

Extencicare REIT Announces 2009 Fourth Quarter and Year-End Results
Operating Efficiencies and Cash Management Strengthen Financial Position

MARKHAM, ONTARIO – Extencicare Real Estate Investment Trust (“Extencicare REIT” or the “REIT”) (TSX: EXE.UN) today reported results for the three months and year ended December 31, 2009.

HIGHLIGHTS

- Revenue of \$2,167.2 million in 2009, an increase of 9.1% (4.0% exclusive of the impact of foreign exchange) compared to \$1,986.3 million in 2008, due primarily to funding improvements.
- EBITDA of \$265.7 million in 2009, an increase of 31.7% (25.0% exclusive of the impact of foreign exchange) compared to \$201.8 million in 2008, mainly due to growth from same-facility operations in both the U.S. and Canada.
- EBITDA margins improved to 12.3% in 2009 from 10.2% in 2008.
- Average daily revenue rates for Managed Care and Medicare Part A, the REIT’s two highest U.S. funding sources, increased by 7.1% and 7.3%, respectively, in 2009 from 2008.
- Canadian operations benefited from funding increases in Ontario and Alberta.
- AFFO from continuing operations in 2009 almost doubled to \$141.3 million (\$1.936 per basic unit) from \$72.4 million (\$0.999 per basic unit) in 2008.
- Distributions in 2009 totalled \$61.3 million, or \$0.84 per unit, representing 43.4% of AFFO from continuing operations for the same period.
- Cash on hand totalled \$134.0 million at year-end 2009 with no significant debt maturities until 2011 and beyond.

“The solid financial and operating results achieved by Extencicare REIT in 2009 exceeded our expectations for the year and reflect the successful execution of our operating plan,” said Tim Lukenda, President and CEO of Extencicare REIT. “Through a combination of disciplined cost controls, increased per diem rates and enhanced operating efficiencies across the organization, we have strengthened our financial position despite the economy’s impact on our Skilled Mix and total occupancy in the U.S. With the completion of our recent bought deal equity offering, we have added flexibility to our balance sheet as we undertake the refinancing of our debt and fund the redevelopment of our existing properties. We intend to exercise continued prudence in the management of our cash balances as we pursue our objective of deleveraging the REIT’s balance sheet.”

Mr. Lukenda continued, “In 2010, we remain committed to achieving continued growth and profitability by strengthening occupancy and investing in new and existing centers across North America. We believe that we are positioned well to adapt to the potential impact, if any, of implemented or pending rate reductions in Medicare Part A and Medicaid as well as proposed reforms to the U.S. health care system.”

2009 FINANCIAL REVIEW

Revenue improved by \$180.9 million, or 9.1%, to \$2,167.2 million in 2009 from \$1,986.3 million in 2008. However, exclusive of the positive impact of the weaker Canadian dollar, revenue grew by \$79.5 million, or 4.0%, of which approximately \$60.3 million was due to growth in same-facility operations of 3.1%. This increase was primarily due to funding improvements, partially offset by lower U.S. census levels.

EBITDA for 2009 grew by \$63.9 million, or 31.7%, to \$265.7 million from \$201.8 million in 2008, and as a percent of revenue improved to 12.3% from 10.2%. Exclusive of the positive impact of the weaker Canadian dollar of \$13.4 million, EBITDA improved by \$50.5 million, or 25.0%, of which \$48.3 million was due to growth from same-facility operations in both U.S. and Canadian operations.

TABLE 1 <i>(millions of dollars unless otherwise noted)</i>	Year ended December 31	
	2009	2008
Revenue		
U.S. operations (US\$)	1,334.7	1,295.1
U.S. operations (C\$)	1,524.3	1,380.6
Canadian operations	642.9	605.7
Total Revenue	2,167.2	1,986.3
EBITDA ⁽¹⁾		
U.S. operations (US\$)	175.7	138.2
U.S. operations (C\$)	200.7	147.4
Canadian operations	65.0	54.4
Total EBITDA	265.7	201.8
EBITDA margin	12.3%	10.2%
Average US/Canadian dollar exchange rate	1.1420	1.0660

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

EBITDA from U.S. operations improved by US\$37.5 million, or 27.1%, in 2009, of which US\$37.2 million, or 26.9%, was derived from same-facility operations, due primarily to funding increases, improved performance of previously challenged skilled nursing centers, reduced bad debt provisions and workers' compensation costs, and other cost controls, partially offset by lower census.

EBITDA from Canadian operations improved by \$10.6 million to \$65.0 million from \$54.4 million in 2008, of which \$2.4 million related to an executive compensation charge recorded in 2008, and \$1.9 million was from acquisitions. The remaining \$6.3 million was primarily due to funding enhancements net of increased field staff labour costs (including elect-to-work pay of \$2.5 million), lower utility costs, as well as lower general and administrative costs of \$2.8 million, largely related to cost controls.

TABLE 2 Components of Earnings from Continuing Operations ⁽¹⁾ <i>(thousands of dollars except per unit amounts)</i>	Year ended December 31			
	2009		2008	
	After -tax	Per diluted unit	After -tax	Per diluted unit
Continuing Operations before Undernoted ⁽¹⁾				
U.S. operations (US\$)	42,493		19,608	
U.S. operations (C\$)	48,521		20,907	
Canadian operations	10,644		8,438	
	59,165	\$0.81	29,345	\$0.41
Gain (loss) on derivative financial instruments and foreign exchange	20,742	0.24	(22,367)	(0.31)
Gain (loss) from asset impairment, disposals and other items	252	—	(554)	(0.01)
Earnings from continuing operations	80,159	\$1.05	6,424	\$0.09

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

We reported improved earnings from continuing operations in 2009 of \$80.1 million (\$1.05 per diluted unit) compared to \$6.4 million (\$0.09 per diluted unit) in 2008. The 2009 results reflected an after-tax gain on our derivative financial instruments and foreign exchange of \$20.7 million (pre-tax \$20.3 million) due to a stronger Canadian dollar at the end of 2009 from the end of 2008. The 2008 results reflected an after-tax loss of \$22.4 million (pre-tax \$25.3 million) due to a weaker Canadian dollar at the end of 2008 from the beginning of that year.

Earnings from continuing operations prior to separately reported items, as outlined in Table 2, improved by \$29.8 million (\$0.40 per diluted unit) to \$59.1 million (\$0.81 per diluted unit) in 2009 from \$29.3 million (\$0.41 per diluted unit) in 2008. This improvement in earnings was due to the previously discussed improvement in EBITDA and to lower income taxes, partially offset by higher financing costs and depreciation expense related primarily to the June 2008 convertible debt offering, acquisitions and capital expenditures.

2009 FOURTH QUARTER FINANCIAL REVIEW

2009 Fourth Quarter Comparison to 2008 Fourth Quarter

Revenue grew by \$12.2 million, or 2.2%, exclusive of the negative impact of the stronger Canadian dollar, of which approximately \$9.8 million was due to growth in same-facility operations of 1.8% quarter over quarter as a result of funding improvements, partially offset by lower U.S. census levels. However, the negative impact of the stronger Canadian dollar resulted in a reported \$37.2 million decline in revenue for the 2009 fourth quarter to \$522.5 million from \$559.7 million in the 2008 fourth quarter.

EBITDA grew by \$3.7 million, or 6.0%, exclusive of the negative impact of the weaker Canadian dollar, and as a percent of revenue improved to 11.4% from 11.0%, respectively. Growth from same-facility operations in both the U.S. and Canadian operations contributed \$4.0 million, and was partially offset by start-up losses from new facilities. Despite these improvements, the negative impact of the weaker Canadian dollar resulted in a reported \$2.2 million decline in EBITDA for the 2009 fourth quarter to \$59.4 million from \$61.6 million for the 2008 fourth quarter.

TABLE 3	Q4	Q4	Q3
<i>(millions of dollars unless otherwise noted)</i>	2009	2008	2009
Revenue			
U.S. operations (US\$)	335.6	329.5	334.4
U.S. operations (C\$)	355.2	397.2	367.2
Canadian operations	167.3	162.5	162.6
Total Revenue	522.5	559.7	529.8
EBITDA ⁽¹⁾			
U.S. operations (US\$)	40.1	37.7	46.5
U.S. operations (C\$)	42.0	45.0	51.2
Canadian operations	17.4	16.6	19.5
Total EBITDA	59.4	61.6	70.7
EBITDA margin	11.4%	11.0%	13.4%
Average US/Canadian dollar exchange rate	1.0586	1.2078	1.0991

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

EBITDA from U.S. operations improved by US\$2.4 million, or 6.4%, to US\$40.1 million in the 2009 fourth quarter from US\$37.7 million in the 2008 fourth quarter, and as a percent of revenue grew to 11.9% from 11.4%. This improvement was due primarily to improved Resource Utilization Groupings (RUGs) mix, Managed Care and Medicaid revenue rates, improved collection of accounts receivable that reduced bad debt provisions, and cost controls, partially offset by lower total and Skilled Mix census.

EBITDA from Canadian operations improved by \$0.8 million to \$17.4 million this quarter from \$16.6 million in the 2008 fourth quarter, and as a percent of revenue was 10.4% and 10.2%, respectively. Excluding the \$0.2 million impact of acquisitions and Alberta retroactive funding received in the 2008 fourth quarter of \$1.4 million, EBITDA from same-facility operations improved by \$2.0 million. This improvement was primarily due to lower general and administrative costs of \$1.7 million, largely related to cost controls, and funding enhancements net of increased field staff labour costs, including elect-to-work pay of \$1.0 million.

2009 Fourth Quarter Comparison to 2009 Third Quarter

In comparison to the 2009 third quarter, revenue this quarter increased by \$6.1 million, or 1.1%, exclusive of the negative impact of the stronger Canadian dollar, with improvements recorded from both U.S. and Canadian operations as discussed below. The negative impact of the stronger Canadian dollar resulted in a reported \$7.3 million decline in revenue this quarter to \$522.5 million from \$529.8 million in the 2009 third quarter.

Revenue from U.S. operations increased by US\$1.2 million from the 2009 third quarter, of which US\$1.4 million was due to newly opened centers. The remaining decline of US\$0.2 million between quarters resulted from a net increase in revenue rates of \$3.0 million, which included a \$0.4 million decline in our average Medicare rates, and improvements from other revenue, offset by lower census levels of US\$4.1 million.

Revenue from Canadian operations increased by \$4.7 million this quarter from the 2009 third quarter, and excluding the \$1.5 million of retroactive funding included in the 2009 third quarter, revenue increased by \$6.2 million. Timing of recognition of revenue under the Ontario flow-through envelopes accounted for \$2.8 million of the increase, with the remainder primarily due to funding enhancements and increased home health care volumes.

EBITDA declined by \$9.2 million between the 2009 third and fourth quarters, exclusive of the negative impact of the stronger Canadian dollar, and as a percent of revenue was 11.4% compared to 13.4%, respectively. Results for both the U.S. and Canadian operations declined between quarters, as discussed below. The stronger Canadian dollar negatively impacted EBITDA by \$2.1 million, resulting in a total decline of \$11.3 million to \$59.4 million from \$70.7 million.

EBITDA from U.S. operations this quarter was lower by US\$6.4 million, or 13.8%, and as a percent of revenue was 11.9% compared to 13.9% in the 2009 third quarter. The 2009 third quarter results included a US\$3.2 million charge to strengthen our self-insured general and professional liability reserves. Remaining operations declined by US\$9.6 million. Increased revenue, net of higher state provider taxes, of US\$3.2 million from improved RUGs mix, and Managed Care and Medicaid rates was offset by: the 1.1% Medicare market basket decrease of US\$1.0 million; lower total and Skilled Mix census of US\$4.1 million; reduced level of savings from workers' compensation and health benefit costs of US\$2.6 million; a seasonal increase in utility, food and supply costs of US\$1.5 million; higher labour costs primarily due to wage rate increases of US\$1.4 million; severance costs of US\$0.7 million; and other cost increases of US\$1.5 million. Labour costs increased in the 2009 fourth quarter as a result of wage rate increases implemented in the latter part of the year.

EBITDA from Canadian operations declined by \$2.1 million to \$17.4 million in the 2009 fourth quarter from \$19.5 million in the 2009 third quarter, of which \$1.5 million was due to retroactive funding received in the 2009 third quarter. The remaining decline of \$0.6 million was primarily due to funding

enhancements and increased home health care volumes, offset by higher labour costs and a seasonal increase in utility costs of \$1.2 million.

2009 Fourth Quarter Earnings from Continuing Operations

Earnings from continuing operations in the 2009 fourth quarter improved to \$18.0 million (\$0.24 per diluted unit) from a loss of \$9.1 million (\$0.13 per diluted unit) in the 2008 fourth quarter. The 2009 fourth quarter reflected an after-tax gain on our derivative financial instruments and foreign exchange of \$3.5 million (pre-tax \$2.4 million) compared to a loss of \$17.6 million (pre-tax \$20.1 million) in the same 2008 period.

Components of Earnings from Continuing Operations ⁽¹⁾	Three months ended December 31			
	2009		2008	
	After	Per	After	Per
	-tax	diluted	-tax	diluted
		unit		unit
<i>(thousands of dollars except per unit amounts)</i>				
Continuing Operations before Undernoted ⁽¹⁾				
U.S. operations (US\$)	10,125		3,663	
U.S. operations (C\$)	10,647		4,663	
Canadian operations	3,467		2,842	
	14,114	\$0.20	7,505	\$0.10
Gain (loss) on derivative financial instruments and foreign exchange	3,463	0.04	(17,568)	(0.24)
Gain from asset impairment, disposals and other items	453	–	937	0.01
Earnings (loss) from continuing operations	18,030	\$0.24	(9,126)	\$(0.13)

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

Earnings from continuing operations prior to separately reported items, as outlined in Table 4 above, improved by \$6.6 million (\$0.10 per diluted unit) to \$14.1 million (\$0.20 per diluted unit) in the 2009 fourth quarter from \$7.5 million (\$0.10 per diluted unit) in the 2008 fourth quarter. This improvement in earnings was due to the previously discussed improvement in EBITDA in addition to lower interest costs and lower income tax expense, partially offset by higher depreciation expense, and a \$1.4 million negative impact of the stronger Canadian dollar between periods. The fourth quarter results often include year-end tax adjustments such as book-to-file and audit adjustments. As a result, our 2009 fourth quarter effective tax rate was lower than normal, and conversely, our 2008 fourth quarter effective tax rate was higher than normal. Our 2009 annual effective tax rate on earnings prior to separately reported items was 43.8%, which approximates our normal effective tax rate; however, this is subject to fluctuations in the change in mix of earnings between our U.S., Canadian and non-taxable captive entities.

Acceleration of Tax Depreciation and Other Current Tax Adjustments

In respect of our 2009 income tax filings for our U.S. operations, we plan to file a one-time retroactive change in our U.S. tax accounting method that will accelerate the tax depreciation and expensing of certain previously capitalized assets that have occurred over the past seven years. This tax accounting change will expense rather than capitalize certain expenditures that are frequently required to maintain our properties, and is subject to review by the U.S. Internal Revenue Service.

The tax accounting change will result in a recovery of federal and state cash taxes of US\$21.8 million, to be received through a reduction of our 2010 U.S. tax instalments. As a result, our 2009 current income tax expense included a recovery of \$24.9 million (US\$21.8 million) recorded in the fourth quarter, with an equal offset charged to the future income tax provision that will be reversed over an estimated 28 years. There is no impact to our 2009 net earnings, or earnings per unit figures. However, the current income tax

recovery of \$24.9 million had a favourable impact on our 2009 fourth quarter and annual FFO, DI and AFFO calculations, representing an increase of \$0.341 per basic unit, or \$0.286 per diluted unit.

In addition to the positive impact of accelerated tax depreciation, current income taxes were lower in the 2009 fourth quarter, primarily as a result of book-to-file and audit adjustments that typically occur at year end and other unique current period items in our U.S. operations. The majority of these items related to a shift between current and future income taxes, and had a minimal impact on our total tax provision. However, with respect to current income taxes, there was a net positive impact in the 2009 fourth quarter as a result of a book-to-file adjustment of approximately \$7.7 million due to higher tax depreciation filed on the 2008 U.S. tax returns. In addition, our U.S. operations reduced its 2009 current tax expense as a result of an increase in deductible prepaid expenses of \$1.2 million, as well as a favourable impact from a decline in current period bad debt provisions relative to tax deductible bad debt write-offs and workers' compensation provisions relative to tax deductible claim payments totalling \$4.6 million. Collectively, these unique current tax adjustments favourably impacted our 2009 fourth quarter and annual FFO, DI and AFFO calculations by \$13.5 million (US\$11.8 million), representing an increase of \$0.184 per basic unit, or \$0.155 per diluted unit.

We estimate that our normal annual effective current tax rate on our FFO before current income taxes would be in the range of 29% to 33% depending on our estimates of timing differences and the mix of earnings between our U.S., Canadian and non-taxable captive entities.

ADJUSTED FUNDS FROM OPERATIONS (AFFO)

Improvements in EBITDA in 2009 contributed to the improvements in AFFO from continuing operations, in addition to lower current income taxes, partially offset by higher financing costs, and fluctuations in facility maintenance capital expenditures between periods.

AFFO from continuing operations almost doubled to \$141.3 million (\$1.936 per basic unit) in 2009 from \$72.4 million (\$0.999 per basic unit) in 2008. The components of this improvement related to EBITDA of \$63.9 million, as discussed previously, lower current income taxes of \$17.2 million despite the improvement in earnings (refer to the discussion under the heading "U.S. Operations Acceleration of Tax Depreciation and Other Current Tax Adjustments"), partially offset by higher financing costs of \$4.5 million, and facility maintenance capital expenditures of \$7.7 million. The weaker Canadian dollar had an \$8.2 million (\$0.113 per basic unit) positive impact on AFFO from continuing operations in 2009.

Excluding the impact of the acceleration of tax depreciation of \$24.9 million (\$0.341 per basic unit), and other U.S. current tax adjustments of \$13.5 million (\$0.184 per basic unit), AFFO from continuing operations improved by \$30.5 million, or \$0.412 per basic unit, between periods.

Distributions declared in 2009 totalled \$61.3 million, or \$0.84 per unit, representing 43.4% of AFFO from continuing operations of \$141.3 million, compared to a payout ratio of 113.3% in 2008, on distributions of \$1.11 per unit.

2009 Fourth Quarter AFFO

AFFO from continuing operations improved by \$38.5 million (\$0.530 per basic unit) to \$59.9 million (\$0.820 per basic unit) in the 2009 fourth quarter from \$21.4 million (\$0.290 per basic unit) in the 2008 fourth quarter, due to lower current income taxes of \$41.1 million, primarily resulting from the acceleration of tax depreciation and other U.S. current tax adjustments, as discussed above, and lower financing costs of \$2.5 million, partially offset by an increase in facility maintenance capital expenditures of \$2.8 million and a decline in EBITDA of \$2.2 million.

In comparison to the 2009 third quarter, AFFO from continuing operations improved by \$29.9 million this quarter from \$30.0 million (\$0.410 per basic unit), due to lower current income taxes of \$45.2 million, primarily resulting from the acceleration of tax depreciation and other U.S. current tax adjustments, as discussed above, and lower financing costs of \$0.1 million, partially offset by the decline in EBITDA of \$11.3 million, and an increase in facility maintenance capital expenditures of \$4.1 million.

Facility maintenance capital expenditures of \$12.4 million in the 2009 fourth quarter were 2.4% of revenue, compared to \$9.6 million, or 1.7% of revenue, in the 2008 fourth quarter. For 2009, facility maintenance capital expenditures were \$36.0 million, or 1.7% of revenue, compared to \$28.4 million, or 1.4% of revenue, in 2008. These costs fluctuate on a quarterly basis with the timing of projects and seasonality. Certain 2008 planned projects that commenced last year were carried over to 2009. It is our intention to expend 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 approximately \$35.0 million in facility maintenance capital expenditures and approximately \$55.0 million in growth capital expenditures in 2010.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2009, we had cash and cash equivalents of \$134.0 million compared with \$123.1 million at December 31, 2008, representing an increase of \$10.9 million. A cash pledge of \$22.4 million in 2009 as collateral against a letter of credit is excluded from our available cash balance as at December 31, 2009. Cash provided by operating activities grew to \$185.1 million in 2009 compared to \$105.1 million in 2008. This increase reflected the improvement in earnings, partially offset by an unfavourable change of \$5.8 million in operating assets and liabilities between periods, primarily due to an increase in income taxes receivable between periods, partially offset by a favourable change in accounts receivable. The reduction in accounts receivable was primarily due to improved collections and the receipt in January 2009 of the \$8.7 million (US\$7.0 million) return premium, which was associated with the 2008 exercising of our option to commute our reinsurance coverage for the three-year period covering 2005 to 2007.

Long-term debt, including current portion, was \$1,234.0 million at December 31, 2009, with no significant debt maturities until 2011, compared to \$1,332.8 million at December 31, 2008. The \$98.8 million decrease in long-term debt was mainly due to the impact of the stronger Canadian dollar of \$116.8 million, partially offset by a net increase in borrowings. At December 31, 2009, long-term debt (at face value and including current portion) represented 44.2% of adjusted gross book value (37.0% excluding the convertible debentures). Our consolidated leverage ratio, or debt to trailing twelve months EBITDA, has improved to 4.7 times, from 6.7 times at the end of 2008.

On February 4, 2010, Extendicare REIT announced that it had completed an equity offering of 9,228,750 trust units of the REIT, including the exercise in full of an over-allotment option of 1,203,750 trust units, at a price of \$9.35 per unit for aggregate gross proceeds of \$86.3 million (\$82.8 million net of underwriters' fees). The net proceeds of the offering will increase the REIT's liquidity and balance sheet flexibility, and will be used to repay indebtedness, fund redevelopment of the REIT's existing properties, and for general trust purposes.

In January 2010, we received approval from the U.S. Department of Housing and Urban Development, or HUD, to refinance our skilled nursing (60 bed) and assisted living (62 units) complex in Wausau, Wisconsin for US\$11.7 million at a fixed rate of 4.6% over a 35-year term. We anticipate this financing to close at the end of February.

U.S. OPERATIONS KEY METRICS

Skilled Nursing Facility Revenue Rates

The average daily Medicare Part A rate for our wholly owned U.S. subsidiary, Extencicare Health Services, Inc. (EHSI), grew by 3.5% to US\$454.76 in the 2009 fourth quarter from US\$439.24 in the 2008 fourth quarter, primarily due to a net rate increase of approximately 2.3% when comparing the quarters, and higher average acuity levels among Medicare patients served. In comparison to the 2009 third quarter, the average rate declined by only 0.5%, despite the net 1.1% reduction in rates effective October 1, 2009, due to our continued improvement in the mix of Medicare residents served.

Our percentage of Medicare residents in the nine highest RUGs classifications increased to 41.5% this quarter from 38.9% in the 2008 fourth quarter, and declined slightly from 42.6% in the 2009 third quarter. In addition, we experienced an increase in the percentage of Medicare residents receiving therapy services to 90.6% this quarter from 88.0% in the 2008 fourth quarter, and from 89.4% in the 2009 third quarter.

The average revenue rate for Managed Care clients increased 4.0% to US\$387.34 this quarter from US\$372.51 in the 2008 fourth quarter, as well as increasing from US\$378.35 in the 2009 third quarter. While these rates will vary depending on the type of resident admitted and their diagnosis, we anticipate continued improvements in this average rate over time.

Our average daily Medicaid rate, excluding prior period settlement adjustments, increased 2.8% in the 2009 fourth quarter to US\$177.32 compared to US\$172.43 in the 2008 fourth quarter. In comparison to the 2009 third quarter Medicaid rate of US\$174.85, we experienced a 1.4% increase due primarily to October 1, 2009, rate increases, which were partially offset by increased state provider taxes, for a net improvement of US\$1.1 million between quarters.

Total and Skilled Census

Our 2009 same-facility ADC of 14,152 for 2009 was 207 below the 2008 comparable level of 14,359, with a decline of 219 in Medicare ADC, partially offset by increases in Managed Care and Medicaid ADC. In comparison to the 2009 third quarter ADC of 14,161, our same-facility ADC declined by 113 to 14,048 in the 2009 fourth quarter due to a decline in Medicare ADC of 73 and private/other ADC of 68, partially offset by improvements in Managed Care and Medicaid ADC. We have implemented a number of short and longer term tactics to reverse this decline in 2010. Our plan involves taking a more strategic approach to identifying and meeting the program and service needs of each community in which we are located.

U.S. HEALTH CARE SECTOR DEVELOPMENTS

Medicaid Funding Discussion

In our 2009 third quarter release, we indicated that anticipated Medicaid funding changes effective October 1, 2009 for the State of Michigan would impact us negatively in the 2009 fourth quarter by approximately US\$9.0 million annually. In early 2010, we received notification of the October 1, 2009, Medicaid rates which, contrary to earlier estimates, reflected a net increase of approximately US\$1.3 million annually. An increase in the state provider tax combined with the federal match, and incremental federal funds provided to the State of Michigan that will continue through to December 2011, are responsible for the positive Medicaid funding changes.

Outcome of Health Care Reform Uncertain

Health care reform bills currently before the U.S. Congress have become mired in controversy and the likelihood of passage is uncertain at this time. We intend to closely monitor proceedings and proactively respond to any legislative changes in a manner that will take advantage of new opportunities and minimize exposure to new risks. With over 40 years experience as a senior care provider, Extendicare REIT has a proven ability to adapt to changes in the health care environment.

DEVELOPMENT PROJECTS

In July 2009, we completed a state-of-the-art 100-bed skilled nursing center in Okemos, Michigan and in October 2009, we completed a 100-bed skilled nursing center and 60-unit assisted living center in Summit, Wisconsin. Our pipeline includes a further three construction projects underway (completion dates as indicated in parentheses):

- 280-bed continuing care center in Red Deer, Alberta (summer 2010);
- 140-bed designated assisted living center in Lethbridge, Alberta (fall 2010); and
- 180-bed nursing center in Edmonton, Alberta (summer 2011).

In addition to these projects, as part of the Government of Ontario's initiative to redevelop 35,000 long-term care beds over the next 10 years, Extendicare (Canada) Inc. (ECI) received approval to redevelop 287 of its Class C beds in the cities of Timmins and Sault Ste. Marie, and in connection with this award, received approval to add a further 149 long-term care beds. As a result, ECI expects to complete construction of a new 180-bed nursing center in Timmins and a new 256-bed nursing center in Sault Ste. Marie by the end of 2012. ECI currently operates three nursing centers with 387 Class C beds in these areas. Following completion of the new projects, ECI would operate 436 beds in two new centers and 100 Class C beds in an existing center to be considered for redevelopment at a later date. The total cost of these two projects, net of government grants, will be approximately \$72.1 million, of which we anticipate about 75% to be financed through the Canadian Mortgage and Housing Corporation. In addition, we will receive capital funding from the government of approximately \$2.0 million annually over a period of 25 years.

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 38,000 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 258 senior care centers in North America have capacity for approximately 28,800 residents.

Extendicare REIT is a specified investment flow-through trust (SIFT) that has been subject to the SIFT tax since January 1, 2007.

CONFERENCE CALL AND WEBCAST

On February 24, 2010, at 10:00 a.m. (ET), we will hold a conference call to discuss our results for the 2009 fourth quarter. The call will be webcast live and archived in the investors/presentations & webcasts section of our website at www.extendicare.com. Alternatively, the call-in number is 1-888-789-9572 or 416-695-7806, conference ID number 8304730#. A replay of the call will be available until midnight on March 12, 2010. To access the rebroadcast, dial 1-800-408-3053 or 416-695-5800, followed by the passcode 2010015#. 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.

Certain figures have been revised to conform to the presentation in 2009, mainly for discontinued operations.

Non-GAAP Measures

Extendicare REIT assesses and measures operating results and financial position based on performance measures referred to as “EBITDA”, “continuing health care operations before undernoted”, “continuing operations before undernoted”, “Distributable Income”, “Funds from Operations”, “Adjusted Funds from Operations” and “Adjusted Gross Book Value”. These are not measures recognized under GAAP and do not have standardized meanings prescribed by GAAP. These non-GAAP measures are presented in this document because either: (i) management believes that they are a relevant measure of the ability of the REIT to make cash distributions; or (ii) certain ongoing rights and obligations of the REIT may be calculated using these measures. Such non-GAAP measures may differ from similar computations as reported by other issuers and, accordingly, may not be comparable to similarly titled measures as reported by such issuers. They are not intended to replace earnings (loss) from operations, net earnings (loss) for the period, cash flow, or other measures of financial performance and liquidity reported in accordance with Canadian GAAP. Reconciliations of these non-GAAP measures from net earnings and/or from cash provided by operations, where applicable, are provided in this press release. Detailed descriptions of these terms can be found in the disclosure documents filed by Extendicare REIT with the securities regulatory authorities, available at www.sedar.com and on the REIT’s website at www.extendicare.com.

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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EXTENDICARE REIT
Condensed Consolidated Earnings (Loss)

(thousands of Canadian dollars except per unit amounts)	Three months ended		Twelve months ended	
	December 31		December 31	
	2009	2008	2009	2008
Revenue		(revised)		(revised)
Nursing and assisted living centers				
United States	342,581	384,354	1,469,126	1,332,390
Canada	124,441	121,306	479,125	446,131
Home health – Canada	40,544	38,732	155,096	148,928
Health technology services – United States	4,444	4,222	18,853	14,328
Outpatient therapy – United States	3,357	3,544	13,905	12,956
Other	7,104	7,560	31,091	31,567
	522,471	559,718	2,167,196	1,986,300
Operating expenses	443,233	475,580	1,816,607	1,701,708
Administrative costs	16,942	19,332	72,818	71,441
Lease costs	2,914	3,204	12,101	11,324
EBITDA ⁽¹⁾	59,382	61,602	265,670	201,827
Depreciation and amortization	16,144	16,836	66,032	58,290
Accretion expense	385	402	1,569	1,470
Interest expense	23,218	26,459	97,059	92,587
Interest income	(1,114)	(1,566)	(4,244)	(6,318)
Loss (gain) on derivative financial instruments and foreign exchange	(2,442)	20,131	(20,289)	25,344
Loss (gain) from asset impairment, disposals and other items	(548)	(1,460)	(219)	855
Earnings from continuing operations before income taxes	23,739	800	125,762	29,599
Income tax expense (recovery)				
Current	(31,994)	9,138	6,818	26,249
Future	37,703	788	38,785	(3,074)
	5,709	9,926	45,603	23,175
Earnings (loss) from continuing operations	18,030	(9,126)	80,159	6,424
Discontinued operations	(2,302)	4,656	(2,451)	6,964
Net earnings (loss)	15,728	(4,470)	77,708	13,388
Basic Earnings (Loss) per Unit (\$)				
Earnings (loss) from continuing operations	0.24	(0.13)	1.09	0.09
Net earnings (loss)	0.21	(0.07)	1.06	0.18
Diluted Earnings (Loss) per Unit (\$)				
Earnings (loss) from continuing operations	0.24	(0.13)	1.05	0.09
Net earnings (loss)	0.21	(0.07)	1.02	0.18

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

EXTENDICARE REIT
Condensed Consolidated Cash Flows

(thousands of Canadian dollars)	Three months ended		Twelve months ended	
	December 31		December 31	
	2009	2008	2009	2008
Operating Activities				
Net earnings (loss)	15,728	(4,470)	77,708	13,388
Adjustments for:				
Depreciation and amortization	16,163	17,491	67,409	61,225
Provision for self-insured liabilities	3,308	4,295	22,059	20,476
Payments for self-insured liabilities	(6,684)	(6,885)	(19,318)	(28,152)
Future income taxes	37,683	1,725	37,982	(289)
Loss (gain) on derivative financial instruments and foreign exchange	(2,442)	20,131	(20,289)	25,344
Loss (gain) from asset impairment, disposals and other items	(548)	(1,460)	(219)	855
Loss (gain) from asset disposals, impairment and other items from discontinued operations	3,982	(7,105)	4,326	(7,579)
Other	2,547	3,712	11,491	10,058
	69,737	27,434	181,149	95,326
Net change in operating assets and liabilities				
Accounts receivable	9,041	(3,885)	27,328	(12,992)
Other current assets	(927)	3,169	(3,401)	(1,095)
Accounts payable and accrued liabilities	9,344	9,744	16,553	17,528
Income taxes	(35,355)	9,877	(36,504)	6,375
	(17,897)	18,905	3,976	9,816
	51,840	46,339	185,125	105,142
Investing Activities				
Growth capital expenditures	(17,297)	(6,348)	(55,574)	(39,184)
Maintenance capital expenditures	(12,370)	(9,605)	(36,020)	(28,350)
Acquisitions	-	(17,012)	-	(17,012)
Net proceeds from dispositions	-	18,298	9,995	20,867
Other assets	1,687	1,467	(48)	6,350
	(27,980)	(13,200)	(81,647)	(57,329)
Financing Activities				
Issue of long-term debt	2,927	17,078	20,210	171,785
Issue on line of credit	7,704	48	14,315	1,066
Repayment of long-term debt	(4,488)	(13,510)	(22,329)	(81,306)
Decrease (increase) in restricted cash	7,121	-	(22,361)	-
Decrease in investments held for self-insured liabilities	(18,980)	(15,090)	(5,871)	(6,459)
Purchase of securities for cancellation	-	(3,122)	(6,189)	(3,239)
Distributions paid	(14,666)	(19,911)	(60,182)	(77,739)
Issue of units	-	-	-	32,875
Financing costs	(192)	(640)	(3,024)	(9,420)
Other	1,109	(5,080)	(339)	(1,069)
	(19,465)	(40,227)	(85,770)	26,494
Foreign exchange gain (loss) on cash held in foreign currency	(1,246)	3,985	(6,780)	4,543
Increase (decrease) in cash and cash equivalents	3,149	(3,103)	10,928	78,850
Cash and cash equivalents at beginning of period	130,863	126,187	123,084	44,234
Cash and cash equivalents at end of period	134,012	123,084	134,012	123,084

EXTENDICARE REIT
Condensed Consolidated Balance Sheets

(thousands of Canadian dollars, unless otherwise noted)	December 31 2009	December 31 2008 (revised)
Assets		
Current assets		
Cash and short-term investments	134,012	123,084
Restricted cash	22,361	-
Accounts receivable, less allowances	213,477	274,044
Income taxes recoverable	29,314	-
Future income tax assets	24,900	40,888
Other current assets	22,187	21,024
	446,251	459,040
Property and equipment	863,430	970,612
Goodwill and other intangible assets	191,514	225,629
Other assets	166,870	151,641
	1,668,065	1,806,922
Liabilities and Unitholders' Deficiency		
Current liabilities		
Accounts payable	38,372	51,434
Accrued liabilities	245,260	253,038
Accrual for self-insured liabilities	11,321	12,533
Current portion of long-term debt	28,538	42,217
Income taxes payable	-	4,594
	323,491	363,816
Accrual for self-insured liabilities	32,562	37,838
Long-term debt	1,205,494	1,290,596
Other long-term liabilities	67,555	79,198
Future income tax liabilities	79,866	65,006
	1,708,968	1,836,454
Unitholders' deficiency	(40,903)	(29,532)
	1,668,065	1,806,922
Closing US/Cdn. dollar exchange rate	1.0510	1.2180

EXTENDICARE REIT
Financial and Operating Statistics

	Three months ended December 31		Twelve months ended December 31	
(amounts in Canadian dollars, unless otherwise noted)	2009	2008	2009	2008
Earnings (Loss) from Continuing Operations (millions)				
United States (US\$)	\$11.9	\$(9.4)	\$54.8	\$(1.7)
United States	\$12.5	\$(10.8)	\$62.6	\$(3.1)
Canada	5.5	1.7	17.5	9.5
	\$18.0	\$(9.1)	\$80.1	\$6.4
Net Earnings (Loss) (millions)				
United States (US\$)	\$9.6	\$(5.5)	\$52.4	\$4.4
United States	\$10.2	\$(6.2)	\$60.2	\$3.9
Canada	5.5	1.7	17.5	9.5
	\$15.7	\$(4.5)	\$77.7	\$13.4
U.S. Skilled Nursing Center Statistics				
Percent of Revenue by Payor Source (same-facility basis, excluding prior period settlement adjustments)				
Medicare (Part A and B)	31.9 %	33.3 %	33.5 %	34.6 %
Managed Care	10.7	9.5	10.3	9.3
Skilled mix	42.6	42.8	43.8	43.9
Private/other	9.3	10.0	9.3	9.7
Quality mix	51.9	52.8	53.1	53.6
Medicaid	48.1	47.2	46.9	46.4
Average Daily Census by Payor Source (same-facility basis)				
Medicare	2,184	2,369	2,321	2,540
Managed Care	954	870	941	881
Skilled mix	3,138	3,239	3,262	3,421
Private/other	1,503	1,657	1,521	1,602
Quality mix	4,641	4,896	4,783	5,023
Medicaid	9,407	9,388	9,369	9,336
	14,048	14,284	14,152	14,359
Average Revenue per Resident Day by Payor Source (excluding prior period settlement adjustments) (US\$)				
Medicare Part A only	\$ 454.76	\$ 439.24	\$ 453.40	\$ 422.43
Medicare (Part A and B)	504.70	480.97	500.80	460.82
Managed Care	387.34	372.51	382.77	357.33
Private/other	215.89	207.70	213.96	206.29
Medicaid	177.32	172.43	174.06	168.15
Weighted average	247.28	240.24	246.20	235.98
Average Occupancy (excluding managed centers) (same-facility basis)				
U.S. skilled nursing centers	87.8 %	88.0 %	88.5 %	88.4 %
U.S. assisted living centers	79.4	83.2	81.4	84.3
Canadian centers	98.3	98.1	98.0	98.0
Average US/Cdn. dollar exchange rate	1.0586	1.2078	1.1420	1.066

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 December 31, 2009 and 2008. (1)

(thousands of Canadian dollars unless otherwise noted)	Three months ended December 31		Twelve months ended December 31	
	2009	2008 (revised)	2009	2008 (revised)
EBITDA from continuing operations	59,382	61,602	265,670	201,827
Depreciation for furniture, fixtures, equipment and computers	(5,591)	(5,865)	(23,407)	(19,440)
Interest expense, net	(22,104)	(24,893)	(92,815)	(86,269)
	31,687	30,844	149,448	96,118
Current income tax expense ⁽²⁾	32,299	(8,786)	(7,453)	(24,776)
FFO (continuing operations)	63,986	22,058	141,995	71,342
Amortization of financing costs	2,145	2,469	9,675	7,757
Principal portion of government capital funding payments	577	553	2,303	2,173
DI (continuing operations)	66,708	25,080	153,973	81,272
Additional maintenance capital expenditures ⁽³⁾	(6,779)	(3,740)	(12,613)	(8,910)
AFFO (continuing operations)	59,929	21,340	141,360	72,362
AFFO (discontinued operations) ⁽⁴⁾	1,696	2,314	4,777	6,432
AFFO	61,625	23,654	146,137	78,794
Per Basic Unit (\$)				
FFO (continuing operations)	0.876	0.300	1.945	0.985
AFFO (continuing operations)	0.820	0.290	1.936	0.999
AFFO	0.844	0.320	2.002	1.087
Per Diluted Unit (\$)				
FFO (continuing operations)	0.768	0.282	1.762	0.965
AFFO (continuing operations)	0.713	0.264	1.720	0.948
AFFO	0.732	0.291	1.775	1.026
Distributions declared	15,360	20,533	61,304	80,575
Distributions declared per unit (\$)	0.2100	0.2775	0.8400	1.1100
Basic weighted average number of units (thousands)	73,132	74,068	73,000	72,460
Diluted weighted average number of units (thousands)	86,945	87,953	86,817	82,558

(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) The impact of discontinued operations reduces FFO, DI and AFFO by the same amount.

(thousands of Canadian dollars)	Three months ended December 31		Twelve months ended December 31	
	2009	2008	2009	2008
Reconciliation of Cash Provided by Operating Activities to DI & AFFO				
Cash provided by operating activities	51,840	46,339	185,125	105,142
Add (Deduct):				
Net change in operating assets and liabilities	17,897	(18,905)	(3,976)	(9,816)
Current tax expense on gain or loss from derivative financial instruments, foreign exchange, asset impairment, disposals and other items	305	3,495	1,615	2,697
Net provisions and payments for self-insured liabilities	3,376	2,590	(2,741)	7,676
Depreciation for furniture, fixtures, equipment and computers	(5,591)	(5,865)	(23,407)	(19,440)
Principal portion of government capital funding payments	577	553	2,303	2,173
Other	-	(813)	(169)	(728)
DI	68,404	27,394	158,750	87,704
Additional maintenance capital expenditures	(6,779)	(3,740)	(12,613)	(8,910)
AFFO	61,625	23,654	146,137	78,794