EXTENDICARE

NEWS RELEASE

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FOR IMMEDIATE RELEASE
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Extendicare Announces 2012 Third Quarter Results

Declares November Dividend of $0.07 per Share

MARKHAM, ONTARIO – Extendicare Inc. (“Extendicare” or the “Company”) (TSX: EXE) today reported results for the three and nine months ended September 30, 2012. Results are presented in Canadian dollars unless otherwise noted.

HIGHLIGHTS (variances exclude effect of foreign exchange)

- Revenue was $498.5 million in Q3 2012, and included a decline of $10.1 million from same-facility operations over Q3 2011.
- Average daily revenue rates for Medicare Part A and Managed Care in Q3 2012 declined by 10.6% and 5.1%, respectively, over Q3 2011, and increased by 2.4% and 0.9%, respectively, over Q2 2012.
- EBITDA includes strengthening of prior years’ reserves of $11.0 million in Q3 2012.
- EBITDA, excluding reserve adjustments, was $48.3 million in Q3 2012, $22.1 million lower than Q3 2011, and $0.5 million lower than Q2 2012.
- EBITDA margin, excluding reserve adjustments, was 9.7% in Q3 2012 compared to 13.3% in Q3 2011 and 9.4% in Q2 2012.
- Continuing strong operating performance from Canadian operations, generating EBITDA margin of 11.0% in Q3 2012 compared to 10.7% in Q3 2011 and 9.4% in Q2 2012.
- AFFO from continuing operations, excluding reserve adjustments, was $22.2 million ($0.260 per basic share) in Q3 2012 compared to $34.6 million ($0.414 per basic share) in Q3 2011 and $25.1 million ($0.297 per basic share) in Q2 2012.
- Distributions in the first nine months of 2012 totalled $53.5 million, or $0.63 per share, representing 93% of AFFO for the same period, or 72% excluding the strengthening of prior years’ reserves.
- Dividend of $0.07 per share declared for November.
- Two Ontario redevelopment projects (436 beds) progressing towards completion in the first half of 2013.

“In the third quarter, Extendicare experienced a reduction in revenue and EBITDA as a result of persisting weakness in the U.S. economy and the impact of cuts to Medicare funding to skilled nursing operators implemented in the fourth quarter of 2011. In addition, following our third quarter actuarial review, we strengthened our prior years’ reserves for self-insured liabilities to conservatively account for the resolution of new and existing liability claims, which had the effect of further impairing our results for the quarter,” said Tim Lukenda, President and CEO of Extendicare. “We continue to take proactive steps to address our exposure to further liability claims to the furthest extent possible. We are confident that our record of quality, as evidenced by our state and federal surveys and our improved five-star performance, and as recognized by our AHCA Quality Awards received by over 60% of our U.S. centers, demonstrates our commitment to our residents. Looking ahead, we anticipate the return of an environment in the United States of greater political stability and funding certainty. In the meantime, we will remain focused on the delivery of quality care to our customers, continue to manage our business efficiently and prudently and to ensure that we can continue to deliver AFFO sufficient to cover our dividends.”

“We are pleased with the continuing strong and predictable performance of our Canadian operations, as well as with the progress of our two redevelopment projects in Ontario that are set to open in 2013. Once fully operational, we anticipate they will generate incremental EBITDA of approximately $2 million,” Lukenda added.

CONVERTIBLE DEBT REFINANCING

As previously announced, Extendicare issued $126.5 million of aggregate principal amount of 6.00% convertible unsecured debentures due September 30, 2019, convertible at $11.25 per common share (the “2019 Debentures”). The initial offering for $110.0 million of the 2019 Debentures closed on September 25, 2012 and the exercise of the over-allotment option for $16.5 million of the 2019 Debentures closed on October 1, 2012.

The net proceeds from the offering were approximately $120.7 million, of which $94.0 million was used on October 29, 2012, to redeem all of the Company’s outstanding 7.25% convertible unsecured subordinate debentures due June 2013 (the “2013 Debentures”). The redemption price of the 2013 Debentures was equal to the sum of the outstanding aggregate principal amount of $91,794,000 and all accrued and unpaid interest thereon for a total of $93,999,810, or $1,024.03 per $1,000 principal amount of 2013 Debentures.

The balance of the net proceeds will be used by the Company for general corporate purposes, which may include reducing indebtedness, funding internal growth expenditures or purchasing common shares of the Company under its normal course issuer bid.

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$6.2 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. This process of sequestration which, if not overturned, will automatically reduce Medicare funding by 2% beginning January 2, 2013. A 2% funding reduction is estimated to reduce our Medicare revenue by approximately US$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 second 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. If 100% of the claims over US$3,700 were denied, the loss of revenue to us is estimated to be US$2 million for the fourth quarter of 2012, or US$8 million per annum. It is uncertain whether this interim requirement will extend beyond 2012 as further changes were proposed effective January 1, 2013, as discussed below.

In July 2012, CMS announced, in conjunction with the implementation of Medicare physician fee rates, a 31% reduction of Medicare Part B rates to commence January 1, 2013. The impact of the 31% Part B rate reduction on EHSI’s therapy revenue is estimated to be US$11 million per annum. We continue to dialogue with policy-makers about the impact of the Part B fee reduction and therapy caps on access to care and quality of life for our residents. 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.

U.S. SUBSIDIARY CLOSES ON LEASE OF KENTUCKY CENTERS

As previously announced, our wholly owned U.S. subsidiary, Extendicare Health Services, Inc. (EHSI), entered into an agreement to lease all 21 of its Kentucky skilled nursing centers (1,762 beds) to an experienced third-party long-term care operator. Nineteen of these centers (1,545 beds) were leased effective July 1, 2012, and the remaining two centers were leased effective October 1, 2012. Under the agreement, the operating leases have 10-year terms with two 5-year extensions at the option of the operator. In addition, if certain conditions are met, the operator has the option to purchase all of the centers during the initial lease term at agreed upon per bed amounts. As a result of this transaction, EHSI no longer operates skilled nursing centers in Kentucky. The decision to exit the State of Kentucky is consistent with Extendicare's continuing strategy for achieving ongoing performance improvements that involves the divestiture of operations that impede growth or create undue risk exposure. According to the *2012 AON Long Term Care General Liability and Professional Liability Actuarial Analysis*, the loss rate per bed for all skilled nursing center operators in Kentucky has increased from US$690 in 2004 to US$4,930 in 2011, and is projected to be US$5,120 in 2012.

Based on the annualized financial results of the Kentucky operations for the first six months of 2012, including an allocation of US$12.0 million in provisions made for self-insured liabilities, Extendicare estimates that the lease transaction will reduce its EBITDA by approximately $3.2 million per annum and adjusted funds from operations (AFFO) by approximately $0.6 million or $0.007 per share per annum.

PROVISION FOR SELF-INSURED LIABILITIES

The results of the 2012 third quarter independent actuarial review necessitated the strengthening of our prior years' reserves this quarter by $11.0 million (US$11.0 million), along with an incremental increase in the level of reserves for the current year. 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. We had anticipated that following our exit from Kentucky, which has accounted for more than 50% of our provision for self-insured liabilities over the past two years, our provision for self-insured liabilities would be reduced by approximately US$12 million per annum. However, an increase in claims in the quarter in other states has resulted in an actuarial projection that requires an additional provision of US$3.5 million in the quarter.

For the nine months ended September 30, 2012, we have made provisions for self-insured liabilities of $34.8 million (US$34.8 million), of which $16.6 million (US$16.6 million) related to the strengthening of our prior years' reserves. In comparison, in the same 2011 period, our provision for self-insured liabilities was $49.2 million (US$50.3 million), of which $31.4 million (US$32.1 million) related to prior years' reserves. For the year ended December 31, 2011, 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.

2012 THIRD QUARTER FINANCIAL REVIEW

TABLE 1 *(millions of dollars unless otherwise noted)*	**Q3 2012**	**Q3 2011**	**Q2 2012**
Revenue			
U.S. operations (US$)	**316.2**	359.1	339.5
U.S. operations (C$)	**314.6**	352.2	343.1
Canadian operations	**183.9**	176.3	181.6
Total Revenue	**498.5**	528.5	524.7
EBITDA [(1)]			
U.S. operations (US$)	**17.2**	20.1	26.3
U.S. operations (C$)	**17.0**	19.8	26.5
Canadian operations	**20.3**	18.9	17.1
Total EBITDA	**37.3**	38.7	43.6
EBITDA margin	**7.5%**	7.3%	8.3%
Average U.S./Canadian dollar exchange rate	**0.9956**	0.9807	1.0103

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

2012 Third Quarter Comparison to 2011 Third Quarter

Consolidated revenue from continuing operations declined by $34.5 million, excluding a $4.5 million positive effect of a weaker Canadian dollar. New centers net of disposals, including the impact of leasing out our Kentucky centers, (collectively “non same-facility operations”), resulted in lower revenue of $24.4 million between periods. Revenue from same-facility operations declined by $10.1 million, with improvements in Canadian operations of $4.9 million offset by the impact of the CMS funding changes on October 1, 2011 (the “2011 CMS Final Rule”) and lower census levels on the U.S. operations.

Revenue from U.S. operations declined by US$42.9 million to US$316.2 million in the 2012 third quarter compared to US$359.1 million in the 2011 third quarter. The Kentucky operations generated revenue of US$7.7 million this quarter compared to US$35.4 million in the 2011 third quarter, for a net decline of US$27.7 million. Revenue from same-facility operations declined by US$15.2 million between periods primarily due to lower average Medicare and Managed Care rates and lower census levels, partially offset by higher average Medicaid and private/other rates. The decline in our average Medicare Part A and Managed Care rates reduced our same-facility revenue by approximately US$13.0 million and was partially offset by higher average Medicaid and private/other rates of US$5.6 million, while lower census levels contributed US$7.3 million to the revenue decline. The remaining decline of US$0.5 million related primarily to a decrease in prior period settlement adjustments of US$1.6 million, partially offset by improvements in nursing ancillary and other revenue. Our same-facility average daily census (ADC) was lower by 114 this quarter, with a decline in Skilled Mix ADC of 176 and private/other ADC of 14, partially offset by an increase in Medicaid ADC of 76. Our same-facility Skilled Mix ADC represented 21.5% of residents this quarter compared to 22.7% in the 2011 third quarter.

Consolidated EBITDA from continuing operations was $37.3 million this quarter compared to $38.7 million in the 2011 third quarter, and represented 7.5% and 7.3% of revenue, respectively. Excluding the increase in prior years’ reserves for self-insured liabilities of $11.0 million this quarter and $31.4 million in the same 2011 period, EBITDA was $48.3 million, or 9.7% of revenue, this quarter compared to $70.1 million, or 13.3% of revenue, in the 2011 third quarter. This represented a decline of $21.8 million between periods. Excluding a $0.3 million positive effect of a weaker Canadian dollar, EBITDA declined by $22.1 million, of which $20.7 million was from same-facility operations. This decline was largely due to the adverse impact of the 2011 CMS Final Rule and lower U.S. census levels, partially offset by our cost cutting measures. A discussion of the segmented U.S. and Canadian operations follows.

EBITDA from U.S. operations was US$17.2 million this quarter compared to US$20.1 million in the 2011 third quarter, and represented 5.4% and 5.6% of revenue, respectively. Excluding the increase in prior years' reserves for self-insured liabilities of US$11.0 million this quarter and US$32.1 million in the same 2011 period, EBITDA was US$28.2 million, or 8.9% of revenue, this quarter compared to US$52.2 million, or 14.5% of revenue, in the 2011 third quarter. This represented a decline of US$24.0 million between periods. EBITDA from non same-facility operations was US$4.4 million this quarter compared to US$6.6 million in the same 2011 period, representing a decline of US$2.2 million between periods. EBITDA from same-facility operations declined by US$21.8 million, resulting from the decline in revenue of US$15.2 million and higher operating, administrative and lease costs of US$6.6 million. Operating, administrative and lease costs were affected primarily by an increase in the accrual for self-insured liabilities of US$3.3 million, a vendor refund of prior years' charges of US$3.6 million recorded in the 2011 third quarter, higher state provider taxes of US$1.4 million and an increase in the accrual for share appreciation rights of US$1.2 million (a charge of US$0.4 million this quarter compared to a credit of US$0.8 million in the 2011 third quarter), partially offset by net reductions in other costs of US$2.9 million.

EBITDA from Canadian operations improved by $1.4 million to $20.3 million this quarter from $18.9 million in the 2011 third quarter and represented 11.0% and 10.7% of revenue, respectively. Non same-facility operations contributed $0.8 million to the improvement. EBITDA from same-facility operations improved by $0.6 million, with higher revenue of $4.9 million in excess of cost increases of $4.3 million. The accrual for share appreciation rights was a charge of $0.3 million this quarter compared to a credit of $0.6 million in the 2011 third quarter, for a net increase of $0.9 million between periods.

2012 Third Quarter Comparison to 2012 Second Quarter

In comparison to the 2012 second quarter, consolidated revenue from continuing operations in the 2012 third quarter declined by $21.4 million, excluding a $4.8 million negative effect of a stronger Canadian dollar. Non same-facility operations contributed $25.8 million to the decline, with same-facility operations improving by $4.4 million, of which $2.5 million was from our U.S. operations and the balance from our Canadian operations.

Consolidated EBITDA from continuing operations was $37.3 million this quarter compared to $43.6 million in the 2012 second quarter, and represented 7.5% and 8.3% of revenue, respectively. Excluding the increase in prior years' reserves for self-insured liabilities of $11.0 million this quarter and $5.6 million in the 2012 second quarter, EBITDA was $48.3 million, or 9.7% of revenue, this quarter compared to $49.2 million, or 9.4% of revenue, in the 2012 second quarter. This represented a decline of $0.9 million between periods. Excluding a $0.4 million negative effect of a stronger Canadian dollar, EBITDA declined by $0.5 million, of which $0.3 million was from same-facility operations. A discussion of the segmented U.S. and Canadian operations follows.

EBITDA from U.S. operations was US$17.2 million this quarter compared to US$26.3 million in the 2012 second quarter, and represented 5.4% and 7.7% of revenue, respectively. Excluding the increase in prior years' reserves for self-insured liabilities of US$11.0 million this quarter and US$5.6 million in the 2012 second quarter, EBITDA was US$28.2 million, or 8.9% of revenue, this quarter compared to US$31.9 million, or 9.4% of revenue, in the 2012 second quarter. This represented a decline of US$3.7 million between periods. EBITDA from non same-facility operations was US$4.4 million this quarter compared to US$5.0 million in the 2012 second quarter, representing a decline of US$0.6 million between quarters. EBITDA from same-facility operations declined by US$3.1 million with higher revenue of US$2.6 million offset by increased costs of US$5.7 million. Revenue improvements were primarily due to higher average rates of US$2.8 million and the extra day in the quarter of US$3.0 million, partially offset by lower census levels and other items of US$3.2 million. Higher operating, administrative and lease costs of US$5.7 million included an increase in the accrual for self-insured liabilities of US$3.5 million and higher labour-related costs of US$3.0 million, partially offset by net cost reductions of US$0.8 million.

EBITDA from Canadian operations improved by $3.2 million to $20.3 million this quarter from $17.1 million in the 2012 second quarter, and represented 11.0% and 9.4% of revenue, respectively. This improvement was largely due to funding improvements, timing of spending under the Ontario flow-through envelopes and a contribution of $0.4 million from non same-facility operations.

2012 NINE MONTH FINANCIAL REVIEW

TABLE 2	**Nine months ended September 30**	
(millions of dollars unless otherwise noted)	**2012**	**2011**
Revenue		
U.S. operations (US$)	**995.4**	1,068.9
U.S. operations (C$)	**997.7**	1,045.5
Canadian operations	**542.7**	516.8
Total Revenue	**1,540.4**	1,562.3
EBITDA (1)		
U.S. operations (US$)	**77.2**	111.7
U.S. operations (C$)	**77.3**	109.3
Canadian operations	**53.0**	50.7
Total EBITDA	**130.3**	160.0
EBITDA margin	**8.5%**	10.2%
Average U.S./Canadian dollar exchange rate	**1.0023**	0.9781

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

Consolidated revenue from continuing operations declined by $46.0 million, excluding the $24.1 million positive effect of the weaker Canadian dollar. Non same-facility operations contributed $25.0 million to the decline in revenue between periods. Revenue from same-facility operations declined between periods by $21.0 million, with improvement in Canadian operations of $16.3 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 was $130.3 million for the first nine months of 2012 compared to $160.0 million in the same 2011 period, and represented 8.5% and 10.2% of revenue, respectively. Excluding the increase in prior years' reserves for self-insured liabilities of $16.6 million in the first nine months of 2012 and $31.4 million in the same 2011 period, EBITDA was $146.9 million, or 9.5% of revenue, this period compared to $191.4 million, or 12.3% of revenue, in the same 2011 period. This represented a decline of $44.5 million between periods. Excluding a $2.2 million positive effect of a weaker Canadian dollar, EBITDA declined by $46.7 million, of which $42.7 million was from same-facility operations. Details by segmented operations are discussed below.

EBITDA from U.S. operations was US$77.2 million in the first nine months of 2012 compared to US$111.7 million in the same 2011 period, and represented 7.8% and 10.5% of revenue, respectively. Excluding the increase in prior years' reserves for self-insured liabilities of US$16.6 million this period and US$32.1 million in the same 2011 period, EBITDA was US$93.8 million, or 9.4% of revenue, this period compared to US$143.8 million, or 13.5% of revenue, in the same 2011 period. This represented a decline of US$50.0 million between periods. EBITDA from non same-facility operations was US$14.5 million this period compared to US$19.0 million in the same 2011 period, representing a decline of US$4.5 million between periods. Same-facility operations declined by US$45.5 million, resulting from a decline in revenue of US$38.1 million and higher operating, administrative and lease costs of

US$7.4 million. Lower average funding rates and census levels contributed US$21.5 million and US$22.6 million to the decline, respectively, partially offset by US$6.0 million of other revenue improvements including the extra day in the year. Increased costs of US$7.4 million were impacted by higher state provider taxes of US$5.8 million, increased reserves for self-insured liabilities of US$3.7 million, and higher labour-related costs of US$3.4 million, partially offset by net cost reductions of US$5.5 million.

EBITDA from Canadian operations improved by $2.3 million to $53.0 million in the first nine months of 2012 from $50.7 million in the same 2011 period, and represented 9.8% of revenue in both periods. Non same-facility operations contributed EBITDA of $4.0 million this period compared to $2.8 million in the same 2011 period, for a net improvement of $1.2 million between periods. Same-facility operations improved by $1.1 million resulting from higher revenue of $16.3 million partially offset by higher costs of $15.2 million.

2012 NINE MONTH EARNINGS (LOSS) FROM CONTINUING OPERATIONS

For the first nine months of 2012, Extendicare reported earnings from continuing operations of $13.1 million compared to loss of $16.1 million in the same 2011 period. The comparability of the earnings (loss) is impacted by fair value adjustments on convertible debentures and on the former 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 in the attached interim condensed consolidated statements of earnings. Excluding these separately reported items, earnings from continuing operations were $13.1 million this period compared to $9.3 million in the first nine months of 2011, for a net improvement of $3.8 million between periods. The previously discussed decline in consolidated EBITDA from continuing operations of $29.7 million was offset by lower net interest costs and a lower provision for income taxes. Net interest costs were lower by $19.1 million this period primarily due to the refinancing of a substantial portion of our U.S. and Canadian long-term debt at lower rates, partially offset by debt issued in connection with our new Alberta projects that were completed in 2011. With respect to our lower income tax provision, the effective tax rate on earnings from continuing operations before separately reported items was 46.7% this period compared to 74.1% in the first nine months of 2011. This decline in rates was primarily due to the change in proportion of income among our taxable and non-taxable entities, particularly the impact of the higher level of reserves recorded in our non-taxable captive in 2011.

DISCONTINUED OPERATIONS

As previously announced, we finalized the sale of our U.S. group purchasing organization, or GPO, for cash proceeds of US$56.0 million effective January 1, 2012, which resulted in the recognition of an after-tax gain of $34.9 million (US$34.5 million). The earnings of our U.S. GPO and the gain on sale have been classified as discontinued operations.

ADJUSTED FUNDS FROM OPERATIONS (AFFO)

AFFO from continuing operations was $11.2 million ($0.130 per basic share) in the 2012 third quarter compared to $3.2 million ($0.037 per basic share) in the same 2011 period. Excluding the increase in prior years' reserves of $11.0 million and $31.4 million, respectively, AFFO from continuing operations was $22.2 million ($0.260 per basic share) this period compared to $34.6 million ($0.414 per basic share) in the same 2011 period. Excluding a $0.1 million positive effect of a weaker Canadian dollar, AFFO from continuing operations declined by $12.5 million between periods. This decrease was primarily due to the decline in EBITDA of $22.1 million, largely due to the adverse impact of the 2011 CMS Final Rule along with lower U.S. census, partially offset by lower net interest costs and current income taxes. Excluding the impact of foreign exchange, net interest costs were lower by $3.8 million as a result of our debt refinancing. Current income taxes represented 21.9% of pre-tax funds from operations (FFO) this quarter compared to 83.5% in the 2011 third quarter, and were favourably impacted by the proportion of earnings between taxable and non-taxable entities, particularly the impact of the higher level of reserves recorded in our non-taxable captive in 2011, and the utilization of non-capital loss carryforwards in Canada.

AFFO in the 2012 second quarter was $19.5 million ($0.230 per basic share), or $25.1 million ($0.297 per basic share) excluding the $5.6 million increase in prior years' reserves. In comparison, AFFO this quarter of $22.2 million was lower by $2.7 million, excluding a $0.2 million negative effect of a stronger Canadian dollar. This decrease was primarily due to the decline in EBITDA of $0.5 million and an increase in facility maintenance capital expenditures. Current income taxes represented 21.9% of pre-tax FFO this quarter compared to 14.0% in the 2012 second quarter. However, excluding the prior years' reserves the effective tax rates were 12.8% this quarter compared to 11.2% in the 2012 second quarter. Facility maintenance capital expenditures were higher by $1.5 million, and are typically at their lowest in the first quarter and ramp up during the year.

For the first nine months of 2012, AFFO from continuing operations was $57.8 million ($0.682 per basic share), compared to $53.8 million ($0.646 per basic share) in the same 2011 period. Excluding the increase in prior years' reserves of $16.6 million and $31.4 million, respectively, AFFO from continuing operations was $74.4 million ($0.878 per basic share) this period compared to $85.2 million ($1.023 per basic share) in the same 2011 period. Excluding a $1.1 million positive effect of a weaker Canadian dollar, AFFO from continuing operations declined by $11.9 million between periods. This decrease was primarily due to the decline in EBITDA of $46.7 million, largely due to the adverse impact of the 2011 CMS Final Rule along with lower U.S. census, partially offset by lower net interest costs and current income taxes. Excluding the impact of foreign exchange, net interest costs were lower by $14.3 million as a result of our debt refinancing. Current income taxes represented 14.5% of pre-tax FFO this period compared to 38.5% in the first nine months of 2011, and were favourably impacted by the proportion of earnings between taxable and non-taxable entities, the utilization of non-capital loss carryforwards in Canada and favourable changes in timing differences between the periods.

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 that will reduce our current Canadian income taxes to a nominal level for the balance of 2012 and 2013. As a result of the utilization of these non-capital loss carryforwards, and favourable book-to-file adjustments and timing differences, we anticipate that our annual effective tax rate on FFO for the 2012 year will be in the range of 14% to 18%.

Facility maintenance capital expenditures were $8.7 million in the 2012 third quarter, compared to $9.1 million in the 2011 third quarter and $7.3 million in the 2012 second quarter, representing 1.7%, 1.7% and 1.4% of revenue, respectively. For the first nine months of 2012, facility maintenance capital expenditures totalled $20.8 million compared to $20.9 million in the same 2011 period. 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. We are expecting to spend up to approximately $35 million in facility maintenance capital expenditures and approximately $50 million in growth capital expenditures in 2012.

Distributions declared in the first nine months of 2012 totalled $53.5 million, or $0.63 per share, representing approximately 93% of total AFFO of $57.8 million compared to approximately 91% in the same 2011 period. Excluding the impact of the increase in prior years' reserves for self-insured liabilities, distributions represented approximately 72% and 59% of total AFFO in the first nine months of 2012 and 2011, 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$466.23 and US$434.35, respectively, and compared to the 2011 third quarter levels, which were immediately prior to the implementation of the 2011 CMS Final Rule, rates this quarter were lower by 10.6% and 5.1%, respectively. In comparison to the 2012 second quarter levels, our average Medicare Part A and Managed Care rates improved by 2.4% and 0.9%, respectively.

Our average daily Medicaid rate, excluding prior period settlement adjustments, increased this quarter by 3.8% to US$190.42 over US$183.42 in the 2011 third quarter, and by 1.9% from US$186.83 in the 2012 second quarter. However, revenue from Medicaid rate increases was partially offset by higher state provider taxes, resulting in a net increase of 3.2% this quarter in comparison to the 2011 third quarter.

Total and Skilled Census

We continue to be adversely affected by the U.S. economic recession that has 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 12,353 in the 2012 third quarter was 114 below the 2011 third quarter level of 12,467 due to lower Skilled Mix ADC of 176 and private/other ADC of 14, partially offset by an increase in Medicaid ADC of 76. In comparison to the 2012 second quarter, our same-facility ADC was lower by four due to lower Skilled Mix ADC of 137, partially offset by an increase in private/other ADC of 27 and Medicaid ADC of 106. Our average same-facility occupancy was 84.8% this quarter compared to 84.9% in the 2011 third quarter, and was unchanged from the 2012 second quarter.

Our same-facility Skilled Mix ADC represented 21.5% of our residents in the 2012 third quarter compared to 22.7% in the 2011 third quarter and 22.6% in the 2012 second quarter.

NOVEMBER 2012 DIVIDEND DECLARED

The Board of Directors of Extendicare today declared a cash dividend of $0.07 per share for the month of November 2012, which is payable to shareholders of record at the close of business on November 30, 2012, and will be paid on December 17, 2012.

CONFERENCE CALL AND WEBCAST

On November 8, 2012, at 10:00 a.m. (ET), we will hold a conference call to discuss our 2012 third quarter 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 2727572#. A replay of the call will be available until midnight on November 23, 2012. To access the rebroadcast, dial 1-800-408-3053 or 905-694-9451, followed by the passcode 6058412#. 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 36,000 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 243 senior care centers in North America have capacity to care for approximately 26,700 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 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.

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Visit Extendicare's Website at www.extendicare.com

Extendicare Inc.
Interim Consolidated Statements of Earnings (Loss)

(in thousands of Canadian dollars)	**Three months ended September 30**		**Nine months ended September 30**	
	2012	**2011**	**2012**	**2011**
Revenue				
Nursing and assisted living centers				
United States	**301,366**	342,401	**963,650**	1,016,470
Canada	**139,150**	132,634	**409,621**	389,055
Home health − Canada	**42,259**	41,723	**126,651**	121,823
Health technology services − United States	**6,107**	4,945	**18,412**	14,154
Outpatient therapy − United States	**3,257**	3,471	**10,454**	10,253
Rent, management, consulting and other services	**6,366**	3,283	**11,591**	10,501
Total revenue	**498,505**	528,457	**1,540,379**	1,562,256
Operating expenses	**441,987**	471,535	**1,353,098**	1,342,240
Administrative costs	**16,517**	15,449	**48,690**	51,891
Lease costs	**2,696**	2,699	**8,276**	8,092
Total expenses	**461,200**	489,683	**1,410,064**	1,402,223
EBITDA (1)	**37,305**	38,774	**130,315**	160,033
Depreciation and amortization	**19,005**	19,096	**57,815**	56,990
Loss from asset impairment, disposals and other items	**4,847**	54,202	**8,297**	53,829
Results from operating activities	**13,453**	(34,524)	**64,203**	49,214
Finance costs				
Interest expense	**15,963**	23,848	**48,768**	69,217
Interest income	**(531)**	(1,836)	**(2,344)**	(3,666)
Accretion costs	**541**	503	**1,607**	1,509
Distributions on Exchangeable LP Units	**-**	649	**-**	1,963
Fair value adjustments	**(2,029)**	(21,092)	**(7,136)**	(17,385)
Losses (gains) on foreign exchange and financial instruments	**-**	337	**1,103**	(668)
Net finance costs	**13,944**	2,409	**41,998**	50,970
Earnings (loss) before income taxes	**(491)**	(36,933)	**22,205**	(1,756)
Income tax expense (recovery)				
Current	**2,679**	7,927	**7,578**	28,821
Deferred	**1,912**	(9,177)	**1,558**	(14,523)
	4,591	(1,250)	**9,136**	14,298
Earnings (loss) from continuing operations	**(5,082)**	(35,683)	**13,069**	(16,054)
Discontinued operations	**431**	1,300	**34,961**	3,555
Net earnings (loss)	**(4,651)**	(34,383)	**48,030**	(12,499)
Earnings (loss) from continuing operations	**(5,082)**	(35,683)	**13,069**	(16,054)
Add (deduct):				
Fair value adjustment on convertible debentures, net of tax	**(2,029)**	(9,566)	**(7,136)**	(9,109)
Fair value adjustment on Exchangeable LP Units	**-**	(10,468)	**-**	(7,218)
Loss (gain) on foreign exchange and financial instruments, net of tax	**-**	308	**1,103**	(770)
Loss from asset impairment, disposals and other items, net of tax	**3,847**	40,779	**5,996**	40,524
Distributions on Exchangeable LP Units	**-**	649	**-**	1,963
Earnings (loss) from continuing operations before separately reported gains/losses and distributions on Exchangeable LP Units	**(3,264)**	(13,981)	**13,032**	9,336

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

Extendicare Inc.
Interim Consolidated Statements of Financial Position

(in thousands of Canadian dollars, unless otherwise noted)	**September 30 2012**	**December 31 2011**
Assets		
Current assets		
Cash and short-term investments	**171,439**	80,018
Restricted cash	**24,096**	16,848
Accounts receivable, less allowance	**204,464**	222,707
Income taxes recoverable	**5,289**	8,223
Other current assets	**33,272**	32,279
Total current assets	**438,560**	360,075
Non-current assets		
Property and equipment, *including construction-in-progress of $44,607 and $18,770, respectively*	**1,157,023**	1,192,913
Goodwill and other intangible assets	**81,875**	87,269
Other assets	**168,963**	154,695
Deferred tax assets	**23,087**	35,752
Total non-current assets	**1,430,948**	1,470,629
Total Assets	**1,869,508**	1,830,704
Liabilities and Equity		
Current liabilities		
Accounts payable	**31,200**	42,241
Accrued liabilities	**204,924**	224,693
Accrual for self-insured liabilities	**25,429**	24,408
Current portion of long-term debt	**121,934**	192,698
Income taxes payable	**13,959**	10,519
Total current liabilities	**397,446**	494,559
Non-current liabilities		
Provisions	**26,204**	26,105
Accrual for self-insured liabilities	**70,011**	55,015
Long-term debt	**1,078,721**	941,742
Other long-term liabilities	**47,638**	49,638
Deferred tax liabilities	**198,012**	215,326
Total non-current liabilities	**1,420,586**	1,287,826
Total liabilities	**1,818,032**	1,782,385
Shareholders'/Unitholders' equity	**51,476**	48,319
Total Liabilities and Equity	**1,869,508**	1,830,704
Closing US/Cdn. dollar exchange rate	***0.9832***	*1.0170*

Extendicare Inc.
Interim Consolidated Statements of Cash Flows

(in thousands of Canadian dollars)	Three months ended September 30		Nine months ended September 30	
	2012	**2011**	**2012**	**2011**
Operating Activities				
Net earnings (loss)	**(4,651)**	(34,383)	**48,030**	(12,499)
Adjustments for:				
Depreciation and amortization	**19,004**	19,117	**57,814**	57,054
Provision for self-insured liabilities	**17,517**	36,364	**34,847**	49,161
Payments for self-insured liabilities	**(4,450)**	(14,289)	**(17,163)**	(25,993)
Deferred taxes	**2,054**	(9,177)	**1,603**	(14,523)
Current taxes	**2,800**	8,704	**29,025**	31,000
Loss (gain) from asset impairment, disposals and other items	**4,847**	54,202	**8,297**	53,829
Gain from asset disposals from discontinued operations	**(694)**	-	**(56,453)**	-
Net finance costs	**13,944**	2,409	**41,998**	50,970
Interest capitalized	**(157)**	(106)	**(347)**	(160)
Other	**(102)**	61	**204**	300
	50,112	62,902	**147,855**	189,139
Net change in operating assets and liabilities				
Accounts receivable	**2,085**	(501)	**17,446**	8,144
Other current assets	**3,996**	(699)	**380**	(6,319)
Accounts payable and accrued liabilities	**(7,981)**	138	**(35,152)**	(15,785)
	48,212	61,840	**130,529**	175,179
Interest paid	**(11,801)**	(17,956)	**(43,277)**	(61,063)
Interest received	**535**	1,824	**2,300**	3,651
Income taxes paid	**(5,802)**	(3,734)	**(22,089)**	(18,727)
Net cash from operating activities	**31,144**	41,974	**67,463**	99,040
Investing Activities				
Purchase of property, equipment and software	**(24,026)**	(18,229)	**(50,380)**	(43,684)
Acquisition of nursing center, net of cash acquired	**-**	-	**-**	(7,299)
Net proceeds from dispositions	**-**	-	**56,323**	4,805
Other assets	**(2,170)**	(564)	**(5,809)**	(1,319)
Net cash from investing activities	**(26,196)**	(18,793)	**134**	(47,497)
Financing Activities				
Issue of long-term debt, excluding line of credit	**134,627**	171,410	**292,908**	294,790
Repayment of long-term debt, excluding line of credit	**(16,248)**	(262,166)	**(139,719)**	(323,251)
Issue on line of credit	**(201)**	30,042	**59,125**	40,386
Repayment on line of credit	**359**	(13,615)	**(105,832)**	(27,666)
Increase in restricted cash	**(719)**	(849)	**(7,248)**	(544)
Decrease (increase) in investments held for self-insured liabilities	**(2,798)**	7,442	**(19,324)**	14,104
Dividends/distributions paid	**(14,177)**	(14,313)	**(42,555)**	(44,597)
Financing costs	**(6,218)**	(4,300)	**(11,897)**	(16,423)
Other	**(12)**	31	**(6)**	628
Net cash from financing activities	**94,613**	(86,318)	**25,452**	(62,573)
Increase (decrease) in cash and cash equivalents	**99,561**	(63,137)	**93,049**	(11,030)
Cash and cash equivalents at beginning of period	**73,433**	314,312	**80,018**	267,759
Foreign exchange gain (loss) on cash held in foreign currency	**(1,555)**	14,418	**(1,628)**	8,864
Cash and cash equivalents at end of period	**171,439**	265,593	**171,439**	265,593

Extendicare Inc.
Financial and Operating Statistics

(amounts in Canadian dollars, unless otherwise noted)	Three months ended September 30		Nine months ended September 30	
	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)	**30.6 %**	34.9 %	**31.6 %**	36.0 %
Managed Care	**10.3**	10.7	**10.5**	10.8
Skilled mix	**40.9**	45.6	**42.1**	46.8
Private/other	**9.3**	8.7	**9.1**	8.4
Quality mix	**50.2**	54.3	**51.2**	55.2
Medicaid	**49.8**	45.7	**48.8**	44.8
	100.0	100.0	**100.0**	100.0
Average Daily Census by Payor Source (same-facility basis)				
Medicare	**1,896**	2,047	**1,986**	2,157
Managed Care	**762**	787	**786**	817
Skilled mix	**2,658**	2,834	**2,772**	2,974
Private/other	**1,263**	1,277	**1,241**	1,239
Quality mix	**3,921**	4,111	**4,013**	4,213
Medicaid	**8,432**	8,356	**8,376**	8,270
	12,353	12,467	**12,389**	12,483
Average Revenue per Resident Day by Payor Source (excluding prior period settlement adjustments) (US$)				
Medicare Part A only	**$ 466.23**	$ 521.24	**$ 458.90**	$ 516.23
Medicare (Parts A and B)	**519.37**	569.12	**508.41**	557.45
Managed Care	**434.35**	457.71	**430.21**	448.30
Private/other	**237.80**	226.49	**235.29**	225.18
Medicaid	**190.42**	183.42	**187.32**	181.69
Weighted average	**260.47**	266.56	**257.72**	266.26
Average Occupancy (excluding managed centers) (same-facility basis)				
U.S. skilled nursing centers	**84.8 %**	84.9 %	**85.0 %**	85.0 %
U.S. assisted living centers	**71.0**	67.0	**68.0**	67.8
Canadian centers	**97.5**	98.5	**97.7**	98.3
Purchase of Property, Equipment and Software *(thousands)*				
Growth expenditures	**$15,479**	$9,263	**$29,921**	$22,962
Facility maintenance	**8,704**	9,072	**20,806**	20,882
Deduct: capitalized interest	**(157)**	(106)	**(347)**	(160)
	$24,026	$18,229	**$50,380**	$43,684
Average US/Cdn. dollar exchange rate	***0.9956***	*0.9807*	***1.0023***	*0.9781*

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 September 30, 2012 and 2011.[1]

(in thousands of Canadian dollars unless otherwise noted)	Three months ended September 30		Nine months ended September 30	
	2012	**2011**	**2012**	**2011**
EBITDA from continuing operations	**37,305**	38,774	**130,315**	160,033
Depreciation for furniture, fixtures, equipment and computers	**(5,717)**	(5,784)	**(17,832)**	(17,272)
Accretion costs	**(541)**	(503)	**(1,607)**	(1,509)
Interest expense, net	**(15,432)**	(22,012)	**(46,424)**	(65,551)
	15,615	10,475	**64,452**	75,701
Current income tax expense [2]	**(3,413)**	(8,743)	**(9,348)**	(29,140)
FFO (continuing operations)	**12,202**	1,732	**55,104**	46,561
Amortization of financing costs	**1,253**	4,108	**3,608**	8,910
Principal portion of government capital funding payments	**692**	650	**2,069**	1,949
Additional maintenance capital expenditures [3]	**(2,987)**	(3,288)	**(2,974)**	(3,610)
AFFO (continuing operations)	**11,160**	3,202	**57,807**	53,810
AFFO (discontinued operations)	-	1,321	-	3,619
AFFO	**11,160**	4,523	**57,807**	57,429
Per Basic Share/Unit ($) [4]				
FFO (continuing operations)	**0.143**	0.020	**0.650**	0.559
AFFO (continuing operations)	**0.130**	0.037	**0.682**	0.646
AFFO	**0.130**	0.054	**0.682**	0.690
Per Diluted Share/Unit ($) [4]				
FFO (continuing operations)	**0.145**	0.039	**0.626**	0.546
AFFO (continuing operations)	**0.134**	0.055	**0.653**	0.621
AFFO	**0.134**	0.068	**0.653**	0.658
Distributions declared [4]	**17,922**	17,534	**53,476**	52,471
Distributions declared per share/unit ($)	**0.2100**	0.2100	**0.6300**	0.6300
Basic weighted average number of shares/units *(thousands)* [4]	**85,260**	83,442	**84,806**	83,253
Diluted weighted average number of shares/units *(thousands)* [4]	**99,604**	97,255	**98,797**	97,045

(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 September 30		Nine months ended September 30	
(in thousands of Canadian dollars)	**2012**	**2011**	**2012**	**2011**
Cash provided by operating activities	**31,144**	41,974	**67,463**	99,040
Add (Deduct):				
Net change in operating assets and liabilities, including interest and taxes	**1,606**	(6,726)	**7,292**	(854)
Current tax on fair value adjustments, gain/loss on foreign exchange, financial instruments, asset impairment, disposals and other items	**(613)**	(816)	**19,677**	(319)
Net provisions and payments for self-insured liabilities	**(13,067)**	(22,075)	**(17,684)**	(23,168)
Distributions on Exchangeable LP Units	-	649	-	1,963
Depreciation for furniture, fixtures, equipment and computers	**(5,717)**	(5,784)	**(17,832)**	(17,272)
Principal portion of government capital funding payments	**692**	650	**2,069**	1,949
Other	**102**	(61)	**(204)**	(300)
Additional maintenance capital expenditures	**(2,987)**	(3,288)	**(2,974)**	(3,610)
AFFO	**11,160**	4,523	**57,807**	57,429