EXTENDICARE

# NEWS RELEASE

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**FOR IMMEDIATE RELEASE**
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## Extendicare Announces 2012 Second Quarter Results

***Declares August Dividend of $0.07 per share***

MARKHAM, ONTARIO – Extendicare Inc. (Extendicare) (TSX: EXE) today reported results of its predecessor, Extendicare Real Estate Investment Trust (Extendicare REIT), for the three and six months ended June 30, 2012. Results are presented in Canadian dollars unless otherwise noted.

Effective July 1, 2012, Extendicare REIT completed the conversion from an income trust to a corporation (the "2012 Conversion"), and is now Extendicare Inc. The 2012 Conversion will be accounted for as a continuity of interest, and accordingly, the consolidated financial statements of Extendicare Inc., post July 1, 2012, will be reflective as if it had always carried on the business formerly carried on by Extendicare REIT.

**HIGHLIGHTS** (variances exclude effect of foreign exchange)

- Revenue was $524.7 million, a $6.8 million decline over Q2 2011.
- Average daily revenue rates for Medicare Part A and Managed Care declined by 11.8% and 2.4%, respectively, over Q2 2011.
- Q2 2012 EBITDA includes strengthening of prior years' reserves of $5.6 million, primarily related to Kentucky.
- EBITDA was $43.6 million, a $21.0 million decline over Q2 2011, and a $6.1 million decline over Q1 2012.
- EBITDA margin of 8.3% (9.4% excluding reserve adjustment) compared to 12.2% in Q2 2011 and 9.5% in Q1 2012.
- AFFO from continuing operations was $19.5 million ($0.230 per basic unit) in Q2 2012 compared to $26.2 million ($0.315 per basic unit) in Q2 2011.
- Distributions in first half of 2012 totalled $35.5 million, or $0.42 per unit, representing 76% of AFFO for the same period.
- Declares August dividend of $0.07 per share.
- 19 U.S. centers received national quality award recognition.

"Extendicare's operating and financial results in the second quarter were hampered by continued weakness in the U.S. economy, together with the adverse impact of previously announced Medicare funding cuts. Actual Medicare and Managed Care rates proved somewhat better than originally anticipated as a result of our mitigation strategies and changes in therapy delivery," said Tim Lukenda, President and CEO of Extendicare. "In the quarter, we successfully executed our planned exit from operating in the State of Kentucky due to the heightened litigation environment in the state. The additions to our reserves for self-insured liabilities in the quarter related predominantly to resolving known and as yet unknown claims from incidents occurring prior to the transfer of operations in Kentucky. We continue to believe that the decision to exit Kentucky operations is a prudent step for our company and shareholders and is consistent with our strategy of risk management and ongoing performance improvement."

“Extendicare took additional steps in the quarter to further strengthen its balance sheet and initiated a normal course issuer bid in July to authorize the purchase for cancellation of up to 4.0 million of its common shares, providing support for the temporary weakness in the share price resulting from our transition from an income trust to a corporation and to reinforce our view that the shares are undervalued at current levels.”

“Looking ahead to the balance of 2012, the prospects for heightened financial stability and business performance are positive. In the first half of the year we completed the refinancing of approximately US$636 million of our long-term debt lowering our cost of capital and strengthening our balance sheet. At the same time, we have received growing recognition of our efforts to deliver quality care to our customers. Recently, 19 of our centers received national recognition for providing quality care, increasing the total to 93 Extendicare centers that have received either the bronze or silver quality awards from the AHCA/NCAL, our governing association,” Lukenda added. “Lastly, we are hopeful that the CMS announcement of a market basket increase for 2012, which was in line with expectations, signals a return to historical inflation-type adjustments to our rates.”

**MEDICARE UPDATES**

The Centers for Medicare & Medicaid Services (CMS) announced on July 27, 2012, that the net market basket increase for October 2012 will be 1.8%, consisting 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, resulting in the process of sequestration which will automatically reduce Medicare funding by 2% beginning January 2, 2013. We anticipate that the impact of this 2% funding reduction would reduce our Medicare revenue by approximately US$7.0 million per annum.

**U.S. SUBSIDIARY CLOSES ON LEASE OF 19 OF 21 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 a third-party long-term care operator. Effective July 1, 2012, EHSI has closed on 19 of the centers (1,545 beds), and anticipates closing on the remaining two centers upon the receipt of third-party approvals in September 2012. The lease is for a 10-year term with two 5-year extensions at the option of the operator. In addition, the operator has the option to purchase all of the centers during the initial term of the lease. As a result of this transaction, EHSI will no longer operate 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.

Based on the results for the six-months ended June 30, 2012, our Kentucky nursing centers generated annualized revenue of US$135.2 million and earnings from operations before interest, income taxes, depreciation, amortization, and accretion (EBITDA) of US$18.2 million, including an allocation of US$12.0 million in provisions made for self-insured liabilities. Based on these annualized results, the lease transaction would reduce Extendicare’s EBITDA by approximately $3.2 million and adjusted funds from operations (AFFO) by approximately $0.6 million or $0.007 per unit annually.

**PROVISION FOR SELF-INSURED LIABILITIES**

The results of the 2012 second quarter independent actuarial review necessitated the strengthening of our prior years’ reserves this quarter by $5.6 million (US$5.6 million). Similarly in 2011, independent actuarial reviews conducted during the 2011 third quarter and at year end necessitated the strengthening of our prior years’ reserves by $31.4 million (US$32.1 million) and $11.4 million (US$11.2 million), respectively. The 2012 second quarter reserve, along with adjustments made in prior quarters, were primarily attributable to claims in the State of Kentucky, which has accounted for more than 50% of our provision for self-insured liabilities over the past two years. 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. Kentucky's constitution prevents the enactment of limits on tort damages, which presents fertile ground for plaintiff attorneys. We believe that our decision to exit this State is prudent given our liability claims experience and the unlikelihood of changes in Kentucky's constitution to limit tort awards.

## U.S. NATIONAL QUALITY AWARDS

Extendicare is pleased to recognize two of its U.S. skilled nursing centers, Tendercare Mount Pleasant and Rehab Center in Mt. Pleasant, Michigan and Cedar Springs Health and Rehabilitation Center in Cedarburg, Wisconsin for being awarded the American Health Care Association and National Center for Assisted Living (AHCA/NCAL) *Silver – Achievement in Quality* national award in recognition of their outstanding performance in the health care profession. The centers were two of the 52 health centers in the nation to win this prestigious award this year. A further 17 of Extendicare's U.S. skilled nursing centers were named the proud recipients of the AHCA/NCAL's *Bronze – Commitment to Quality* award in recognition of their strong commitment to continuous quality improvement, bringing the total to 93 Extendicare centers that have achieved such recognition.

## NORMAL COURSE ISSUER BID

As previously announced, on July 5, 2012, Extendicare received the approval of the Toronto Stock Exchange to commence a normal course issuer bid (the "Bid") to purchase for cancellation up to 4.0 million common shares of Extendicare (the "Common Shares"), representing approximately 4.8% of the public float on July 1, 2012. The Bid commenced on July 9, 2012, and provides Extendicare with flexibility to repurchase Common Shares for cancellation until July 8, 2013, or on such earlier date as the Bid is complete. In July 2012, Extendicare acquired for cancellation 13,600 Common Shares at a cost of $0.1 million (average cost of $7.81 per share).

## 2012 SECOND QUARTER FINANCIAL REVIEW

| **TABLE 1**<br>*(millions of dollars unless otherwise noted)* | **Q2<br>2012** | **Q2<br>2011** | **Q1<br>2012** |
|---|---|---|---|
| **Revenue** | | | |
| U.S. operations (US$) | **339.5** | 355.2 | 339.7 |
| U.S. operations (C$) | **343.1** | 343.8 | 340.0 |
| Canadian operations | **181.6** | 173.4 | 177.2 |
| **Total Revenue** | **524.7** | 517.2 | 517.2 |
| **EBITDA** (1) | | | |
| U.S. operations (US$) | **26.3** | 47.2 | 33.7 |
| U.S. operations (C$) | **26.5** | 45.7 | 33.8 |
| Canadian operations | **17.1** | 17.6 | 15.6 |
| **Total EBITDA** | **43.6** | 63.3 | 49.4 |
| **EBITDA margin** | **8.3%** | 12.2% | 9.5% |
| Average U.S./Canadian dollar exchange rate | **1.0103** | 0.9681 | 1.0011 |

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

### 2012 Second Quarter Comparison to 2011 Second Quarter

Consolidated revenue from continuing operations declined by $6.8 million, excluding a $14.3 million positive effect of a weaker Canadian dollar. New centers net of disposals (collectively "non same-facility operations"), resulted in higher revenue of $0.5 million between periods. Revenue from same-facility operations declined by $7.3 million, with improvements in Canadian operations of $5.2 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$15.7 million to US$339.5 million in the 2012 second quarter compared to US$355.2 million in the 2011 second quarter. Non same-facility revenue was lower by US$2.7 million due to the disposal of a nursing center in the 2011 second quarter. Revenue from same-facility operations declined by US$13.0 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$13.7 million and was partially offset by higher average Medicaid and private/other rates of US$6.2 million, while lower census levels contributed US$8.0 million to the decline. Other revenue increases of US$2.5 million related primarily to improvements in nursing ancillary revenue and included an increase in prior period settlement adjustments of US$0.8 million. Our same-facility average daily census (ADC) was lower by 92 this quarter, with a decline in Skilled Mix ADC of 239, partially offset by an increase in private/other ADC of 52 and Medicaid ADC of 95. Our same-facility Skilled Mix ADC represented 21.9% of residents this quarter compared to 23.5% in the 2011 second quarter.

Consolidated EBITDA from continuing operations was $43.6 million, or 8.3% of revenue this quarter. Excluding the increase in prior years’ reserves for self-insured liabilities of $5.6 million, EBITDA was $49.2 million, or 9.4% of revenue, representing a decline of $15.4 million from the 2011 second quarter, excluding a $1.3 million positive effect of a weaker Canadian dollar. 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$26.3 million, or 7.7% of revenue, this quarter. Excluding the increase in prior years’ reserves for self-insured liabilities of US$5.6 million, EBITDA was US$31.9 million, representing a decline of US$15.3 million from US$47.2 million in the 2011 second quarter, and represented 9.4% and 13.3% of revenue, respectively. EBITDA from non same-facility operations was lower by US$1.9 million between periods. Same-facility operations declined by US$13.4 million, resulting from the decline in revenue of US$13.0 million and higher operating, administrative and lease costs of US$0.4 million. Operating, administrative and lease costs were affected primarily by higher state provider taxes of US$2.4 million and labour-related costs of US$1.2 million, partially offset by net reductions in other costs of US$3.2 million.

EBITDA from Canadian operations declined by $0.5 million to $17.1 million this quarter from $17.6 million in the 2011 second quarter and represented 9.4% and 10.1% of revenue, respectively. This decline resulted from same-facility operations, with cost increases of $5.7 million in excess of higher revenue of $5.2 million.

**2012 Second Quarter Comparison to 2012 First Quarter**

In comparison to the 2012 first quarter, consolidated revenue from continuing operations in the 2012 second quarter improved by $4.4 million, excluding a $3.1 million positive effect of a weaker Canadian dollar. This improvement was realized in our Canadian operations primarily due to funding enhancements as well as timing of recognition of funding under the Ontario flow-through envelope system, and increased volumes and rates in home health care. Revenue from U.S. operations was relatively unchanged with improvements in average rates and other revenue offset by lower census levels. A discussion of the segmented U.S. and Canadian operations follows.

Consolidated EBITDA from continuing operations in the 2012 second quarter declined by $6.1 million, excluding a $0.3 million positive effect of a weaker Canadian dollar, and was 8.3% of revenue this period compared to 9.5% in the 2012 first quarter. Excluding the $9.1 million negative variance resulting from the increase in prior years' reserves of $5.6 million this quarter and the premium refund of $3.5 million recorded in the 2012 first quarter, EBITDA improved by $3.0 million. A discussion of the segmented U.S. and Canadian operations follows.

EBITDA from U.S. operations declined by US$7.4 million to US$26.3 million this quarter from US$33.7 million in the 2012 first quarter, and represented 7.7% and 9.9% of revenue, respectively. Excluding the US$9.1 million negative variance resulting from the increase in prior years' reserves of US$5.6 million this quarter and the US$3.5 million premium refund recorded in the 2012 first quarter, EBITDA improved by US$1.7 million as a result of lower costs of US$1.9 million partially offset by lower revenue of US$0.2 million. Operating, administrative and lease costs included seasonal declines in payroll taxes of US$4.5 million and utility costs of US$1.1 million, which were partially offset by net cost increases of US$3.7 million.

EBITDA from Canadian operations improved by $1.5 million to $17.1 million this quarter from $15.6 million in the 2012 first quarter, and represented 9.4% and 8.8% of revenue, respectively. This improvement was largely due to a seasonal decline in utility costs.

## 2012 SIX MONTH FINANCIAL REVIEW

| **TABLE 2** | **Six months ended June 30** | |
|---|---|---|
| *(millions of dollars unless otherwise noted)* | **2012** | **2011** |
| **Revenue** | | |
| U.S. operations (US$) | **679.2** | 709.8 |
| U.S. operations (C$) | **683.1** | 693.3 |
| Canadian operations | **358.8** | 340.5 |
| **Total Revenue** | **1,041.9** | 1,033.8 |
| **EBITDA** [1] | | |
| U.S. operations (US$) | **60.0** | 91.6 |
| U.S. operations (C$) | **60.3** | 89.5 |
| Canadian operations | **32.7** | 31.8 |
| **Total EBITDA** | **93.0** | 121.3 |
| **EBITDA margin** | **8.9%** | 11.7% |
| Average U.S./Canadian dollar exchange rate | **1.0057** | 0.9768 |

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

Consolidated revenue from continuing operations declined by $11.5 million, excluding the $19.6 million positive effect of the weaker Canadian dollar. Non same-facility operations contributed $16.4 million to revenue this period and $14.1 million in the 2011 period, for a net improvement between periods of $2.3 million. Revenue from same-facility operations declined between periods by $13.8 million, with improvement in Canadian operations of $11.4 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 $30.0 million, excluding the $1.7 million positive effect of the weaker Canadian dollar, and was 8.9% and 11.7% of revenue, respectively. Non same-facility operations generated EBITDA of $2.4 million in the first six months of 2012 compared to $4.1 million in the same 2011 period, for a net decline of $1.7 million between periods. Same-facility EBITDA declined by $28.3 million, of which $28.8 million was from the U.S. operations partially offset by a $0.5 million improvement in the Canadian operations. EBITDA in the first half of 2012 included a $3.5 million premium refund related to the exercise in the first quarter of our option to commute our reinsurance coverage for the 2008-2010 policy periods, which was offset in the 2012 second quarter by an increase in prior years' reserves of $5.6 million. In addition, EBITDA was favourably impacted by a lower provision for unit appreciation rights of $1.6 million between periods (a recovery of $0.2 million this period compared to a charge of $1.4 million in the 2011 period). Details by segmented operations are discussed below.

EBITDA from U.S. operations declined by US$31.6 million to US$60.0 million in the first six months of 2012 from US$91.6 million in the same 2011 period, and represented 8.8% and 12.9% of revenue, respectively. EBITDA from non same-facility operations was lower by US$2.2 million between periods. Same-facility operations declined by US$29.4 million, resulting from a decline in revenue of US$25.8 million and higher operating, administrative and lease costs of US$3.6 million. Lower average funding rates resulted in a decline in revenue of US$16.1 million, while lower census levels contributed US$16.7 million to the decline, partially offset by US$7.0 million of other revenue improvements including the extra day in the year. Increased costs were impacted by higher state provider taxes of US$4.5 million and labour-related costs of US$2.5 million, partially offset by net cost reductions of US$3.4 million.

EBITDA from Canadian operations improved by $0.9 million to $32.7 million in the first six months of 2012 from $31.8 million in the same 2011 period, and represented 9.1% and 9.3% of revenue, respectively. Non same-facility operations contributed EBITDA of $2.3 million this period compared to $1.9 million in the first six months of 2011, for a net improvement of $0.4 million between periods. Same-facility operations improved by $0.5 million resulting from higher revenue of $11.4 million partially offset by higher costs of $10.9 million.

**2012 SIX MONTH EARNINGS (LOSS) FROM CONTINUING OPERATIONS**

For the first six months of 2012, Extendicare reported earnings from continuing operations of $18.2 million compared to $19.6 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 on the attached interim condensed consolidated statements of earnings. Excluding these separately reported items, the earnings from continuing operations were $16.3 million this period compared to $23.3 million in the first six months of 2011. The previously discussed decline in consolidated EBITDA from continuing operations was offset by lower net interest costs and a lower provision for income taxes. Net interest costs were lower by $12.6 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 interest costs on new long-term debt on our Alberta projects that were completed in 2011. With respect to our lower tax provision, the effective tax rate on earnings from continuing operations before separately reported items was 26.4% this period compared to 39.9% in the first six months of 2011. This decline in rates was primarily due to the change in proportion of income among our taxable and non-taxable entities and a $1.4 million favourable book-to-file adjustment recorded in the 2012 first quarter.

**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 US$34.1 million in the 2012 first quarter. 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 $19.5 million ($0.230 per basic unit) in the 2012 second quarter, or $25.1 million ($0.297 per basic unit), excluding the $5.6 million strengthening of prior years’ reserves for self-insured liabilities. Compared to the AFFO from continuing operations for the 2011 second quarter of $26.2 million ($0.315 per basic unit), AFFO adjusted for the prior years’ reserves declined by $1.8 million this quarter, excluding a $0.7 million positive effect of a weaker Canadian dollar. This decline was primarily due to the decline in EBITDA of $15.4 million as a result 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 $5.5 million as a result of our debt refinancing. Current income taxes represented 14.0% of pre-tax funds from operations (FFO) this quarter compared to 31.3% in the 2011 second quarter, 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.

In comparison to AFFO in the 2012 first quarter of $27.1 million ($0.322 per basic unit), AFFO this quarter was lower by $7.7 million, excluding a $0.1 million positive effect of a weaker Canadian dollar. Excluding the $9.1 million negative variance resulting from the increase in prior years' reserves of $5.6 million this quarter and the premium refund of $3.5 million recorded in the 2012 first quarter, AFFO increased by $1.4 million this quarter. This was due primarily to the improvement in EBITDA of $3.0 million (adjusted for the reserve and premium refund) and lower net interest costs, partially offset by an increase in facility maintenance capital expenditures and current income taxes. Current income taxes represented 14.0% of pre-tax FFO this quarter compared to 10.6% in the 2012 first quarter. The 2012 first quarter current taxes were favourably impacted by a $1.4 million book-to-file adjustment and the recognition of the non-taxable premium refund of $3.5 million. Current income taxes this quarter were favourably impacted by tax planning measures to utilize loss carryforwards and changes in timing differences. Facility maintenance capital expenditures were higher by $2.5 million, and are typically at their lowest in the first quarter and ramp up during the year.

For the first six months of 2012, AFFO from continuing operations was $46.6 million ($0.552 per basic unit), compared to $50.6 million ($0.609 per basic unit) in the same 2011 period. AFFO this period declined by $4.9 million, excluding a $0.9 million positive effect of a weaker Canadian dollar. This decline was primarily due to the decline in EBITDA of $30.0 million as a result 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 $10.5 million as a result of our debt refinancing. Current income taxes represented 12.2% of pre-tax funds from operations (FFO) this period compared to 31.3% in the first six months of 2011, and were favourably impacted by a $1.4 million book-to-file adjustment, 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 under the 2012 Conversion, 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%, which is down from previous expectations of 25% to 27%.

Facility maintenance capital expenditures were $7.3 million in the 2012 second quarter, compared to $7.1 million in the 2011 second quarter and $4.8 million in the 2012 first quarter, representing 1.4%, 1.4% and 0.9% of revenue, respectively. For the first six months of 2012, facility maintenance capital expenditures totalled $12.1 million compared to $11.8 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 $38 million in facility maintenance capital expenditures and approximately $70 million in growth capital expenditures in 2012.

Distributions declared in the first half of 2012 totalled $35.5 million, or $0.42 per unit, representing approximately 76% of total AFFO of $46.6 million compared to approximately 66% in the same 2011 period.

## 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$455.25 and US$430.66, respectively, and compared to the 2011 third quarter levels immediately prior to the implementation of the 2011 CMS Final Rule, rates this quarter were lower by 12.7% and 5.9%, respectively. In comparison to the 2011 second quarter levels, our average daily Medicare Part A and Managed Care rates decreased by 11.8% and 2.4%, respectively. In comparison to the 2012 first quarter levels, our average Medicare Part A rate declined by 0.2%, while our average Managed Care rate increased by 1.1%.

Our average daily Medicaid rate, excluding prior period settlement adjustments, increased this quarter by 3.2% to US$186.83 over US$180.99 in the 2011 second quarter, and by 1.0% from US$185.00 in the 2012 first quarter. However, revenue from Medicaid rate increases was partially offset by higher state provider taxes, resulting in a net increase of 2.0% this quarter in comparison to the 2011 second 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 13,984 in the 2012 second quarter was 92 below the 2011 second quarter level of 14,076 due to lower Skilled Mix ADC of 239, partially offset by an increase in private/other ADC of 52 and Medicaid ADC of 95. Our average same-facility occupancy was 85.6% this quarter compared to 85.4% in the 2011 second quarter.

Our Skilled Mix ADC represented 21.9% of our residents in the 2012 second quarter compared to 23.5% in the 2011 second quarter and 22.3% in the 2012 first quarter.

## AUGUST 2012 DIVIDEND DECLARED

The Board of Directors of Extendicare Inc. today declared a cash dividend of $0.07 per share for the month of August 2012, which is payable to shareholders of record at the close of business on August 31, 2012, and will be paid on September 17, 2012.

## CONFERENCE CALL AND WEBCAST

On August 10, 2012, at 10:00 a.m. (ET), we will hold a conference call to discuss our 2012 second 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 August 24, 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 36,100 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 245 senior care centers in North America have capacity to care for approximately 26,900 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”, “Distributable Income”, “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 operations, net earnings (loss) for the period, cash flow, or other measures of financial performance and liquidity reported in accordance with Canadian GAAP. Reconciliations of these non-GAAP measures from net earnings and/or from cash provided by operations, where applicable, are provided in this press release. Detailed descriptions of these terms can be found in the disclosure documents filed by Extendicare 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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# Extendicare REIT

## Interim Consolidated Statements of Earnings

| *(in thousands of Canadian dollars)* | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | **2012** | **2011** | **2012** | **2011** |
| **Revenue** | | | | |
| Nursing and assisted living centers | | | | |
| United States | **332,179** | 333,760 | **662,284** | 674,069 |
| Canada | **136,551** | 130,480 | **270,471** | 256,421 |
| Home health − Canada | **42,908** | 41,021 | **84,392** | 80,100 |
| Health technology services − United States | **6,743** | 4,827 | **12,305** | 9,209 |
| Outpatient therapy − United States | **3,541** | 3,445 | **7,197** | 6,782 |
| Management, consulting and other services | **2,764** | 3,713 | **5,225** | 7,218 |
| **Total revenue** | **524,686** | 517,246 | **1,041,874** | 1,033,799 |
| Operating expenses | **462,321** | 434,132 | **911,111** | 870,705 |
| Administrative costs | **15,961** | 17,168 | **32,173** | 36,442 |
| Lease costs | **2,767** | 2,651 | **5,580** | 5,393 |
| Total expenses | **481,049** | 453,951 | **948,864** | 912,540 |
| **EBITDA** (1) | **43,637** | 63,295 | **93,010** | 121,259 |
| Depreciation and amortization | **19,455** | 18,694 | **38,810** | 37,894 |
| Loss (gain) from asset impairment, disposals and other items | **2,810** | (942) | **3,450** | (373) |
| **Results from operating activities** | **21,372** | 45,543 | **50,750** | 83,738 |
| Finance costs | | | | |
| Interest expense | **15,966** | 23,070 | **32,805** | 45,369 |
| Interest income | **(1,091)** | (1,041) | **(1,813)** | (1,830) |
| Accretion costs | **535** | 499 | **1,066** | 1,006 |
| Distributions on Exchangeable LP Units | **-** | 652 | **-** | 1,314 |
| Fair value adjustments | **(120)** | (14,881) | **(5,107)** | 3,707 |
| Losses (gains) on foreign exchange and financial instruments | **1,103** | 31 | **1,103** | (1,005) |
| Net finance costs | **16,393** | 8,330 | **28,054** | 48,561 |
| **Earnings before income taxes** | **4,979** | 37,213 | **22,696** | 35,177 |
| **Income tax expense (recovery)** | | | | |
| Current | **2,046** | 11,509 | **4,899** | 20,894 |
| Deferred | **(742)** | (3,486) | **(354)** | (5,346) |
| | **1,304** | 8,023 | **4,545** | 15,548 |
| **Earnings from continuing operations** | **3,675** | 29,190 | **18,151** | 19,629 |
| Discontinued operations | **-** | 1,088 | **34,530** | 2,255 |
| **Net earnings** | **3,675** | 30,278 | **52,681** | 21,884 |

| | | | | |
|---|---|---|---|---|
| **Earnings from continuing operations** | **3,675** | 29,190 | **18,151** | 19,629 |
| **Add (deduct):** | | | | |
| Fair value adjustment on convertible debentures, net of tax | **(120)** | (7,576) | **(5,107)** | 457 |
| Fair value adjustment on Exchangeable LP Units | **-** | (7,305) | **-** | 3,250 |
| Loss (gain) on foreign exchange and financial instruments, net of tax | **1,103** | (90) | **1,103** | (1,078) |
| Loss (gain) from asset impairment, disposals and other items, net of tax | **1,726** | (672) | **2,149** | (255) |
| Distributions on Exchangeable LP Units | **-** | 652 | **-** | 1,314 |
| **Earnings from continuing operations before separately reported gains/losses and distributions on Exchangeable LP Units** | **6,384** | 14,199 | **16,296** | 23,317 |

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

# Extendicare REIT
## Interim Consolidated Statements of Financial Position

| *(in thousands of Canadian dollars, unless otherwise noted)* | **June 30 2012** | **December 31 2011** |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Cash and short-term investments | **73,433** | 80,018 |
| Restricted cash | **23,377** | 16,848 |
| Accounts receivable, less allowance | **212,732** | 222,707 |
| Income taxes recoverable | **7,661** | 8,223 |
| Other current assets | **37,027** | 32,279 |
| Total current assets | **354,230** | 360,075 |
| Non-current assets | | |
| Property and equipment, *including construction-in-progress of $28,206 and $18,770, respectively* | **1,182,265** | 1,192,913 |
| Goodwill and other intangible assets | **86,530** | 87,269 |
| Other assets | **169,814** | 154,695 |
| Deferred tax assets | **23,673** | 35,752 |
| Total non-current assets | **1,462,282** | 1,470,629 |
| **Total Assets** | **1,816,512** | 1,830,704 |
| **Liabilities and Equity** | | |
| Current liabilities | | |
| Accounts payable | **32,680** | 42,241 |
| Accrued liabilities | **213,339** | 224,693 |
| Accrual for self-insured liabilities | **25,660** | 24,408 |
| Current portion of long-term debt | **122,181** | 192,698 |
| Income taxes payable | **19,889** | 10,519 |
| Total current liabilities | **413,749** | 494,559 |
| Non-current liabilities | | |
| Provisions | **26,629** | 26,105 |
| Accrual for self-insured liabilities | **59,774** | 55,015 |
| Long-term debt | **991,515** | 941,742 |
| Other long-term liabilities | **47,479** | 49,638 |
| Deferred tax liabilities | **202,988** | 215,326 |
| Total non-current liabilities | **1,328,385** | 1,287,826 |
| Total liabilities | **1,742,134** | 1,782,385 |
| Unitholders' equity | **74,378** | 48,319 |
| **Total Liabilities and Equity** | **1,816,512** | 1,830,704 |
| *Closing US/Cdn. dollar exchange rate* | ***1.0181*** | *1.0170* |

# Extendicare REIT

## Interim Consolidated Statements of Cash Flows

| *(in thousands of Canadian dollars)* | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | **2012** | **2011** | **2012** | **2011** |
| **Operating Activities** | | | | |
| Net earnings | **3,675** | 30,278 | **52,681** | 21,884 |
| Adjustments for: | | | | |
| Depreciation and amortization | **19,455** | 18,714 | **38,810** | 37,937 |
| Provision for self-insured liabilities | **11,463** | 6,982 | **17,330** | 12,797 |
| Payments for self-insured liabilities | **(7,954)** | (2,300) | **(12,713)** | (11,704) |
| Deferred taxes | **(737)** | (3,486) | **(451)** | (5,346) |
| Current taxes | **2,042** | 12,187 | **26,225** | 22,296 |
| Loss (gain) from asset impairment, disposals and other items | **2,810** | (942) | **3,450** | (373) |
| Gain from asset disposals from discontinued operations | | | **(55,759)** | - |
| Net finance costs | **16,393** | 8,330 | **28,054** | 48,561 |
| Interest capitalized | **(134)** | (18) | **(190)** | (54) |
| Other | **(44)** | 62 | **306** | 239 |
| | **46,969** | 69,807 | **97,743** | 126,237 |
| Net change in operating assets and liabilities | | | | |
| Accounts receivable | **6,662** | 6,158 | **15,361** | 8,645 |
| Other current assets | **(834)** | (2,470) | **(3,616)** | (5,620) |
| Accounts payable and accrued liabilities | **(6,144)** | (9,752) | **(27,171)** | (15,923) |
| | **46,653** | 63,743 | **82,317** | 113,339 |
| Interest paid | **(18,793)** | (24,735) | **(31,476)** | (43,107) |
| Interest received | **1,089** | 1,054 | **1,765** | 1,827 |
| Income taxes paid | **(10,098)** | (11,960) | **(16,287)** | (14,993) |
| **Net cash from operating activities** | **18,851** | 28,102 | **36,319** | 57,066 |
| **Investing Activities** | | | | |
| Purchase of property, equipment and software | **(16,895)** | (13,109) | **(26,354)** | (25,455) |
| Acquisition of nursing center, net of cash acquired | **-** | - | **-** | (7,299) |
| Net proceeds from dispositions | **-** | 4,805 | **56,323** | 4,805 |
| Other assets | **(143)** | (868) | **(3,639)** | (755) |
| **Net cash from investing activities** | **(17,038)** | (9,172) | **26,330** | (28,704) |
| **Financing Activities** | | | | |
| Issue of long-term debt, excluding line of credit | **14,293** | 110,079 | **158,281** | 123,380 |
| Repayment of long-term debt, excluding line of credit | **(8,030)** | (50,980) | **(123,471)** | (61,085) |
| Issue on line of credit | **272** | 2,962 | **59,326** | 10,344 |
| Repayment on line of credit | **(11,097)** | (7,265) | **(106,191)** | (14,051) |
| Decrease (increase) in restricted cash | **245** | 51 | **(6,529)** | 305 |
| Decrease (increase) in investments held for self-insured liabilities | **(1,680)** | (6,448) | **(16,526)** | 6,662 |
| Distributions paid on REIT Units | **(14,354)** | (15,166) | **(28,378)** | (30,284) |
| Financing costs | **(2,621)** | (9,623) | **(5,679)** | (12,123) |
| Other | **20** | 424 | **6** | 597 |
| **Net cash from financing activities** | **(22,952)** | 24,034 | **(69,161)** | 23,745 |
| Increase in cash and cash equivalents | **(21,139)** | 42,964 | **(6,512)** | 52,107 |
| Cash and cash equivalents at beginning of period | **93,544** | 272,566 | **80,018** | 267,759 |
| Foreign exchange gain (loss) on cash held in foreign currency | **1,028** | (1,218) | **(73)** | (5,554) |
| **Cash and cash equivalents at end of period** | **73,433** | 314,312 | **73,433** | 314,312 |

## EXTENDICARE REIT
## Financial and Operating Statistics

| *(amounts in Canadian dollars, unless otherwise noted)* | **Three months ended June 30** | | **Six months ended June 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) | **31.7 %** | 36.1 % | **31.8 %** | 36.4 % |
| Managed Care | **9.6** | 10.1 | **9.9** | 10.2 |
| Skilled mix | **41.3** | 46.2 | **41.7** | 46.6 |
| Private/other | **9.0** | 8.0 | **8.9** | 8.0 |
| Quality mix | **50.3** | 54.2 | **50.6** | 54.6 |
| Medicaid | **49.7** | 45.8 | **49.4** | 45.4 |
| | **100.0** | 100.0 | **100.0** | 100.0 |
| **Average Daily Census by Payor Source** (same-facility basis) | | | | |
| Medicare | **2,263** | 2,445 | **2,273** | 2,476 |
| Managed Care | **804** | 861 | **833** | 864 |
| Skilled mix | **3,067** | 3,306 | **3,106** | 3,340 |
| Private/other | **1,366** | 1,314 | **1,365** | 1,352 |
| Quality mix | **4,433** | 4,620 | **4,471** | 4,692 |
| Medicaid | **9,551** | 9,456 | **9,559** | 9,436 |
| | **13,984** | 14,076 | **14,030** | 14,128 |
| **Average Revenue per Resident Day by Payor Source** (excluding prior period settlement adjustments) (US$) | | | | |
| Medicare Part A only | **$ 455.25** | $ 515.90 | **$ 455.78** | $ 513.88 |
| Medicare (Parts A and B) | **502.54** | 555.03 | **503.73** | 551.98 |
| Managed Care | **430.66** | 441.06 | **428.28** | 443.79 |
| Private/other | **236.02** | 228.04 | **234.09** | 224.47 |
| Medicaid | **186.83** | 180.99 | **185.91** | 180.81 |
| Weighted average | **256.75** | 266.27 | **256.48** | 266.12 |
| **Average Occupancy** (excluding managed centers) (same-facility basis) | | | | |
| U.S. skilled nursing centers | **85.6 %** | 85.4 % | **85.7 %** | 85.9 % |
| U.S. assisted living centers | **68.4** | 68.1 | **66.4** | 68.2 |
| Canadian centers | **97.8** | 98.4 | **97.6** | 98.2 |
| **Purchase of Property, Equipment and Software** *(thousands)* | | | | |
| Growth expenditures | **$9,707** | $6,041 | **$14,442** | $13,699 |
| Facility maintenance | **7,322** | 7,086 | **12,102** | 11,810 |
| Deduct: capitalized interest | **(134)** | (18) | **(190)** | (54) |
| | **$16,895** | $13,109 | **$26,354** | $25,455 |
| ***Average US/Cdn. dollar exchange rate*** | ***1.0103*** | *0.9681* | ***1.0057*** | *0.9768* |

# EXTENDICARE REIT
## Supplemental Information – FFO and AFFO

The following table provides a reconciliation of EBITDA to Funds from Operations (FFO), Distributable Income (DI) and Adjusted Funds from Operations (AFFO) for the periods ended June 30, 2012 and 2011.[1]

| *(in thousands of Canadian dollars unless otherwise noted)* | **Three months ended June 30** | | **Six months ended June 30** | |
|---|---|---|---|---|
| | **2012** | **2011** | **2012** | **2011** |
| **EBITDA from continuing operations** | **43,637** | 63,295 | **93,010** | 121,259 |
| Depreciation for furniture, fixtures, equipment and computers | **(6,318)** | (5,611) | **(12,115)** | (11,488) |
| Accretion costs | **(535)** | (499) | **(1,066)** | (1,006) |
| Interest expense, net | **(14,875)** | (22,029) | **(30,992)** | (43,539) |
| | **21,909** | 35,156 | **48,837** | 65,226 |
| Current income tax expense [2] | **(3,073)** | (11,015) | **(5,935)** | (20,397) |
| **FFO (continuing operations)** | **18,836** | 24,141 | **42,902** | 44,829 |
| Amortization of financing costs | **985** | 2,871 | **2,355** | 4,802 |
| Principal portion of government capital funding payments | **687** | 651 | **1,377** | 1,299 |
| **DI (continuing operations)** | **20,508** | 27,663 | **46,634** | 50,930 |
| Additional maintenance capital expenditures [3] | **(1,004)** | (1,475) | **13** | (322) |
| **AFFO (continuing operations)** | **19,504** | 26,188 | **46,647** | 50,608 |
| AFFO (discontinued operations) | **-** | 1,108 | **-** | 2,298 |
| **AFFO** | **19,504** | 27,296 | **46,647** | 52,906 |
| **Per Basic Unit ($)** [4] | | | | |
| FFO (continuing operations) | **0.222** | 0.290 | **0.507** | 0.539 |
| AFFO (continuing operations) | **0.230** | 0.315 | **0.552** | 0.609 |
| AFFO | **0.230** | 0.328 | **0.552** | 0.636 |
| **Per Diluted Unit ($)** [4] | | | | |
| FFO (continuing operations) | **0.214** | 0.271 | **0.481** | 0.507 |
| AFFO (continuing operations) | **0.221** | 0.292 | **0.519** | 0.566 |
| AFFO | **0.221** | 0.304 | **0.519** | 0.590 |
| **Distributions declared** [4] | **17,825** | 17,484 | **35,554** | 34,937 |
| **Distributions declared per unit ($)** | **0.2100** | 0.2100 | **0.4200** | 0.4200 |
| **Basic weighted average number of units** *(thousands)* [4] | **84,805** | 83,230 | **84,576** | 83,156 |
| **Diluted weighted average number of units** *(thousands)* [4] | **98,618** | 96,980 | **98,389** | 96,938 |

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

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

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

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

| **Reconciliation of Cash Provided by Operating Activities to DI & AFFO** | **Three months ended June 30** | | **Six months ended June 30** | |
|---|---|---|---|---|
| *(in thousands of Canadian dollars)* | **2012** | **2011** | **2012** | **2011** |
| **Cash provided by operating activities** | **18,851** | 28,102 | **36,319** | 57,066 |
| **Add (Deduct):** | | | | |
| Net change in operating assets and liabilities, including interest and taxes | **11,785** | 9,227 | **5,686** | 5,872 |
| Current tax on fair value adjustments, gain/loss on foreign exchange, financial instruments, asset impairment, disposals and other items | **(1,032)** | 494 | **20,290** | 497 |
| Net provisions and payments for self-insured liabilities | **(3,509)** | (4,682) | **(4,617)** | (1,093) |
| Distributions on Exchangeable LP Units | **-** | 652 | **-** | 1,314 |
| Depreciation for furniture, fixtures, equipment and computers | **(6,318)** | (5,611) | **(12,115)** | (11,488) |
| Principal portion of government capital funding payments | **687** | 651 | **1,377** | 1,299 |
| Other | **44** | (62) | **(306)** | (239) |
| **DI** (total operations) | **20,508** | 28,771 | **46,634** | 53,228 |
| Additional maintenance capital expenditures | **(1,004)** | (1,475) | **13** | (322) |
| **AFFO** | **19,504** | 27,296 | **46,647** | 52,906 |