

**Extendicare REIT Declares December 2010 Distribution;
Adopts Unitholder Rights Plan;
Announces Change in U.S. Tax Status of the REIT; and
Announces Amendment to Deed of Trust**

MARKHAM, ONTARIO – Extendicare Real Estate Investment Trust (“Extendicare REIT” or the “REIT”) (TSX: EXE.UN) today announced that it has declared a cash distribution of C\$0.07 per unit of the REIT (the “REIT Units”) for the month of December 2010, which is payable to unitholders of record at the close of business on December 31, 2010, and will be paid on January 17, 2011.

Extendicare Limited Partnership (the “Extendicare LP”) also announced that it has declared a cash distribution of C\$0.07 per Class B limited partnership unit (the “Exchangeable LP Units”) for the month of December 2010, which is payable to unitholders of record at the close of business on December 31, 2010, and will be paid on January 17, 2011.

The current annualized distribution rate of the REIT and Extendicare LP is C\$0.84 per unit, payable in monthly distributions of C\$0.07 per unit. In accordance with the distribution policy of both the REIT and Extendicare LP, unitholders of record at the close of business on the last business day of each calendar month will be paid a distribution on or about the 15th day of the following month.

Management estimates that approximately 70% of the 2010 distributions of the REIT and Extendicare LP will be characterized as tax-deferred returns of capital for Canadian residents. To the extent that the remaining 30% of the distributions of the REIT and Extendicare LP made in 2010 are taxed as dividends, those paid to Canadian residents are eligible dividends under the *Income Tax Act* (Canada). The REIT is not required to, and does not, calculate its “earnings and profits” pursuant to the *United States Internal Revenue Code of 1986*, as amended, and therefore no portion of its distributions represent qualified dividend income for U.S. tax purposes.

We would like to remind U.S. unitholders that the Canadian withholding tax applied to our distributions should only be incurred on the portion of our distributions that is characterized as Canadian taxable income (currently approximately 30% of our distributions) and not on the portion of our distributions that is characterized as a Canadian tax-deferred return of capital (currently approximately 70% of our distributions). Contact your tax or investment advisor should you need clarification on the appropriate tax treatment of our distributions.

The REIT has a Distribution Reinvestment Plan, which provides Canadian resident holders of REIT Units and Exchangeable LP Units with the opportunity to increase their respective investments at a 3% discount to the volume weighted average trading price of the REIT Units on the TSX for the five trading days immediately preceding the distribution payment date. A copy of the Plan package is available under the investors section of the REIT’s website.

Trustees Approve Adoption of a Unitholder Rights Plan

Also on December 15, 2010, the Board of Trustees approved the adoption by the REIT of a unitholder rights plan agreement (the “Rights Plan”). The Rights Plan is similar to rights plans adopted by other Canadian companies and trusts and, in all material respects, is the same in form and effect as the rights plan adopted by the REIT at the time of the November 2006 conversion of Extendicare Inc. to a trust, which has expired in accordance with its terms. The Rights Plan has been conditionally accepted for filing by the Toronto Stock Exchange and its continuing effectiveness is subject to confirmation and approval by the unitholders of the REIT within six months. It is the REIT’s intention to seek unitholder confirmation and approval of the Rights Plan at the REIT’s 2011 annual meeting, which will be held within such six-month time period.

The primary objectives of the Rights Plan are to provide (i) the Board of Trustees with sufficient time to evaluate unsolicited take-over bids for the REIT and, if appropriate, to pursue value-enhancing alternatives to the bid, and (ii) holders of REIT Units and holders of Exchangeable LP Units (which are exchangeable for an equal number of REIT Units and are intended to be, to the extent possible, the economic equivalent of the REIT Units) with an equal opportunity to participate in any acquisition of the REIT.

Under the Rights Plan, one right (a “Right”) will be issued by the REIT in respect of each outstanding REIT Unit and Exchangeable LP Unit as of the close of business on December 15, 2010 as well as each REIT Unit and Exchangeable LP Unit issued thereafter.

The Rights Plan was not adopted by the REIT in response to any specific proposal to acquire control of the REIT and the REIT is not aware of any such proposal.

The Rights Plan does not prevent take-over bids or a transaction negotiated with the REIT and permits the making of a “permitted bid”. A “permitted bid” is a take-over bid that, among other requirements, is made to all the holders of REIT Units, is open for acceptance for a minimum of 60 days and includes an offer made to all holders of Exchangeable LP Units to acquire their Exchangeable LP Units on identical terms and conditions. If at the end of the 60-day period more than 50% of the aggregate outstanding REIT Units and Exchangeable LP Units (excluding REIT Units and Exchangeable LP Units owned by the acquiring person) have been tendered to the bid and not withdrawn, the acquiring person may take up and pay for the units but must extend the bid for a further 10 days so as to provide a further opportunity for unitholders to tender to the bid. If any person (including a person acting jointly or in concert with such person) acquires 20% or more of the outstanding REIT Units without complying with the “permitted bid” provisions of the Rights Plan or without the approval of the REIT, holders of Rights (other than the acquiring person) will be entitled to purchase REIT Units at a substantial discount to the prevailing market price at the time the Rights become exercisable, which would result in substantial dilution to the acquiring person.

A more detailed summary of the Rights Plan will be set out in Extencicare REIT’s material change report relating to the Rights Plan which will be filed by the REIT with the Canadian securities regulatory authorities and will be available on SEDAR at www.sedar.com. A full copy of the Rights Plan will also be available on SEDAR.

Extencicare REIT Announces Change in U.S. Tax Status from a Partnership to a Corporation for U.S. Tax Purposes – No Change to Status for Canadian Tax Purposes

Upon conversion to a real estate investment trust in 2006, Extencicare REIT elected to be treated as a partnership for U.S. federal income tax purposes. This election was made primarily to reduce costs associated with the REIT organizational structure resulting from withholding tax being imposed on cross-border interest payments in connection with intercompany debt. Effective January 1, 2010, as a result of a Fifth Protocol (the “Protocol”) to the Canada-United States Income Tax Convention (the “Canada-US Tax Treaty”), the withholding tax on cross-border interest payments has generally been eliminated. As a result, the trustees of the board of the REIT (the “Board of Trustees”) have approved the revoking of the REIT’s U.S. partnership status effective January 1, 2011, from which time onward the REIT will be treated as a corporation for U.S. federal income tax purposes. The change in U.S. tax status from a partnership to a corporation should have no adverse impact on the REIT or its U.S. unitholders, as the change will be effected on a tax-free basis under the *United States Internal Revenue Code* Sections 351 and 721. U.S. unitholders will be affected prospectively as all future income received from the REIT will be treated as distributions from a Canadian corporation for U.S. tax purposes. As a result, K-1s will no longer be issued to U.S. unitholders. Instead, Form 1099s issued to U.S. holders by their investment advisors will provide the necessary tax information. U.S. unitholders are urged to consult with, and rely solely upon, their own tax advisors for advice with respect to the tax consequences to them of an investment in REIT Units or Exchangeable LP Units.

The change in U.S. tax status of the REIT from a partnership to a corporation in 2011 will result in the recharacterization of U.S. source interest income of the REIT to a dividend for U.S. tax purposes. As a result, REIT unitholders will not be subject to U.S. withholding tax on distributions paid by the REIT beginning in 2011. Extencicare LP will remain as a partnership for U.S. tax purposes. As a result, U.S. source interest income of Extencicare LP will continue to be characterized as such for U.S. tax purposes and consequently to holders of Exchangeable LP Units.

The change of the U.S. federal income tax status of the REIT from a partnership to a corporation does not change the status of the REIT for Canadian income tax purposes or the Canadian taxation of distributions. The REIT is a mutual fund trust under the Income Tax Act (Canada), is considered a specified investment flow-through trust, or SIFT, for Canadian income tax purposes, and has been paying SIFT tax since 2007.

Trustees Approve Amendment to Deed of Trust for Definition of AGBV

Effective December 15, 2010, the definition of “Adjusted Gross Book Value”, or AGBV, in the REIT’s Deed of Trust was amended by the Board of Trustees, which amendment is attributable to the adoption by the REIT of International Financial Reporting Standards (IFRS) beginning January 1, 2011. In connection with the REIT’s adoption of IFRS and with a view to reducing the associated costs, the REIT is electing to apply the “fair value as deemed cost” exemption to revalue the land and buildings of selected nursing centers at fair value (excluding goodwill), rather than revaluing all of its lands and buildings. The REIT is still in the process of completing the revaluation exercise, which is subject to audit. Management of the REIT expects that the net increase to the book value of the REIT’s assets attributable to the revaluation and the related accounting adjustments as at January 1, 2011 (the “Net Increase”), to be in the range of \$300 million to \$400 million.

Prior to the amendment to the definition of AGBV being made, it was defined in the REIT’s Deed of Trust in effect to mean (i) the appraised value of the assets of the REIT and its subsidiaries, or, alternatively, (ii) the total reported assets of the REIT, plus the amount of accumulated depreciation and amortization and an amount equal to the “Incremental Value” (as defined in the Deed of Trust, being the difference between the REIT’s market capitalization and its reported assets, as adjusted, determined as of November 10, 2006, being the effective date of conversion to a trust), determined by the REIT to be \$675 million.

In light of the impact of the REIT’s adoption of IFRS on the value of the reported assets of the REIT, the definition of AGBV was amended to include in the alternative method of calculating AGBV a deduction from the total reported value of the assets of the REIT of an amount equal to the Net Increase, which deduction is appropriate given the inherent upward adjustment for Incremental Value contained in the definition.

The REIT’s Deed of Trust includes investment restrictions based on AGBV but does not contain any borrowing limits based on AGBV. In addition, the quarterly and annual Management Discussion and Analysis of the REIT includes a discussion of the REIT’s long-term debt (at face value and including the current portion) to AGBV (determined using the alternative method) as at the end of the most recent financial period and includes a comparison to the relevant prior period. The amendment to the definition of AGBV will allow the REIT to carry the discussion of this ratio forward.

About Us

Extendicare REIT is a leading North American provider of long-term and short-term senior care services through its network of owned and operated health care centers. We employ 37,600 qualified and experienced individuals dedicated to helping people live better through a commitment to quality service that includes post-acute care, rehabilitative therapies and home health care services. Our 264 senior care centers in North America have capacity for approximately 29,400 residents. Extendicare REIT is a specified investment flow-through trust (SIFT) that has been subject to the SIFT tax since January 1, 2007.

Forward-looking Statements

Information provided by Extendicare REIT from time to time, including this release, contains or may contain forward-looking statements concerning anticipated financial events, results, circumstances, economic performance or expectations with respect to the REIT and its subsidiaries, including its business operations, business strategy, and financial condition. Forward-looking statements can be identified because they generally contain the words “expect”, “intend”, “anticipate”, “believe”, “estimate”, “project”, “plan” or “objective” or other similar expressions or the negative thereof. Forward-looking statements reflect management’s beliefs and assumptions and are based on information currently available, and the REIT assumes no obligation to update or revise any forward-looking statement, except as required by applicable securities laws. These statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements of the REIT to differ materially from those expressed or implied in the statements. Given these risks and uncertainties, readers are cautioned not to place undue reliance on the REIT’s forward-looking statements. Further information can be found in the disclosure documents filed by Extendicare REIT with the securities regulatory authorities, available at www.sedar.com and on the REIT’s website at www.extendicare.com.

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