

Extendicare REIT Reports 2008 Fourth Quarter and Year End Results

MARKHAM, ONTARIO – Extendicare Real Estate Investment Trust (“Extendicare REIT” or the “REIT”) (TSX: EXE.UN) today reported its financial and operating results for the three months and year ended December 31, 2008.

Highlights:

- EBITDA for 2008 of \$206.0 million versus \$204.9 million in 2007.
- Revenue for 2008 up \$300.5 million, or 17.0% to \$2,064.4 million.
- Continued improvement in average Medicare Part A and Managed Care rates, up 6.4% and 9.3%, respectively, from 2007 mainly due to inflationary increases and higher average acuity levels among Medicare patients served.
- Increase in same-facility skilled mix census to 24.3% from 23.6% in 2007 attributable to a continued increase in the number of Managed Care clients.
- Canadian operations produced stable results in 2008.
- Cash on hand of \$123.1 million and no significant debt maturities until 2011 and beyond.

Adjusted funds from continuing operations was \$75.9 million (\$1.048 per basic unit) for the year ended December 31, 2008, compared to \$83.8 million (\$1.192 per basic unit) for the 2007 year. Distributions declared in 2008 of \$80.6 million, or \$1.11 per unit, represented 106.2% of adjusted funds from continuing operations. As previously announced, monthly distributions were reduced to \$0.07 per unit (\$0.84 per unit annualized) commencing in January 2009. After considering the outlook of Extendicare REIT’s operating environment for the coming year and general economic conditions, the Board of Trustees of the REIT adjusted distributions to a level which, in management’s view, reflect a sustainable level for the foreseeable future, and will preserve cash to fund future growth of the business.

“We were presented with some significant external and internal factors that had an impact on our 2008 financial results,” said Tim Lukenda, President and CEO of Extendicare REIT. “In light of these challenges, we are now better positioned for the future, as we have taken steps to strengthen the underlying fundamentals of our business through the implementation of a “back-to-basics” operating plan. We initiated administrative cost reductions last fall that are anticipated to yield \$5.0 million in annualized savings. At the same time, we moved ahead with additional strategies to sustain growth over the long term. As a result of our efforts, we solidified our balance sheet and have laid a strong foundation for the years ahead.”

“As we move into 2009, we will continue to focus on improving and growing our core senior care operations. Demand for our services is growing, and we have proven strategies in place to be successful in today’s evolving health care environment,” continued Mr. Lukenda.

ACQUISITIONS AND DIVESTITURES

Both the Michigan and Wisconsin acquisitions continue to exceed expectations. Since we acquired Tendercare in Michigan last fall, the average daily census (ADC) of its 29 skilled nursing facilities on a same-facility basis has grown by 14.1%, and its Medicare Part A rates have increased 15.3% or US\$55.42 per Medicare day. In addition, Tendercare’s 2008 EBITDA has increased by 34.1%, or US\$7.5 million, to US\$29.5 million, from its 2007 performance. We implemented time-tracking software in Michigan in August 2008, which will enhance our ability to manage labour costs by providing real-time staffing

information on any given day. We are also pleased with the results from the five other senior care facilities acquired in Wisconsin in 2007 that have generated an unlevered return on our investment of 11.3% based upon their performance in 2008.

In the 2008 fourth quarter, we completed the acquisition of three facilities that we previously managed in Manitoba, Canada, for a net cash cost of \$9.4 million after subsequent refinancing of the debt assumed. The facilities fit in well with our Western Canada portfolio and integration has proceeded smoothly.

In December 2008, we completed the sale of three skilled nursing facilities (310 beds) in Indiana for net proceeds of \$13.9 million (US\$11.4 million) resulting in a pre-tax gain of \$5.5 million (US\$4.5 million).

DEVELOPMENT PROJECTS

We currently have the following four construction projects underway with completion dates as indicated in parentheses:

- 100-bed skilled nursing facility in Okemos, Michigan (Spring 2009);
- 100-bed skilled nursing facility in Summit, Wisconsin (December 2009);
- 60-unit assisted living facility in Summit, Wisconsin (January 2010); and
- 280-bed continuing care centre in Red Deer, Alberta (May 2010).

In addition, we plan to commence construction in 2009 on the following two projects that were approved by the Alberta provincial government in the 2008 fourth quarter:

- 140-bed designated assisted living facility in Lethbridge, Alberta (Spring 2011); and
- 180-bed nursing home in Edmonton, Alberta (Spring 2011).

Proceeds from our \$120.6 million financing in June 2008, together with construction financing from Canada Mortgage and Housing Corporation (CMHC), will finance 100% of these projects. Each of these projects is expected to achieve returns that justify the investment in the current economic climate.

In late December 2008, we notified the province of Ontario that we would not be proceeding with the three nursing home developments in Kingston, Guelph and Windsor. In addition, we have deferred two U.S. based skilled nursing facilities projects. Our decision was based on the expected returns of the projects, as well as the availability and cost of capital in the current economic climate. All costs incurred to date for the development of these projects, totalling \$2.5 million, were written off during the fourth quarter of 2008.

EHSI SKILLED NURSING FACILITY REVENUE RATES

The average daily Medicare Part A rate for our wholly owned U.S. subsidiary, Extendicare Health Services, Inc. (EHSI), in 2008 was US\$420.89, an increase of 6.4% from US\$395.48 in 2007.

Approximately half of this increase related to a 3.3% market basket inflationary increase that took effect October 1, 2007, with the remainder primarily related to higher average acuity levels among Medicare patients served. In the 2008 fourth quarter, our average daily Medicare Part A rate increased 4.2% to US\$437.02 from US\$419.53 in the 2008 third quarter due to the 3.4% market basket increase received October 1, 2008, and continued improvement in the mix of Medicare residents.

Excluding the recently acquired Michigan portfolio, the percentage of Medicare residents in the nine highest Resource Utilization Groupings (RUGs) classifications increased to 38.3% this year from 37.8% in 2007, and the percentage of Medicare residents receiving therapy services increased to 87.5% this year from 85.9% in 2007.

The average revenue rate for Managed Care clients increased 9.3% to US\$357.64 this year from US\$327.11 in 2007. This is an important revenue growth opportunity as it represents the second highest rate component of our quality mix of residents.

EHSI'S TOTAL AND SKILLED CENSUS

Our same-facility ADC from EHSI's skilled nursing facilities declined 236, or 1.9%, to 12,240 in 2008 from 12,476 in 2007. Over 40% of this decline, or 99 ADC, resulted from a voluntary slowdown in admissions at six clinically challenged facilities. The balance of the decline was attributable to the shift from Medicare to shorter-stay Managed Care residents and an increase in competition in certain markets.

EHSI's same-facility skilled mix ADC increased to 2,982 this year, or 0.9%, from 2007 primarily due to growth in Managed Care of 143 ADC, or 22.3%. This increase in our Managed Care residents was achieved as a result of our focus on the premium payor market segment and the number of Medicare beneficiaries opting out of traditional Medicare Part A benefits and selecting coverage through a Medicare HMO product.

In comparison to the 2008 third quarter, EHSI's same-facility ADC from its skilled nursing facilities declined by 88 to 12,152 in the 2008 fourth quarter, which is comparable to the seasonal decline experienced over the same period in 2007 of 60 ADC. However, in 2007 our same-facility skilled mix grew by 87 ADC from the third quarter to the fourth quarter, whereas this year we experienced a decline in our skilled mix of 90 ADC. We believe this decline can be attributable to two main factors: initial negative publicity arising from the class action lawsuits previously announced; and impact of the economic slowdown resulting in fewer elective surgeries and a resulting reduction in required post-acute care. We are encouraged by the positive trends thus far in 2009 towards the return of our skilled mix census to expected levels.

NORMAL COURSE ISSUER BID

Under our December 2007 normal course issuer bid that expired in December 2008, we acquired 787,714 units of the REIT in the fourth quarter of this year, at an average price per unit of \$3.96. As previously announced, we initiated a new normal course issuer bid in December 2008 for our REIT units and convertible debentures. To date in 2009, we have acquired for cancellation 880,500 units at an average unit price of \$6.01 and \$1.3 million aggregate principal amount of convertible debentures at a cost of \$0.9 million. Given the high current yields, as a result of the low trading prices of the REIT units and our distribution level, the repurchase of these units has provided a return of 17%.

CLASS ACTION LAWSUITS

As previously announced, class action lawsuits have been filed against wholly owned U.S. based subsidiaries of the REIT in federal district court in Seattle, Washington, federal court in Minneapolis, Minnesota, and state court in Milwaukee, Wisconsin. All of the lawsuits have essentially the same allegations that our advertising did not match with our regulatory history. The claims also include allegations that the facilities admitted residents without due regard to their needs. In the Washington and Minnesota actions we have filed motions to dismiss and we will file a similar motion in Wisconsin. At this time, a trial date has not been set for any of the claims. Plaintiffs have yet to identify their specific theory for damages. We believe that the allegations in these cases are without merit, and we intend to vigorously defend against the lawsuits in court.

2008 FINANCIAL REVIEW

TABLE 1 <i>(millions of dollars unless otherwise noted)</i>	Year ended December 31	
	2008	2007
Revenue		
U.S. operations (US\$)	1,368.3	1,111.0
U.S. operations (C\$)	1,458.7	1,194.2
Canadian operations	605.7	569.7
Total Revenue	2,064.4	1,763.9
EBITDA ⁽¹⁾		
U.S. operations (US\$)	142.2	140.8
U.S. operations (C\$)	151.6	151.3
Canadian operations	54.4	53.6
Total EBITDA	206.0	204.9
Average US/Canadian dollar exchange rate	1.0660	1.0748
⁽¹⁾ Refer to discussion of non-GAAP measures.		

2008 Revenue Comparison to 2007

Revenue for 2008 grew \$300.5 million, or 17.0%, to \$2,064.4 million from \$1,763.9 million in 2007. Excluding the negative impact of a stronger Canadian dollar, revenue grew \$312.5 million or 17.7%, primarily due to acquisitions. Approximately \$75.1 million was due to growth in same-facility operations of 4.4% year over year.

2008 EBITDA Comparison to 2007

EBITDA for 2008 was \$206.0 million compared to \$204.9 million for 2007. Excluding the \$1.3 million negative impact of a stronger Canadian dollar, EBITDA improved by \$2.4 million.

EBITDA from U.S. operations was US\$142.2 million in 2008 compared to US\$140.8 million in 2007. New facilities contributed US\$33.2 million to EBITDA in 2008 and US\$3.8 million in 2007, representing an increase of US\$29.4 million, whereas same-facility EBITDA declined US\$28.0 million and was impacted by the following items:

- start-up costs at two facilities and clinical challenges at six facilities of US\$5.2 million;
- a decrease of US\$7.4 million due to the 2007 release of actuarial reserve provisions and lower investment earnings in our captive insurance company;
- a decrease of US\$2.5 million due to the 2008 accrual for actuarial reserves, net of a premium expense reduction;
- above inflationary food and supply cost increases of US\$2.3 million;
- an increase in bad debts of US\$2.2 million due to specific facilities in Pennsylvania;
- an increase in workers' compensation and property taxes of US\$2.9 million pertaining to prior years; and
- a decline of US\$5.5 million in remaining operations due to a decrease in total and Medicare census along with other higher year-over-year operating costs.

EBITDA from Canadian operations improved \$0.8 million to \$54.4 million in 2008 from \$53.6 million in 2007. Excluding a \$2.4 million charge related to compensation arrangements, Canadian operations EBITDA increased \$3.2 million. The acquisition of three Manitoba nursing homes in October 2008 that were previously operated under a management contract contributed \$0.5 million to the year-over-year increase in EBITDA. The remaining \$2.7 million related primarily to funding enhancements.

Earnings from Continuing Operations

Components of Earnings from Continuing Operations ⁽¹⁾	Year ended December 31			
	2008		2007	
	After -tax	Per diluted unit	After -tax	Per diluted unit
<i>(thousands of dollars except per unit amounts)</i>				
Continuing Health Care Operations before Undernoted ⁽¹⁾				
U.S. operations (US\$)	21,147		42,948	
U.S. operations (C\$)	22,547		46,261	
Canadian operations	8,438		11,811	
	30,985	\$0.43	58,072	\$0.83
Gain (loss) on derivative financial instruments and foreign exchange	(22,367)	(0.31)	12,944	0.18
Gain (loss) from asset impairment, disposals and other items	(554)	(0.01)	1,428	0.02
Earnings from continuing health care operations	8,064	\$0.11	72,444	\$1.03
Share of equity accounted earnings	–	–	1,541	0.02
Earnings from continuing operations	8,064	\$0.11	73,985	\$1.05

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

As outlined in Table 2 above, earnings from continuing health care operations, prior to separately reported items, were \$31.0 million (\$0.43 per diluted unit) in 2008 compared to \$58.1 million (\$0.83 per diluted unit) in 2007. The \$27.1 million decline in earnings was impacted by the following items:

- 2007 favourable tax adjustment pertaining to the 2006 reorganization of \$1.4 million;
- 2008 unfavourable tax loss valuation allowance of \$2.1 million pertaining to prior years;
- a decrease of \$7.9 million due to the 2007 release of actuarial reserve provisions and lower investment earnings in our captive insurance company;
- a decrease of \$2.2 million due to the 2008 third quarter accrual for actuarial reserves, net of a premium expense reduction;
- a \$1.6 million after-tax charge for our former CEO's compensation arrangements; and
- interest costs associated with the March 2007 US\$90.0 million financing for payment of taxes associated with the distribution of Assisted Living Concepts, Inc. of \$0.7 million.

Exclusive of the above, health care net earnings declined by \$11.2 million due to the previously discussed decline in EBITDA, increases in depreciation and financing costs due primarily to acquisitions and capital expenditures, and higher income taxes.

2008 FOURTH QUARTER FINANCIAL REVIEW

(millions of dollars unless otherwise noted)	Q4	Q4	Q3
	2008	2007	2008
Revenue			
U.S. operations (US\$)	348.1	312.3	343.6
U.S. operations (C\$)	419.7	311.2	357.5
Canadian operations	162.5	148.8	149.5
Total Revenue	582.2	460.0	507.0
EBITDA ⁽¹⁾			
U.S. operations (US\$)	38.6	37.3	34.5
U.S. operations (C\$)	46.1	37.0	35.9
Canadian operations	16.6	13.1	15.7
Total EBITDA	62.7	50.1	51.6
Average US/Canadian dollar exchange rate	1.2078	0.9837	1.0406

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

2008 Fourth Quarter Revenue Comparison to 2007 Fourth Quarter

Revenue for the 2008 fourth quarter grew \$122.2 million, or 26.6%, to \$582.2 million from \$460.0 million in the 2007 fourth quarter. However, exclusive of the impact of the weaker Canadian dollar, revenue grew \$49.4 million, or 10.7%, of which approximately \$17.1 million was due to growth in same-facility operations of 4.1% quarter over quarter.

2008 Fourth Quarter EBITDA Comparison to 2007 Fourth Quarter

EBITDA for the 2008 fourth quarter grew \$12.6 million, or 25.1%, to \$62.7 million compared to \$50.1 million for the 2007 fourth quarter. However, exclusive of the impact of the weaker Canadian dollar, EBITDA grew \$4.7 million, or 9.4%.

EBITDA from U.S. operations in U.S. dollars improved US\$1.3 million this quarter. New facilities contributed US\$10.7 million of EBITDA this quarter and US\$3.6 million in the 2007 fourth quarter. Same-facility EBITDA declined US\$5.8 million, of which US\$2.4 million was from the 2007 release of actuarial reserves and lower investment earnings in 2008. The balance of the decline of US\$3.4 million was due to a decline in Medicare census and an increase in health claims, partially offset by increases in Medicare and Managed Care rates.

EBITDA from Canadian operations improved \$3.5 million to \$16.6 million this quarter from \$13.1 million in the 2007 fourth quarter. In November 2008, we received a funding increase in the province of Alberta that included \$1.4 million retroactive to April 1, 2008. The acquisition of three nursing homes in Manitoba contributed \$0.5 million to EBITDA. The remaining \$1.6 million improvement was primarily due to funding enhancements and timing of spending under the Ontario nursing home envelope system.

2008 Fourth Quarter Revenue Comparison to 2008 Third Quarter

In comparison to the 2008 third quarter, revenue this quarter grew \$75.2 million, or 14.8%. However, exclusive of the impact of the weaker Canadian dollar revenue increased \$17.7 million, or 3.5%, of which approximately \$10.5 million was due to growth in same-facility operations of 2.4% quarter over quarter.

2008 Fourth Quarter EBITDA Comparison to 2008 Third Quarter

EBITDA for the 2008 fourth quarter was \$62.7 million compared to \$51.6 million in the 2008 third quarter. Excluding the weaker Canadian dollar, EBITDA grew \$5.2 million, or 10.1%.

EBITDA from U.S. operations this quarter was higher by US\$4.1 million from the 2008 third quarter. Exclusive of the US\$2.5 million increase in actuarial reserves, net of a reduction in premium expense, recorded in the 2008 third quarter, EBITDA increased US\$1.6 million primarily due to rate increases, partially offset by increased health claims.

EBITDA from Canadian operations improved by \$0.9 million this quarter from the 2008 third quarter, due to funding enhancements, including retro funding of \$1.4 million, and the Manitoba acquisition of \$0.5 million, partially offset by a seasonal increase in utility costs of \$0.7 million, and higher general and administrative costs.

Earnings (Loss) from Continuing Operations

We reported a loss from continuing operations in the 2008 fourth quarter of \$8.6 million (\$0.12 loss per diluted unit) as a result of a loss on our derivative financial instruments and foreign exchange of pre-tax \$20.1 million (\$17.6 million after tax) due to the weakening Canadian dollar and its impact on the non-cash market value change in our foreign currency forward contracts. In addition, we recorded a pre-tax gain from asset impairment, disposal and other items of \$1.5 million (\$0.9 million after tax) related to gains incurred on the disposal of assets, partially offset by the write off of costs associated with the abandoned projects.

Earnings from continuing operations prior to separately reported items, as outlined in Table 4 below, were \$8.1 million (\$0.11 per diluted unit) in the 2008 fourth quarter compared to \$13.0 million (\$0.19 per diluted unit) in the 2007 fourth quarter. The 2008 fourth quarter income tax provision included a tax loss valuation allowance adjustment of \$3.2 million, of which \$2.1 million pertained to prior years. The remaining \$1.7 million decline in earnings was due to the previously discussed improvement in EBITDA, offset by increases in depreciation and financing costs due primarily to acquisitions and capital expenditures, and higher income taxes.

Components of Earnings (Loss) from Continuing Operations ⁽¹⁾	Three months ended December 31			
	2008		2007	
	After -tax	Per diluted unit	After -tax	Per diluted unit
<i>(thousands of dollars except per unit amounts)</i>				
Continuing Operations before Undernoted ⁽¹⁾				
U.S. operations (US\$)	4,142		11,280	
U.S. operations (C\$)	5,222		11,188	
Canadian operations	2,842		1,825	
	8,064	\$0.11	13,013	\$0.19
Gain (loss) on derivative financial instruments and foreign exchange	(17,568)	(0.24)	(1,636)	(0.03)
Gain (loss) from asset impairment, disposals and other items	937	0.01	–	–
Earnings (loss) from continuing operations	(8,567)	\$(0.12)	11,377	\$0.16

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

ADJUSTED FUNDS FROM OPERATIONS (AFFO)

2008 AFFO

AFFO from continuing operations was \$75.9 million (\$1.048 per basic unit) in 2008 compared to \$83.8 million (\$1.192 per basic unit) in 2007, representing a decline of \$7.9 million (\$0.144 per basic unit). The results were impacted by the following items:

- 2007 favourable tax adjustment pertaining to the 2006 reorganization of \$1.4 million;
- 2007 release of actuarial reserve provision and lower investment earnings in our captive insurance company of \$7.9 million;
- 2008 third quarter actuarial reserve provision, net of a premium expense reduction, of \$2.5 million;
- 2008 second quarter after-tax charge of \$1.6 million for our former CEO's compensation arrangements; and
- interest costs associated with the March 2007 US\$90.0 million financing for payment of taxes associated with the distribution of Assisted Living Concepts, Inc. of \$0.7 million; partially offset by
- lower facility maintenance capital expenditures of \$6.5 million between years.

Exclusive of the above, AFFO declined by \$0.3 million primarily due to an improvement in EBITDA, offset by increased income taxes and financing costs.

Annual facility maintenance capital expenditures of \$28.3 million in 2008 were 1.4% of revenue, compared to \$34.9 million, or 2.0% of revenue spent in 2007. A number of planned projects from 2008 were carried over, and as such, the costs for these projects will be incurred in 2009. It is our intention to expend between 1.5% and 2% of revenue annually, which is consistent with our objective to maintain and upgrade our facilities. We are expecting to spend approximately \$39.0 million in facility maintenance capital expenditures and approximately \$57.0 million in growth capital expenditures in 2009.

2008 Fourth Quarter AFFO

AFFO from continuing operations was \$22.5 million (\$0.306 per basic unit) in the 2008 fourth quarter compared to \$15.8 million (\$0.225 per basic unit) in the 2007 fourth quarter, representing an improvement of \$6.7 million (\$0.081 per basic unit). Excluding the impact of a weaker Canadian dollar,

AFFO improved \$3.3 million, primarily due to improvements in EBITDA and a decline in facility maintenance capital expenditures between quarters, partially offset by higher income taxes and financing costs.

In comparison to the 2008 third quarter AFFO from continuing operations of \$19.7 million, AFFO for the 2008 fourth quarter increased by \$2.8 million to \$22.5 million. Excluding the 2008 third quarter actuarial reserve provision, net of a premium expense reduction, of \$2.5 million, and the \$2.4 million impact of a weaker Canadian dollar, AFFO declined \$2.1 million, primarily due to the improvements in EBITDA, offset by increased spending of facility maintenance capital expenditures of \$3.1 million and higher income taxes and financing costs.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2008, we had cash and cash equivalents of \$123.1 million compared with \$44.2 million at December 31, 2007. Cash provided by operating activities was \$105.1 million in 2008 compared to \$115.6 million in 2007. The decline reflected a reduction in earnings, partially offset by a favourable change of \$5.1 million in operating assets and liabilities between periods.

Capital additions to property and equipment, excluding acquisitions, were \$67.5 million in 2008 compared to \$75.0 million in 2007. Growth expenditures totalled \$39.2 million in 2008 versus \$40.1 million in 2007, while facility maintenance capital expenditures were \$28.3 million and \$34.9 million, respectively.

Long-term debt, including current portion, was \$1,332.8 million at December 31, 2008, and was net of financing costs of \$30.9 million. At December 31, 2008, long-term debt (at face value and including current portion) represented 45.9% of adjusted gross book value (38.9% excluding the convertible debentures). Our consolidated leverage ratio, or debt to trailing twelve months EBITDA, is 6.7 times.

In January 2009 we refinanced a CMHC \$6.0 million mortgage with \$8.9 million of CMHC financing at a fixed rate of 3.52%. We have a further three mortgages totalling US\$7.3 million maturing in 2009 as well as the renewal in October of our US\$120.0 million credit facility, under which we had US\$11.0 million drawn at year end. Plans are currently underway to refinance the other three mortgages and early discussions have started on the renewal of our credit facility.

The significant portion of our long-term debt in our U.S. operations is the CMBS financings of US\$500 million and US\$90 million, which mature in November 2011 and March 2012, respectively. In Canada the majority of our CMHC backed mortgages of \$151.1 million mature in 2013 through to 2017.

We are confident that our cash from operating activities, together with available bank credit facilities, will be sufficient to fund the current requirements of our ongoing operations, facility maintenance capital expenditures, and debt repayment obligations. The REIT structure necessitates raising funds through debt financings and the capital markets to fund strategic acquisitions and growth capital expenditures. The financing completed in June 2008, in addition to other cash on hand, will adequately cover our planned growth capital expenditures and development projects. Given the current economic conditions we plan to be prudent to ensure we meet our future operational and capital commitments.

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 facilities. We employ 39,100 qualified and experienced staff dedicated to helping people live better through a commitment to quality service that includes post-acute care, rehabilitative therapy and home health care services. Our 266 senior care facilities in North America have capacity for approximately 30,000 residents.

CONFERENCE CALL AND WEBCAST

On February 20, 2009, at 10:00 a.m. (ET), we will hold a conference call to discuss our results for the fourth quarter and year ended December 31, 2008. To participate in the conference call, please dial 1-888-789-9572 or 416-695-7806 followed by the passcode 3281285#. The conference call will also be accessible via webcast at www.extendicare.com under the investors/presentations & webcasts section. A replay of the call will be available approximately two hours after completion of the live call until midnight on March 6, 2009. To access the rebroadcast dial 1-800-408-3053 or 416-695-5800, followed by the passcode 3281285#. 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 2007 figures have been revised to conform to the presentation in 2008, 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”, “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”, “plan” or “objective” or other similar expressions. Forward-looking statements reflect management’s beliefs and assumptions and are based on information currently available, and the REIT assumes no obligation to update any forward-looking statement. 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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Visit Extendicare’s Website @ www.extendicare.com

EXTENDICARE REIT
Condensed Consolidated Earnings (Loss)

(thousands of Canadian dollars except per unit amounts)	Three months ended		Twelve months ended	
	December 31		December 31	
	2008	2007	2008	2007
Revenue		(revised)		(revised)
Nursing and assisted living centres				
United States	406,796	300,232	1,410,478	1,144,121
Canada	121,306	109,829	446,131	418,658
Home health – Canada	38,732	36,194	148,928	141,797
Outpatient therapy – United States	3,544	2,778	12,956	12,259
Other	11,782	11,005	45,895	47,035
	582,160	460,038	2,064,388	1,763,870
Operating expenses	495,621	391,095	1,770,898	1,482,178
Administrative costs	20,030	15,801	74,048	64,418
Lease costs	3,789	3,030	13,387	12,346
EBITDA ⁽¹⁾	62,720	50,112	206,055	204,928
Depreciation and amortization	17,374	12,773	60,160	48,410
Accretion expense	420	332	1,530	1,293
Interest expense	26,459	20,212	92,587	77,024
Interest income	(1,578)	(2,067)	(6,344)	(8,359)
Loss (gain) on derivative financial instruments and foreign exchange	20,131	2,461	25,344	(18,018)
Loss (gain) from asset impairment, disposals and other items	(1,460)	-	855	(2,192)
Earnings from continuing health care operations before income taxes	1,374	16,401	31,923	106,770
Income tax expense (recovery)				
Current	9,079	3,435	26,947	23,961
Future	862	1,589	(3,088)	10,365
	9,941	5,024	23,859	34,326
Earnings (loss) from continuing health care operations	(8,567)	11,377	8,064	72,444
Share of equity accounted earnings	-	-	-	1,541
Earnings (loss) from continuing operations	(8,567)	11,377	8,064	73,985
Discontinued operations	4,097	(899)	5,324	(3,604)
Net earnings (loss)	(4,470)	10,478	13,388	70,381
Basic and Diluted Earnings (Loss) per Unit (\$)				
Earnings (loss) from continuing operations	(0.12)	0.16	0.11	1.05
Net earnings (loss)	(0.07)	0.15	0.18	1.00

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

EXTENDICARE REIT
Condensed Consolidated Cash Flows

(thousands of Canadian dollars)	Three months ended December 31		Twelve months ended December 31	
	2008	2007	2008	2007
Operating Activities				
Net earnings (loss)	(4,470)	10,478	13,388	70,381
Adjustments for:				
Depreciation and amortization	17,491	13,146	61,225	50,072
Provision for self-insured liabilities	4,295	2,906	20,476	11,746
Payments for self-insured liabilities	(6,885)	(5,864)	(28,152)	(20,846)
Future income taxes	1,725	2,985	(289)	9,501
Loss (gain) on derivative financial instruments and foreign exchange	20,131	2,461	25,344	(18,018)
Loss (gain) from asset impairment, disposals and other items	(1,460)	-	855	(2,192)
Loss (gain) from asset impairment, disposals and other items from discontinued operations	(7,105)	36	(7,579)	5,711
Undistributed share of earnings from equity accounted investments	-	-	-	(1,541)
Other	3,712	1,812	10,058	6,018
	27,434	27,960	95,326	110,832
Net change in operating assets and liabilities				
Accounts receivable	(3,885)	(22,798)	(12,992)	(20,072)
Supplies and prepaid expenses	3,169	7,606	(1,095)	4,095
Accounts payable and accrued liabilities	9,744	17,243	17,528	886
Income taxes	9,877	(2,147)	6,375	19,846
	46,339	27,864	105,142	115,587
Investing Activities				
Capital additions	(15,953)	(21,839)	(67,534)	(74,962)
Acquisitions	(17,012)	(117,615)	(17,012)	(142,263)
Net proceeds from dispositions	18,298	9,726	20,867	11,954
Sale/return of equity accounted investment	-	1,089	-	82,534
Other assets	1,467	6,969	6,350	5,650
	(13,200)	(121,670)	(57,329)	(117,087)
Financing Activities				
Issue of long-term debt	17,078	1,117	171,785	247,812
Issue on line of credit	48	2,457	1,066	10,748
Repayment of long-term debt	(13,510)	(2,626)	(81,306)	(13,787)
Decrease (increase) in investments held for self-insured liabilities	(15,090)	(8,863)	(6,459)	2,969
Purchase of units for cancellation	(3,122)	(30)	(3,239)	(30)
Distributions paid	(19,911)	(18,863)	(77,739)	(80,913)
Issue of units	-	-	32,875	-
Financing costs	(640)	(70)	(9,420)	(10,065)
Income taxes paid re: the distribution of ALC	-	-	-	(120,220)
Other	(5,080)	(17,511)	(1,069)	(17,217)
	(40,227)	(44,389)	26,494	19,297
Foreign exchange gain (loss) on cash held in foreign currency				
	3,985	4,617	4,543	(1,620)
Increase (decrease) in cash and cash equivalents	(3,103)	(133,578)	78,850	16,177
Cash and cash equivalents at beginning of period	126,187	177,812	44,234	28,057
Cash and cash equivalents at end of period	123,084	44,234	123,084	44,234

EXTENDICARE REIT
Condensed Consolidated Balance Sheets

(thousands of Canadian dollars, unless otherwise noted)	December 31 2008	December 31 2007 (revised)
Assets		
Current assets		
Cash and short-term investments	123,084	44,234
Invested assets	947	2,439
Accounts receivable, less allowances	274,044	214,305
Income taxes recoverable	-	2,640
Future income tax assets	40,888	27,504
Supplies and prepaid expenses	19,049	25,467
	458,012	316,589
Property and equipment	992,918	842,648
Goodwill and other intangible assets	203,322	162,481
Other assets	151,730	118,445
	1,805,982	1,440,163
Liabilities and Unitholders' Deficiency		
Current liabilities		
Accounts payable	51,434	35,963
Accrued liabilities	252,098	203,084
Accrual for self-insured liabilities	12,533	12,392
Current portion of long-term debt	42,217	75,241
Income taxes payable	4,594	-
	362,876	326,680
Accrual for self-insured liabilities	37,838	30,018
Long-term debt	1,290,596	996,470
Other long-term liabilities	79,198	63,978
Future income tax liabilities	65,006	46,595
	1,835,514	1,463,741
Unitholders' deficiency	(29,532)	(23,578)
	1,805,982	1,440,163
Closing US/Cdn. dollar exchange rate	1.2180	0.9913

EXTENDICARE REIT
Financial and Operating Statistics

	Three months ended December 31		Twelve months ended December 31	
(amounts in Canadian dollars, unless otherwise noted)	2008	2007	2008	2007
Health Care Earnings (Loss) from Continuing Operations (millions)				
United States (US\$)	\$(8.9)	\$8.6	\$(0.2)	\$50.1
United States	\$(10.2)	\$8.7	\$(1.5)	\$54.5
Canada	1.7	2.7	9.5	17.9
	\$(8.6)	\$11.4	\$8.1	\$72.4
Health Care Net Earnings (Loss) (millions)				
United States (US\$)	\$(5.5)	\$7.8	\$4.4	\$47.0
United States	\$(6.1)	\$7.8	\$3.8	\$50.9
Canada	1.7	2.7	9.5	17.9
	\$(4.5)	\$10.5	\$13.4	\$68.8
U.S. Skilled Nursing Facility Statistics				
Percent of Revenue by Payor Source (same-facility basis, excluding prior period settlement adjustments)				
Medicare (Part A and B)	33.7 %	35.4 %	35.0 %	35.8 %
Managed Care	9.5	8.0	9.4	7.5
Skilled mix	43.2	43.4	44.4	43.3
Private/other	9.4	9.2	9.1	9.6
Quality mix	52.6	52.6	53.5	52.9
Medicaid	47.4	47.4	46.5	47.1
Average Daily Census by Payor Source (same-facility basis)				
Medicare	2,042	2,222	2,197	2,312
Managed Care	767	683	785	642
Skilled mix	2,809	2,905	2,982	2,954
Private/other	1,324	1,337	1,275	1,343
Quality mix	4,133	4,242	4,257	4,297
Medicaid	8,019	8,147	7,983	8,179
	12,152	12,389	12,240	12,476
Average Revenue per Resident Day by Payor Source (excluding prior period settlement adjustments) (US\$)				
Medicare Part A only	\$437.02	\$411.58	\$420.89	\$395.48
Medicare (Part A and B)	479.11	449.16	459.78	432.26
Managed Care	370.87	333.94	357.64	327.11
Private/other	207.17	197.34	205.61	199.68
Medicaid	172.86	164.27	168.55	160.90
Weighted average	239.00	226.27	234.87	223.35
Average Occupancy (excluding managed facilities) (same-facility basis)				
U.S. skilled nursing facilities	88.1 %	89.9 %	88.8 %	90.4 %
U.S. assisted living facilities	84.0	83.8	83.9	82.9
Canadian facilities average occupancy	98.1	98.1	98.0	98.2
Capital Additions to Property and Equipment (thousands)				
Growth expenditures	6,348	8,669	39,184	40,107
Facility maintenance	9,605	13,170	28,350	34,855
Consolidated reported	15,953	21,839	67,534	74,962
Average US/Cdn. dollar exchange rate	1.2078	0.9837	1.0660	1.0748
⁽¹⁾ Amounts may not add due to rounding.				

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, 2008 and 2007. (1)

	Three months ended		Twelve months ended	
	December 31		December 31	
(thousands of Canadian dollars unless otherwise noted)	2008	2007	2008	2007
EBITDA from continuing health care operations	62,720	50,112	206,055	204,928
Depreciation for furniture, fixtures, equipment and computers	(5,865)	(3,951)	(19,440)	(14,351)
Interest expense, net	(24,881)	(18,145)	(86,243)	(68,665)
	31,974	28,016	100,372	121,912
Current income tax expense ⁽²⁾	(8,727)	(5,007)	(25,474)	(24,964)
FFO (continuing operations)	23,247	23,009	74,898	96,948
Amortization of deferred financing costs	2,469	1,526	7,757	5,336
Principal portion of government capital funding payments	553	513	2,173	2,047
DI (continuing operations)	26,269	25,048	84,828	104,331
Additional maintenance capital expenditures ⁽³⁾	(3,740)	(9,219)	(8,910)	(20,504)
AFFO (continuing operations)	22,529	15,829	75,918	83,827
AFFO (discontinued operations) ⁽⁴⁾	1,125	(523)	2,876	1,683
AFFO	23,654	15,306	78,794	85,510
Per Basic Unit (\$)				
FFO (continuing operations)	0.316	0.326	1.034	1.378
AFFO (continuing operations)	0.306	0.225	1.048	1.192
AFFO	0.320	0.218	1.087	1.216
Per Diluted Unit (\$)				
FFO (continuing operations)	0.296	0.319	1.008	1.359
AFFO (continuing operations)	0.279	0.217	0.992	1.168
AFFO	0.291	0.209	1.026	1.191
Distributions declared	20,533	19,542	80,575	78,084
Distributions declared per unit (\$)	0.2775	0.2775	1.1100	1.1100
Basic weighted average number of units (thousands)	74,068	70,413	72,460	70,336
Diluted weighted average number of units (thousands)	87,953	76,192	82,558	73,392

(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.

	Three months ended		Twelve months ended	
	December 31		December 31	
(thousands of Canadian dollars)	2008	2007	2008	2007
Reconciliation of Cash Provided by Operating Activities to DI & AFFO				
Cash provided by operating activities	46,339	27,864	105,142	115,587
Add (Deduct):				
Net change in operating assets and liabilities	(18,905)	96	(9,816)	(4,755)
Current tax expense (recovery) on gain or loss from derivative financial instruments, foreign exchange, asset impairment, disposals and other items	3,495	(3,020)	2,697	(2,324)
Net provisions and payments for self-insured liabilities	2,590	2,958	7,676	9,100
Depreciation for furniture, fixtures, equipment and computers	(5,865)	(3,951)	(19,440)	(14,351)
Other	(813)	65	(728)	710
Principal portion of government capital funding payments	553	513	2,173	2,047
DI	27,394	24,525	87,704	106,014
Additional maintenance capital expenditures	(3,740)	(9,219)	(8,910)	(20,504)
AFFO	23,654	15,306	78,794	85,510