITDA from non same-facility operations declined by US$3.3 million (US$3.0 million contribution this quarter compared to US$6.3 million in the same 2011 period). Growth from same-facility operations of US$1.9 million resulted from the US$1.0 million increase in revenue and a decline in operating, administrative and lease costs of US$0.9 million. Lower costs resulted from a decline in labour-related costs of US$5.2 million, primarily due to a change in vacation policy, partially offset by an increase in the provision for self-insured liabilities of US$2.5 million and a net increase in other costs of US$1.8 million.

EBITDA from Canadian operations improved by $4.2 million to $19.2 million this quarter from $15.0 million in the 2011 fourth quarter and represented 10.3% and 8.3% of revenue, respectively. Non same-facility operations contributed $1.2 million this quarter and $1.6 million in the 2011 fourth quarter for a net decline of $0.4 million. EBITDA from same-facility operations improved by $4.6 million, of which $2.0 million was due to the 2011 fourth quarter prior period revenue reversal with the balance due to higher revenue of $2.4 million and lower costs of $0.2 million.

2012 Fourth Quarter Comparison to 2012 Third Quarter

In comparison to the 2012 third quarter, consolidated revenue from continuing operations in the 2012 fourth quarter declined by $0.3 million, excluding a $1.2 million negative effect of a stronger Canadian dollar. Non same-facility operations contributed $4.2 million to the decline, with same-facility operations improving by $3.9 million, of which $2.5 million was from the Canadian operations and the balance from the U.S. operations.

Consolidated EBITDA from continuing operations was $52.9 million this quarter, or 10.7% of revenue. Excluding the $11.0 million increase in prior years' reserves for self-insured liabilities recorded in the 2012 third quarter, EBITDA that quarter was $48.3 million, or 9.7% of revenue. This resulted in an increase in EBITDA of $4.6 million between quarters. Growth from same-facility operations contributed $6.4 million and was partially offset by a decrease in the contribution from non same-facility operations of $1.8 million. A discussion of the segmented U.S. and Canadian operations follows.

EBITDA from U.S. operations was US$33.9 million this quarter, or 10.8% of revenue. Excluding the US$11.0 million increase in prior years' reserves for self-insured liabilities recorded in the 2012 third quarter, EBITDA that quarter was US$28.2 million, or 8.9% of revenue. This resulted in an improvement in EBITDA of US$5.7 million between quarters. EBITDA from non same-facility operations declined by US$1.4 million (US$3.0 million contribution this quarter compared to US$4.4 million in the 2012 third quarter). Growth from same-facility operations of US$7.1 million resulted from higher revenue of US$1.4 million and lower costs of US$5.7 million. Revenue improvements included higher average rates of US$3.8 million and an increase in prior period settlement adjustments of US$2.0 million (US$2.3 million this quarter versus US$0.3 million in the third quarter). This was partially offset by lower census levels of US$3.0 million and other items of US$1.4 million. Operating, administrative and lease costs declined by

US$5.7 million and included lower labour-related costs of US$7.4 million, primarily due to a change in vacation policy, partially offset by other net cost increases of US$1.7 million.

EBITDA from Canadian operations declined by $1.1 million to $19.2 million this quarter from $20.3 million in the 2012 third quarter, and represented 10.3% and 11.0% of revenue, respectively. This decline was largely due to an increase in supplies and utility costs between periods.

2012 FINANCIAL REVIEW

TABLE 2	**Year ended December 31**	
(millions of dollars unless otherwise noted)	**2012**	**2011**
Revenue		
U.S. operations (US$)	**1,309.0**	1,411.1
U.S. operations (C$)	**1,308.5**	1,395.8
Canadian operations	**728.9**	698.3
Total Revenue	**2,037.4**	2,094.1
EBITDA [1]		
U.S. operations (US$)	**111.1**	135.8
U.S. operations (C$)	**111.0**	134.4
Canadian operations	**72.2**	65.7
Total EBITDA	**183.2**	200.1
EBITDA margin	**9.0%**	9.6%
Average U.S./Canadian dollar exchange rate	**0.9996**	0.9891

[1] Refer to discussion of non-GAAP measures.

Consolidated revenue from continuing operations for the year ended December 31, 2012, declined by $70.4 million over 2011, excluding the $13.7 million positive effect of the weaker Canadian dollar. Non same-facility operations contributed $54.3 million to the decline in revenue between years. Revenue from same-facility operations declined by $16.1 million, with an improvement from the Canadian operations of $20.7 million offset by the impact of the 2011 CMS Final Rule and lower census levels on the U.S. operations.

Consolidated EBITDA from continuing operations declined by $16.9 million to $183.2 million this year from $200.1 million in 2011, and represented 9.0% and 9.6% of revenue, respectively. Excluding the impact of prior years' reserves for self-insured liabilities of $16.6 million in 2012 and $42.8 million in 2011, EBITDA was $199.8 million, or 9.8% of revenue, this year compared to $242.9 million, or 11.6% of revenue, in 2011. This represented a decline of $43.1 million between years. Excluding a $1.4 million positive effect of a weaker Canadian dollar, EBITDA declined by $44.5 million, of which $37.5 million was from same-facility operations. Details by segmented operations are discussed below.

EBITDA from U.S. operations was US$111.1 million this year compared to US$135.8 million in 2011, and represented 8.5% and 9.6% of revenue, respectively. Excluding the increase in prior years' reserves for self-insured liabilities of US$16.6 million this year and US$43.3 million in 2011, EBITDA was US$127.7 million, or 9.8% of revenue, this period compared to US$179.1 million, or 12.7% of revenue, in 2011. This represented a decline of US$51.4 million between years. EBITDA from non same-facility operations declined by US$7.8 million (US$17.5 million contribution this year compared to US$25.3 million in 2011). Same-facility operations declined by US$43.6 million, with revenue declines of US$37.1 million and operating, administrative and lease cost increases of US$6.5 million. Revenue declined as a result of lower average Medicare and Managed Care rates totalling US$36.4 million, largely due to the impact of the 2011 CMS Final Rule, and lower census levels of US$30.8 million. This was partially offset by higher average Medicaid and private/other rates of US$23.4 million and other revenue improvements of US$6.7 million which included the impact of the extra day in the year. To mitigate the adverse impact of the 2011 CMS Final Rule, management implemented non-direct care related cost saving measures, which kept the year-over-year cost increases down to 0.6% at only US$6.5 million. Higher state provider taxes of US$6.5 million and increased provisions for self-insured liabilities of US$6.2 million were partially offset by lower labour-related costs of US$1.8 million, primarily due to a change in vacation policy, and other net cost reductions of US$4.4 million.

EBITDA from Canadian operations improved by $6.5 million to $72.2 million this year from $65.7 million in 2011, and represented 9.9% and 9.4% of revenue, respectively. Non same-facility operations contributed EBITDA of $5.2 million this year compared to $4.4 million in 2011, for a net improvement of $0.8 million between years. Same-facility operations improved by $5.7 million between years and included the favourable impact of $2.0 million in prior period revenue adjustments recorded in 2011. The remaining EBITDA improvement of $3.7 million was primarily due to funding enhancements, with higher revenue of $18.7 million partially offset by higher costs of $15.0 million.

ADJUSTED FUNDS FROM OPERATIONS (AFFO)

AFFO from continuing operations was $26.8 million ($0.312 per basic share) in the 2012 fourth quarter. Excluding the $11.4 million increase in prior years' reserves recorded in the 2011 fourth quarter, AFFO from continuing operations that quarter was $22.4 million ($0.268 per basic share). This resulted in an improvement of $4.4 million between quarters. Excluding a $0.4 million negative effect of a stronger Canadian dollar, AFFO from continuing operations improved by $4.8 million, primarily due to the increase in EBITDA of $2.2 million, together with lower current income taxes and net interest costs, partially offset by higher facility maintenance capital expenditures. Excluding the impact of foreign exchange, net interest costs were lower by $3.3 million as a result of our debt refinancing. Current income taxes for the 2012 fourth quarter were a recovery of $2.4 million, and were favourably impacted by book-to-file adjustments of approximately $4.0 million. Excluding the 2012 fourth quarter book-to-file adjustments, current income taxes represented 5.2% of pre-tax funds from operations (FFO) this quarter compared to 13.4% in the 2011 fourth quarter. The 2012 effective current tax rate on FFO was favourably impacted by the proportion of earnings between taxable and non-taxable entities, particularly the impact of the lower level of reserves recorded in our non-taxable captive this year, and the utilization this year of non-capital loss carryforwards in Canada.

AFFO in the 2012 third quarter was $11.2 million ($0.130 per basic share), or $22.2 million ($0.260 per basic share) excluding the $11.0 million increase in prior years' reserves. In comparison, AFFO this quarter of $26.8 million was higher by $4.6 million. This improvement was primarily due to the increase in EBITDA of $4.6 million and a reduction in current income taxes, partially offset by an increase in facility maintenance capital expenditures. Excluding the $4.0 million favourable book-to-file adjustment recorded this quarter, current income taxes represented 5.2% of pre-tax FFO this quarter compared to 21.9% in the 2012 third quarter, and reflected the impact of the change in prior years' reserves as well as changes in deferred tax timing differences. Facility maintenance capital expenditures were higher by $6.2 million, and are typically at their lowest in the first quarter and ramp up during the year.

For the year ended December 31, 2012, AFFO from continuing operations was $84.6 million ($0.994 per basic share), compared to $64.8 million ($0.777 per basic share) in 2011. Excluding the increase in prior years' reserves of $16.6 million and $42.8 million, respectively, AFFO from continuing operations was $101.2 million ($1.190 per basic share) this year compared to $107.6 million ($1.290 per basic share) in 2011. Excluding a $0.7 million positive effect of a weaker Canadian dollar, AFFO from continuing operations declined by $7.1 million between years. This decrease was primarily due to the decline in EBITDA of $44.5 million and higher facility maintenance capital expenditures, partially offset by lower net interest costs and current income taxes. Excluding the impact of foreign exchange, net interest costs were lower by $17.5 million as a result of our debt refinancing. Current income taxes represented 7.3% of pre-tax FFO in 2012, which was below the previously estimated range of 14% to 18% because of favourable book-to-file adjustments recorded in the 2012 fourth quarter and changes in estimates of timing differences. In comparison to the FFO effective tax rate reported in 2011 of 34.7%, our effective tax rate this year was favourably impacted by the proportion of earnings between taxable and non-taxable entities, particularly the impact of the lower level of reserves recorded in our non-taxable captive this year, the utilization of non-capital loss carryforwards in Canada and favourable changes in timing differences between years.

The effective tax rates on our FFO can be impacted by: adjustments to our estimates of annual timing differences, particularly when dealing with cash-based tax items versus accounting accruals; changes in the proportion of earnings between taxable and non-taxable entities; book-to-file adjustments for prior year filings; and the ability to utilize loss carryforwards. The restructuring of our Canadian legal entities, along with elimination of the income trust structure in July 2012, has enhanced our ability to realize available non-capital loss carryforwards, which reduced our current Canadian income taxes to a nominal level for the last half of 2012. As a result of the continued utilization of these non-capital loss carryforwards, we anticipate that our annual effective tax rate on FFO for 2013 will be in the range of 18% to 22%.

Facility maintenance capital expenditures were $14.9 million in the 2012 fourth quarter, compared to $10.1 million in the 2011 fourth quarter and $8.7 million in the 2012 third quarter, representing 3.0%, 1.9% and 1.7% of revenue, respectively. For the year ended December 31, 2012, facility maintenance capital expenditures totalled $35.7 million, or 1.8% of revenue, compared to $31.0 million, or 1.5% of revenue, in 2011. 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. In 2013, we are expecting to spend in the range of $38 million to $44 million in facility maintenance capital expenditures and $35 million to $40 million in growth capital expenditures.

Distributions declared in 2012 totalled $71.5 million, or $0.84 per share, representing approximately 85% of total AFFO of $84.6 million compared to approximately 100% in 2011. Excluding the impact of the increase in prior years' reserves for self-insured liabilities, distributions represented approximately 71% and 62% of total AFFO for the 2012 and 2011 years, respectively.

U.S. OPERATIONS KEY METRICS

Skilled Nursing Facility Revenue Rates

Our average daily Medicare Part A and Managed Care rates this quarter, excluding prior period settlement adjustments, were US$470.21 and US$439.41, respectively. Compared to the 2011 fourth quarter levels, these average rates increased by 1.4% and 3.2%, respectively, and increased over the 2012 third quarter levels by 0.9% and 1.2%, respectively. The 2012 fourth quarter improvement in Medicare Part A rates was due to the 1.8% net market basket increase effective October 1, 2012 and improvements in acuity mix, partially offset by a reduction in co-insurance reimbursement.

Our average daily Medicaid rate, excluding prior period settlement adjustments, increased this quarter by 5.0% to US$194.03 over US$184.83 in the 2011 fourth quarter, and by 1.9% from US$190.42 in the 2012 third quarter. However, revenue from Medicaid rate increases was partially offset by higher state provider taxes, resulting in a net increase of 4.3% this quarter in comparison to the 2011 fourth quarter. During the 2012 fourth quarter, we became eligible to receive Upper Payment Limit funding for all of our centers in Indiana. Exclusive of this additional funding of approximately US$1.3 million, the net increase in Medicaid rates in the 2012 fourth quarter was 3.3%.

Total and Skilled Census
We continue to be adversely affected by the weak U.S. economic conditions that have reduced disposable income of individuals and resulted in a general restraint by the public on health care spending. Lower hospital census has resulted in fewer admissions and the implementation of MDS 3.0 and RUG-IV as of October 2010 also resulted in a small reduction in our average length of stay for short-term admissions. In addition, certain state Medicaid programs are attempting to divert potential admissions to assisted living centers and home care programs to reduce the strain on state Medicaid budgets.

Our same-facility ADC of 12,235 in the 2012 fourth quarter was 201 below the 2011 fourth quarter level of 12,436 due to lower Skilled Mix ADC of 191 and Medicaid ADC of 12, partially offset by an increase in private/other ADC of 2. In comparison to the 2012 third quarter, our same-facility ADC was lower by 118 due to lower Medicaid ADC of 111 and Skilled Mix ADC of 46, partially offset by an increase in private/other ADC of 39. Our average same-facility occupancy was 84.3% this quarter compared to 84.7% in the 2011 fourth quarter, and 84.8% in the 2012 third quarter.

Our same-facility Skilled Mix ADC represented 21.4% of our residents in the 2012 fourth quarter compared to 22.5% in the 2011 fourth quarter and 21.5% in the 2012 third quarter.

OTHER RECENT DEVELOPMENTS

As previously disclosed, our wholly owned U.S. subsidiary, EHSI, has received subpoenas from the U.S. Department of Health and Human Services (DHHS), Office of the Inspector General (OIG), relating to the possible submission of claims that they believe may be in violation of the U.S. Social Security Act. During the 2012 fourth quarter, representatives of the OIG and the U.S. Department of Justice (DOJ) met with senior representatives of EHSI to discuss their investigation to date related to quality of care. EHSI is currently preparing a response to the OIG and DOJ and continues to cooperate with them in their investigation, which also includes the provision and billing of rehabilitation services.

If Extendicare is found to have violated the U.S. Social Security Act or other applicable laws and regulations, Extendicare may incur, among other things, fines, civil monetary penalties, recoupments and administrative sanctions (including suspension or exclusion from participation in the Medicare and Medicaid programs). Any of these outcomes could have a material adverse effect on the business, results of operations, or financial condition of Extendicare. At the present time, Extendicare is unable to predict the ultimate outcome of the DHHS OIG subpoenas referred to above, including any required corrective action, or to estimate the costs that may result. Extendicare believes that it is in material compliance with the U.S. Social Security Act and other applicable laws and regulations. Based on current knowledge, management does not believe that liabilities, if any, arising from these matters will have a material adverse effect on the consolidated financial position, or results of operations of Extendicare.

CONFERENCE CALL AND WEBCAST

On February 28, 2013, at 10:00 a.m. (ET), we will hold a conference call to discuss our 2012 fourth quarter and year end results. 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 9846412#. A replay of the call will be available until midnight on March 15, 2013. To access the rebroadcast, dial 1-800-408-3053 or 905-694-9451, followed by the passcode 8498095#. 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.

ABOUT US

Extendicare is a leading North American provider of post-acute and long-term senior care services. Through our network of owned and operated health care centers, our qualified and experienced workforce of 35,700 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 246 senior care centers in North America have capacity to care for approximately 26,800 residents.

Non-GAAP Measures

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

Forward-looking Statements

Information provided by Extendicare from time to time, including this release, contains or may contain forward-looking statements concerning anticipated financial events, results, circumstances, economic performance or expectations with respect to Extendicare and its subsidiaries, including, without limitation, statements regarding 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 Extendicare assumes no obligation to update or revise any forward-looking statement, except as required by applicable securities laws. These statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements of Extendicare to differ materially from those expressed or implied in the statements. Given these risks and uncertainties, readers are cautioned not to place undue reliance on Extendicare's forward-looking statements. Further information can be found in the disclosure documents filed by Extendicare with the securities regulatory authorities, available at www.sedar.com and on Extendicare's website at www.extendicare.com.

For further information, contact:
Douglas J. Harris
Senior Vice President and Chief Financial Officer
Phone: (414) 908-8855; Fax: (905) 470-4003
Email: djharris@extendicare.com
Visit Extendicare's Website at www.extendicare.com

Extendicare Inc.
Consolidated Statements of Earnings (Loss)

(in thousands of Canadian dollars)	**Three months ended December 31**		**Twelve months ended December 31**	
	2012	**2011**	**2012**	**2011**
Revenue				
Nursing and assisted living centers				
United States	**296,208**	338,819	**1,259,858**	1,355,289
Canada	**140,681**	136,776	**550,302**	525,831
Home health − Canada	**43,692**	43,207	**170,343**	165,030
Health technology services − United States	**7,041**	4,966	**25,453**	19,120
Outpatient therapy − United States	**2,775**	3,497	**13,229**	13,750
Rent, management, consulting and other services	**6,637**	4,561	**18,228**	15,062
Total revenue	**497,034**	531,826	**2,037,413**	2,094,082
Operating expenses	**426,921**	471,552	**1,780,019**	1,813,792
Administrative costs	**14,465**	17,264	**63,155**	69,155
Lease costs	**2,710**	2,907	**10,986**	10,999
Total expenses	**444,096**	491,723	**1,854,160**	1,893,946
EBITDA (1)	**52,938**	40,103	**183,253**	200,136
Depreciation and amortization	**18,990**	19,587	**76,805**	76,577
Loss (gain) from asset impairment, disposals and other items	**(367)**	8,667	**7,930**	62,496
Results from operating activities	**34,315**	11,849	**98,518**	61,063
Finance costs				
Interest expense	**16,538**	20,417	**65,306**	89,634
Interest income	**(1,221)**	(656)	**(3,565)**	(4,322)
Accretion costs	**695**	520	**2,302**	2,029
Distributions on Exchangeable LP Units	**-**	216	**-**	2,179
Fair value adjustments	**2,313**	11,362	**(4,823)**	(6,023)
Loss (gain) on foreign exchange and financial instruments	**-**	115	**1,103**	(553)
Net finance costs	**18,325**	31,974	**60,323**	82,944
Earnings (loss) before income taxes	**15,990**	(20,125)	**38,195**	(21,881)
Income tax expense (recovery)				
Current	**(2,400)**	(541)	**5,178**	28,280
Deferred	**3,836**	(315)	**5,394**	(14,838)
	1,436	(856)	**10,572**	13,442
Earnings (loss) from continuing operations	**14,554**	(19,269)	**27,623**	(35,323)
Discontinued operations	**72**	1,372	**35,033**	4,927
Net earnings (loss)	**14,626**	(17,897)	**62,656**	(30,396)
Earnings (loss) from continuing operations	**14,554**	(19,269)	**27,623**	(35,323)
Add (deduct):				
Fair value adjustment on convertible debentures, net of tax	**2,313**	9,686	**(4,823)**	577
Fair value adjustment on Exchangeable LP Units	**-**	618	**-**	(6,600)
Loss (gain) on foreign exchange and financial instruments, net of tax	**-**	115	**1,103**	(655)
Loss (gain) from asset impairment, disposals and other items, net of tax	**(367)**	6,284	**5,629**	46,808
Distributions on Exchangeable LP Units	**-**	216	**-**	2,179
Earnings (loss) from continuing operations before separately reported gains/losses and distributions on Exchangeable LP Units	**16,500**	(2,350)	**29,532**	6,986

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

Extendicare Inc.
Consolidated Statements of Financial Position

(in thousands of Canadian dollars, unless otherwise noted)	**December 31 2012**	**December 31 2011**
Assets		
Current assets		
Cash and short-term investments	**71,398**	80,018
Restricted cash	**28,680**	16,848
Accounts receivable, less allowance	**209,518**	222,707
Income taxes recoverable	**4,149**	8,223
Other current assets	**31,408**	32,279
Total current assets	**345,153**	360,075
Non-current assets		
Property and equipment, *including construction-in-progress of $62,688 and $18,770, respectively*	**1,181,596**	1,192,913
Goodwill and other intangible assets	**82,793**	87,269
Other assets	**176,457**	154,695
Deferred tax assets	**21,917**	35,752
Total non-current assets	**1,462,763**	1,470,629
Total Assets	**1,807,916**	1,830,704
Liabilities and Equity		
Current liabilities		
Accounts payable	**35,508**	42,241
Accrued liabilities	**202,913**	224,693
Accrual for self-insured liabilities	**21,888**	24,408
Current portion of long-term debt	**93,448**	192,698
Income taxes payable	**9,377**	10,519
Total current liabilities	**363,134**	494,559
Non-current liabilities		
Provisions	**26,851**	26,105
Accrual for self-insured liabilities	**74,042**	55,015
Long-term debt	**1,038,787**	941,742
Other long-term liabilities	**48,025**	49,638
Deferred tax liabilities	**202,417**	215,326
Total non-current liabilities	**1,390,122**	1,287,826
Total liabilities	**1,753,256**	1,782,385
Shareholders'/Unitholders' equity	**54,660**	48,319
Total Liabilities and Equity	**1,807,916**	1,830,704
Closing U.S./Cdn. dollar exchange rate	***0.9949***	*1.0170*

Extendicare Inc.
Consolidated Statements of Cash Flows

(in thousands of Canadian dollars)	Three months ended December 31		Twelve months ended December 31	
	2012	**2011**	**2012**	**2011**
Operating Activities				
Net earnings (loss)	**14,626**	(17,897)	**62,656**	(30,396)
Adjustments for:				
Depreciation and amortization	**18,991**	19,604	**76,805**	76,658
Provision for self-insured liabilities	**5,960**	16,105	**40,807**	65,266
Payments for self-insured liabilities	**(6,770)**	(9,110)	**(23,933)**	(35,103)
Deferred taxes	**3,660**	(315)	**5,263**	(14,838)
Current taxes	**(2,296)**	316	**26,729**	31,316
Loss (gain) from asset impairment, disposals and other items	**(367)**	8,667	**7,930**	62,496
Gain from asset disposals from discontinued operations	**-**	-	**(56,453)**	-
Net finance costs	**18,325**	31,974	**60,323**	82,944
Interest capitalized	**(526)**	(35)	**(873)**	(195)
Other	**(610)**	99	**(406)**	399
	50,993	49,408	**198,848**	238,547
Net change in operating assets and liabilities				
Accounts receivable	**3,665**	(18,689)	**21,111**	(10,545)
Other current assets	**379**	(4,891)	**759**	(11,210)
Accounts payable and accrued liabilities	**3,451**	11,260	**(31,701)**	(4,525)
	58,488	37,088	**189,017**	212,267
Interest paid	**(16,999)**	(22,468)	**(60,276)**	(83,531)
Interest received	**1,209**	627	**3,509**	4,278
Income taxes paid	**(1,374)**	(7,508)	**(23,463)**	(26,235)
Net cash from operating activities	**41,324**	7,739	**108,787**	106,779
Investing Activities				
Purchase of property, equipment and software	**(33,723)**	(20,624)	**(84,103)**	(64,308)
Acquisition of nursing center, net of cash acquired	**-**	-	**-**	(7,299)
Net proceeds from dispositions	**-**	-	**56,323**	4,805
Other assets	**446**	215	**(5,363)**	(1,104)
Net cash from investing activities	**(33,277)**	(20,409)	**(33,143)**	(67,906)
Financing Activities				
Issue of long-term debt, excluding line of credit	**36,812**	107,537	**329,720**	402,327
Repayment of long-term debt, excluding line of credit	**(114,749)**	(227,999)	**(254,468)**	(551,250)
Issue on line of credit	**4,839**	40,809	**63,964**	81,195
Repayment on line of credit	**(3,014)**	(17,808)	**(108,846)**	(45,474)
Increase in restricted cash	**(4,584)**	(6,209)	**(11,832)**	(6,753)
Increase in investments held for self-insured liabilities	**(12,279)**	(35,157)	**(31,603)**	(21,053)
Dividends/distributions paid	**(14,425)**	(13,778)	**(56,980)**	(58,375)
Financing costs	**(1,204)**	(11,892)	**(13,101)**	(28,315)
Other	**2**	(173)	**(4)**	455
Net cash from financing activities	**(108,602)**	(164,670)	**(83,150)**	(227,243)
Decrease in cash and cash equivalents	**(100,555)**	(177,340)	**(7,506)**	(188,370)
Cash and cash equivalents at beginning of period	**171,439**	265,593	**80,018**	267,759
Foreign exchange gain (loss) on cash held in foreign currency	**514**	(8,235)	**(1,114)**	629
Cash and cash equivalents at end of period	**71,398**	80,018	**71,398**	80,018

Extendicare Inc.
Financial and Operating Statistics

(amounts in Canadian dollars, unless otherwise noted)	**Three months ended December 31**		**Twelve months ended December 31**	
	2012	**2011**	**2012**	**2011**
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)	**29.7 %**	32.5 %	**31.1 %**	35.2 %
Managed Care	**10.3**	10.3	**10.4**	10.7
Skilled mix	**40.0**	42.8	**41.5**	45.9
Private/other	**9.6**	9.1	**9.3**	8.5
Quality mix	**49.6**	51.9	**50.8**	54.4
Medicaid	**50.4**	48.1	**49.2**	45.6
	100.0	100.0	**100.0**	100.0
Average Daily Census by Payor Source (same-facility basis)				
Medicare	**1,864**	2,024	**1,955**	2,124
Managed Care	**748**	779	**776**	807
Skilled mix	**2,612**	2,803	**2,731**	2,931
Private/other	**1,302**	1,300	**1,257**	1,254
Quality mix	**3,914**	4,103	**3,988**	4,185
Medicaid	**8,321**	8,333	**8,362**	8,286
	12,235	12,436	**12,350**	12,471
Average Revenue per Resident Day by Payor Source (excluding prior period settlement adjustments) (US$)				
Medicare Part A only	**$ 470.21**	$ 463.89	**$ 461.45**	$ 503.75
Medicare (Parts A and B)	**510.68**	513.24	**508.92**	546.91
Managed Care	**439.41**	425.80	**432.38**	442.81
Private/other	**235.69**	224.17	**235.39**	224.91
Medicaid	**194.03**	184.83	**188.87**	182.49
Weighted average	**261.78**	255.46	**258.66**	263.56
Average Occupancy (excluding managed centers) (same-facility basis)				
U.S. skilled nursing centers	**84.3 %**	84.7 %	**84.8 %**	84.9 %
U.S. assisted living centers	**76.1**	66.2	**69.9**	67.4
Canadian centers	**98.7**	97.6	**98.0**	97.8
Purchase of Property, Equipment and Software *(thousands)*				
Growth expenditures	**$19,332**	$10,566	**$49,253**	$33,528
Facility maintenance	**14,917**	10,093	**35,723**	30,975
Deduct: capitalized interest	**(526)**	(35)	**(873)**	(195)
	$33,723	$20,624	**$84,103**	$64,308
Average U.S./Cdn. dollar exchange rate	***0.9916***	*1.0217*	***0.9996***	*0.9891*

Extendicare Inc.
Supplemental Information – FFO and AFFO

The following table provides a reconciliation of EBITDA to Funds from Operations (FFO) and Adjusted Funds from Operations (AFFO) for the periods ended December 31, 2012 and 2011.[1]

(in thousands of Canadian dollars unless otherwise noted)	**Three months ended December 31**		**Twelve months ended December 31**	
	2012	**2011**	**2012**	**2011**
EBITDA from continuing operations	**52,938**	40,103	**183,253**	200,136
Depreciation for furniture, fixtures, equipment and computers	**(5,748)**	(6,114)	**(23,580)**	(23,386)
Accretion costs	**(695)**	(520)	**(2,302)**	(2,029)
Interest expense, net	**(15,317)**	(19,761)	**(61,741)**	(85,312)
	31,178	13,708	**95,630**	89,409
Current income tax expense [2]	**2,400**	(1,841)	**(6,948)**	(30,981)
FFO (continuing operations)	**33,578**	11,867	**88,682**	58,428
Amortization of financing costs	**1,666**	2,495	**5,274**	11,405
Principal portion of government capital funding payments	**687**	646	**2,756**	2,595
Additional maintenance capital expenditures [3]	**(9,169)**	(3,979)	**(12,143)**	(7,589)
AFFO (continuing operations)	**26,762**	11,029	**84,569**	64,839
AFFO (discontinued operations)	**-**	1,389	**-**	5,008
AFFO	**26,762**	12,418	**84,569**	69,847
Per Basic Share/Unit ($) [4]				
FFO (continuing operations)	**0.393**	0.142	**1.043**	0.701
AFFO (continuing operations)	**0.312**	0.131	**0.994**	0.777
AFFO	**0.312**	0.147	**0.994**	0.837
Per Diluted Share/Unit ($) [4]				
FFO (continuing operations)	**0.362**	0.143	**0.988**	0.689
AFFO (continuing operations)	**0.292**	0.134	**0.945**	0.755
AFFO	**0.292**	0.148	**0.945**	0.806
Distributions declared [4]	**18,021**	17,630	**71,497**	70,101
Distributions declared per share/unit ($)	**0.2100**	0.2100	**0.8400**	0.8400
Basic weighted average number of shares/units *(thousands)* [4]	**85,736**	83,869	**85,039**	83,408
Diluted weighted average number of shares/units *(thousands)* [4]	**105,254**	97,682	**100,420**	97,205

(1) "EBITDA", "funds from operations" 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 FFO.

(4) Prior to the redemption of the Exchangeable LP Units on November 10 2011, per unit amounts, distributions declared and the number of units were based on the total of the REIT Units and Exchangeable LP Units.

Reconciliation of Cash Provided by Operating Activities to AFFO	**Three months ended December 31**		**Twelve months ended December 31**	
(in thousands of Canadian dollars)	**2012**	**2011**	**2012**	**2011**
Cash provided by operating activities	**41,324**	7,739	**108,787**	106,779
Add (Deduct):				
Net change in operating assets and liabilities, including interest and taxes	**(1,856)**	23,386	**5,436**	22,532
Current tax on fair value adjustments, gain/loss on foreign exchange, financial instruments, asset impairment, disposals and other items	**104**	(2,382)	**19,781**	(2,701)
Net provisions and payments for self-insured liabilities	**810**	(6,995)	**(16,874)**	(30,163)
Distributions on Exchangeable LP Units	**-**	216	**-**	2,179
Depreciation for furniture, fixtures, equipment and computers	**(5,748)**	(6,114)	**(23,580)**	(23,386)
Principal portion of government capital funding payments	**687**	646	**2,756**	2,595
Other	**610**	(99)	**406**	(399)
Additional maintenance capital expenditures	**(9,169)**	(3,979)	**(12,143)**	(7,589)
AFFO	**26,762**	12,418	**84,569**	69,847