

Annual Meeting May 6, 2009

NOTES FOR REMARKS\*

BY

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&

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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](http://www.sedar.com) and on the REIT's website at [www.extendicare.com](http://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](http://www.sedar.com) and on the REIT's website at [www.extendicare.com](http://www.extendicare.com).

# Extendicare Real Estate Investment Trust

## Overview of Extendicare

*Tim Lukenda, President and Chief Executive Officer*

Good afternoon, it is my pleasure to welcome you to the Annual General Meeting of Extendicare REIT. We also welcome those listening via webcast.

I am pleased to have the opportunity to talk to you today about Extendicare, our year in review and our outlook for the future.

Before we begin, I'd like to show you a brief video that highlights the kind of company we are and the values that are important to us. Extendicare employees demonstrate these values at our centers across North America every day.

I will now begin with a brief overview of our company followed by a discussion of our year in review.

Following this, I will turn it over to Doug Harris, our Chief Financial Officer, who will review our financial results for 2008 and for the first quarter of 2009, which we announced this afternoon.

Finally, I will discuss our future outlook including some of the factors affecting our industry and what we are doing to adapt and thrive in this environment. After our prepared remarks, we will gladly take your questions.

## Who We Are

Extendicare is one of the most well-established owner/operators of senior care centers in North America. It is a name that has been associated with quality long-term and post-acute care for over 40 years.

Today, we care for close to 30,000 individuals on a daily basis, through 264 centers throughout North America.

Our qualified, experienced and dedicated workforce helps people live better through a commitment to the highest standards of quality care and services that include post-acute care, rehabilitative therapies and home health care.

We operate in the senior care sector, a sector with highly favourable demographics. In fact, the number of people over the age of 85 is expected to triple by 2050. This is our target market, and as people age, they are more likely to require the kinds of services we specialize in. In fact, it is estimated that 2 out of every 5 people who live past the age of 65 years will require the services of a skilled nursing center in their lifetime.

In the United States, our operations consist of 172 skilled nursing and rehabilitation centers, 9 assisted living centers, and 19 outpatient clinics. We are strategically clustered in 12 states with favourable operating environments. Our strategic focus is on ensuring the ability to accommodate higher acuity residents for which we provide a higher level of services, including specialized clinical care and intensive rehabilitation, and in return, receive premium funding.

We also operate a health care technology company, Virtual Care Provider, offering technology solutions and related consulting services to the health care sector. It services over 1,500 third-party centers in 34 states.

In Canada, we have been a leader in the nursing home sector for more than forty years and our nursing homes have enjoyed a consistent reputation for providing high quality care. This reputation has fostered an outstanding working relationship with the health care regulators and provincial governments and continues to provide new opportunities for Extendicare to play a key role in shaping the future of long-term care. Our 83 senior care centers provide care to over 11,600 individuals in four provinces. Seventy-five percent of our nursing home revenue comes from Ontario.

In addition to our nursing homes in Canada, we operate ParaMed Home Health Care, one of the largest for-profit home health agencies in Canada, from which we generate 25% of our Canadian revenue.

We feel that despite the current freeze on the Ontario government's issuance of new home health care contracts, this business holds a lot of promise for future growth and enhances the continuum of services we can provide to the communities in which we operate.

### **Year in Review**

Now that you have a better feel for the structure of the organization and the attributes that make it unique, let's have a look at our performance in 2008.

Fiscal 2008 was a challenging year. Our financial and operating performance was affected by a combination of external factors and some internal issues.

Like many publicly traded entities last year, our unit price was affected by the overall market conditions. We feel our unit price is highly undervalued at current trading levels, as reflected by our current distribution yield of over 15%.

Given the severity of the financial crisis, we have taken a number of steps to improve our operating metrics and overall financial liquidity.

In June 2008, we raised capital to fund certain development projects and to strengthen our balance sheet. In addition, we felt it was prudent to take a more measured approach to our growth and to launch a back-to-basics operating plan, emphasizing quality customer service and high operating efficiencies.

As a result of these initiatives, we have seen steady improvement in our financial results over the third and fourth quarter of 2008 and continuing in our first quarter results for 2009.

The slowdown in the economy and overall market condition afforded us the opportunity to step back and assess our property portfolio. As a result, we made the decision to divest of a number of centers that did not meet our long-term strategic plans. We will continue to shed other under-performing centers during 2009 as we see fit.

We also discontinued the development of three projects in Ontario and deferred two others in the U.S.

And finally, we chose to revisit our position with respect to distributions.

In 2008, we declared distributions of \$1.11 per unit, representing a payout ratio of 106%. That was up from a payout ratio of 93% the year before. In light of the economic situation and near term growth prospects, maintaining this payout level was not realistic. Therefore, our Board of Trustees felt it prudent to reduce our monthly distributions to \$0.07 per unit, or \$0.84 per unit annualized, effective January of this year, which we believe is a sustainable level given the current market conditions and company outlook.

### **U.S. Operations**

And now, for a review of our operations...

Starting in the U.S., which contributed 71% of our total revenue, there are four primary sources of U.S. funding.

Medicare is a federally funded health program for people over 65. Managed Care is health coverage for clients of managed care organizations. Private Pay is for individuals who pay privately for skilled nursing services, and Medicaid assists lower income families.

Medicare and Managed Care clientele have more medically complex needs, and often require rehabilitation. The average daily Medicare and Managed Care rates are more than double the Medicaid rate.

Our operational business strategy in the U.S. has three spokes:

1. Increase the mix of residents with premium payment sources;
2. Increase our payment rates through better tracking of services provided; and,
3. Manage our costs effectively to ensure we are a low cost and efficient provider of quality, health care services.

Our mix of clients is just as important as volume in driving top line growth.

Medicare and Managed Care payor sources are collectively known as “skilled mix”. Such residents represent our highest margin clients as they are funded at higher per diem levels. Last year, they accounted for 76% of all residents admitted to our skilled nursing centers in the United States.

In 2008, our skilled mix accounted for a quarter of our average daily census, which translated to almost 45% of revenue.

Turning to our rates – our average daily Medicare Part A rate increased by 6.4% to US\$421 in 2008. Half of the increase was due to growth in higher acuity clientele; the balance due to inflationary increases received from the government.

Turning to Managed Care, average rates increased 9.3% last year. This was due to the negotiation of better terms with select Managed Care providers, which in turn, along with a more concentrated marketing effort, led to a 22% increase in the number of residents funded by Managed Care contracts, on a same-facility basis.

That completes an overview of our U.S. operations, although I should add that we are pleased to announce the dismissal of two of the three frivolous class action lawsuits that we successfully defended ourselves against. We anticipate that the third will be found to be without merit as well.

### **Canadian Operations**

Now, let’s turn to our Canadian operations where we continued to generate consistent and stable results.

The Canadian nursing home market is different from the U.S. in several ways.

First of all, the needs of the residents in Canadian nursing homes are not generally as medically complex as those of our U.S. residents, while the duration of stay for residents in Canadian homes is generally quite a bit longer, averaging over two years in most cases.

The second difference is that funding comes from the provincial government, and is not determined by the type of service, but rather by occupancy levels and the type of accommodation.

In Canada, the provinces fund the health care component of the operator's costs and allot a portion to subsidize the accommodation costs paid by individuals.

Extendicare operates at close to full capacity in Canada – 98% in 2008 – which is fairly typical and illustrates the growing demand for long-term care services relative to a restricted government supply of long-term care beds. In Ontario, which accounts for 75% of our resident capacity, there are 24,000 people on the waiting list, essentially ensuring close to full occupancy on an ongoing basis.

We also have the opportunity in Ontario to increase our preferred private or semi-private accommodation as this provides incremental revenue.

In 2008, our average daily revenue rate in Canada grew by 5.6%. While most of the increase is due to the annual increase in government funding, a portion of it is attributed to an improvement in our preferred accommodation revenue. In 2008, preferred accommodation revenue in Ontario grew by 3.7%.

We are doing well in growing other sources of revenue. Revenue from management contract services in Canada increased 12%, reflecting our reputation for providing quality and effective management of homes for other operators. During 2008 we added three nursing homes, with 317 beds, under management, and thus far in 2009, we've added a further two nursing homes with 229 beds.

That concludes the overview of our operations in 2008. And now, Doug will review last year's financial results.

## **2008 Financial Review**

*Doug Harris, Senior Vice President and Chief Financial Officer*

Thank you and good afternoon.

In 2008 we were successful in the integration of Tendercare into our portfolio. And, for the balance of our U.S. operations, we continued to improve our percentage of skilled mix residents, along with Medicare and Managed Care rates. However, these initiatives were overshadowed by a number of challenges that impacted our overall financial results.

I will start with a review of the performance improvements achieved within our newly acquired Michigan portfolio. As you recall, we acquired Tendercare on October 31, 2007. A primary focus for us was to implement our marketing and clinical programs to increase both the percentage of skilled mix residents and the Medicare Part A rate.

From the fourth quarter of 2007 to the fourth quarter of 2008, we increased the proportion of skilled mix residents from 15.8% to 17.8% representing an increase of 14% of Medicare and Managed Care residents. In addition, we increased the daily Medicare Part A rate by 15% from US\$363 to US\$418.

As a result of these and other initiatives, Tendercare's EBITDA improved each quarter and increased from US\$5.8 million in Q1 to US\$10.0 million in Q4. Overall, the acquisition resulted in a Return on Assets of 12%. We had similar returns from the five centers that we acquired in 2007 in the State of Wisconsin.

In 2008, new acquisitions were limited to three centers that we formerly managed in Manitoba. We acquired the centers in October for net cash of \$9.4 million, after refinancing.

As part of our continual review of our property portfolio, we made the decision to divest a number of centers that did not meet our long-term strategic plans. In 2008 we divested of three skilled nursing centers in Indiana and two assisted living centers in Pennsylvania and Oregon. In March 2009, we sold two centers in Ohio and plan to sell other under-performing centers during 2009.

Turning to our consolidated results, revenue in 2008 grew by 17%, or \$300 million, to \$2.1 billion. Seventy-eight percent of the increase stemmed from newly acquired facilities, and the balance from our same-facility revenue.

The increase in same-facility revenue was mostly due to funding improvements in the U.S. that resulted in a 5.2% increase in our blended U.S. revenue rate. As well, the proportion of revenue from skilled mix residents on a same-facility basis increased from 43.3% in 2007 to 44.4% in 2008. These revenue gains were partially offset by lower occupancy levels in our U.S. portfolio.

Despite solid growth in revenue and \$32 million in net operating earnings from new centers, consolidated EBITDA of \$206 million increased only slightly over that of 2007. In addition, our EBITDA margin decreased from 11.6% in 2007 to 10.0% in 2008. Although a number of unique items limited our EBITDA growth, the most significant were the non-cash actuarial adjustments, which were favourable in 2007 and negative in 2008.

Secondly, we experienced incremental costs associated with certain clinically challenged centers and other unique administrative and bad debt charges. The majority of these items occurred in the first half of 2008 and we saw continued improvement in our operating results in Q3 and Q4 of 2008.

The impact of those unique items, along with the improvement initiatives commenced in 2008, can be seen in our growth of Adjusted Funds from Operations, or AFFO, over the course of 2008. In the fourth quarter of 2008, we reported AFFO from continuing operations of \$22.5 million compared to the \$18 and \$15 million reported in the first and second quarters of 2008,

respectively. We completed the year with AFFO from continuing operations of \$76 million compared to \$84 million in 2007.

Turning to the balance sheet, we are in a strong financial position. As of December 31, 2008, we had \$123 million in cash, largely due to the net proceeds of \$121 million that we raised in our June debt/equity offering. Approximately \$60 million of this cash will be used for the six development projects that are underway in Canada and the United States.

Despite a difficult financing environment, in 2008 we successfully refinanced US\$51 million in non-recourse Term mortgages for our Michigan centers and \$21 million of CMHC insured-mortgages in Canada. We are currently in the process of, and confident in securing, a new line of credit for our U.S. operations by the end of June 2009.

We have no other significant debt maturing until the second and fourth quarters of 2011, when our US\$50 million Michigan Term Loan and US\$500 million CMBS loans mature, respectively. We have already commenced steps to replace this debt and will continue to monitor the market carefully to ensure we are successful in refinancing these loans.

As at December 31, 2008, our Debt to Adjusted Gross Book Value was 45.9%. Of our total long-term debt, 94% is locked in at fixed rates to ensure predictable cash flows. And in terms of cash flows, we have locked in foreign currencies exchange contracts until June 2011 that secure the conversion of our U.S. operating cash flows for our distributions.

And with respect to distributions, we are not impacted by the impending SIFT tax that other REITs may face in 2011. Because we converted to a REIT in November 2006, following the October legislative change, we have been subject to, and currently pay, SIFT taxes and have done so since January 1, 2007.

As a result, we are confident that we have the financial flexibility to fund our planned internal growth and our distributions.

### **Q1 2009 Financial Highlights**

Now let's turn to our Q1 2009 results, which we announced this afternoon. The news release is posted on our website and we have copies available for you here today.

In Q1 2009 we continued to improve our financial performance. For Q1 we reported EBITDA of \$64.8 million as compared to \$46.2 million in 2008, and AFFO of \$24.2 million, or \$0.33 per unit, as compared to \$18.2 million, or \$0.26 per unit in 2008. A full analysis of our Q1 results will be discussed in our conference call at 10:00 a.m. tomorrow morning.

And now I'll turn you back to Tim.

## **Outlook**

*Timothy Lukenda –President and Chief Executive Officer*

Thank you.

Given the state of the economy and its impact on the health care budgets of governments in Canada and the U.S., we are clearly in the midst of very uncertain times. Our challenge is to adapt to the constraints of the current market realities while focusing our efforts on those things within our control.

The actions we are taking clearly demonstrate that our outlook in the near term is one of cautious optimism.

The continued implementation of our “back-to-basics” operating plan is geared toward strengthening both our balance sheet and the underlying fundamentals of our business.

The premise underlying our back-to-basics operating plan is that we can grow our business by maintaining operational excellence. Quality customer service has been the hallmark of Extendicare for more than 40 years and we plan to keep it that way for the next 40 years and it will continue to serve as the foundation for our mission, vision and values.

We are introducing initiatives that will enable us to deliver our services more efficiently in order to achieve greater consistency and standardization.

We have also implemented software initiatives that improve the monitoring of our financial performance and tracking of labour costs. Our new billing software allows us to track and report on the services we provide so that we can bill more efficiently. Labour software has been implemented to enable the centers to monitor and adjust staffing on a daily basis.

To further improve operating efficiencies we are pursuing greater volume discounts with our suppliers. We are eliminating duplication and streamlining administrative and support processes. And we are reducing pharmacy, telecommunication and travel costs.

In keeping with our more prudent use of cash, we are taking a more measured approach to future development projects.

We are concentrating our efforts on completing projects currently underway and which are all expected to yield an attractive return on investment.

In the U.S., we are on track with the construction of two 100-bed skilled nursing centers. Our Michigan center will open in June 2009. The other, in Wisconsin, will open in December of this year.

We are also building a 60-unit assisted living center in Wisconsin which should be completed by the end of 2009.

In Alberta, the 280-bed continuing care center that we started in Red Deer last May is scheduled for completion next summer. We received approval from the Alberta government to build an assisted living center in Lethbridge and a nursing center in Edmonton. We expect these centers, with a total of 320 beds, to be completed in mid-2011.

These projects will be funded entirely by our June 2008 financing along with CMHC financing.

We are also leveraging our development expertise to plan for the renovation or replacement of aging infrastructure.

The Ontario government has announced plans to support the redevelopment of 35,000 long term care beds in older nursing homes over the next 10 years. We operate 23 such centers – also known as “C” rated, with approximately 3,600 beds.

In November of last year, the government announced that for homes with more than 100 beds, the subsidy would be \$13.30 per bed per day for 25 years. While we think the government is moving in the right direction, we are concerned that the level of funding is not sufficient to cover renovation and/or construction costs.

Extendicare, along with other operators, is continuing to work with the government to clarify the details and to express concerns about the adequacy of the funding subsidy. We feel that in time this will be an important initiative and that we will want to be a significant player in the process.

In conclusion, we are confident that our back-to-basics operating plan and prudent financial management we will continue to increase unitholder value.

We know we are moving in the right direction and at the right pace.

But our path will not be without its challenges. The recessionary environment is causing governments at all levels to address budgetary shortfalls and even re-think the way health care is delivered and funded. And while reductions in funding are possible in the near-term, we are optimistic that the decision-makers in government will remember that:

1. We provide an essential service to a frail, elderly segment of the population;
2. The need for the services we provide is growing significantly as the population ages and lives longer and requires greater medical care; and,
3. We are a low-cost provider of quality, critical services in the health care continuum.

In the meantime, our efforts are firmly focused on improving the things we can affect.

- Extendicare REIT generates strong cash flow and has a proven track record for growth through organic enhancements and improvement in our core operations, new developments, and accretive acquisitions;
- We have an unrelenting focus on quality and customer service;
- Extendicare is hiring and training the best and the brightest talent available;
- We continue to develop strategies to attract Medicare and Managed Care customers and to ensure the appropriate level of payment for the services delivered;
- We are keenly focused on cost containment to drive efficiencies and improve our EBITDA margin.
- And, until the capital markets return to some sense of normalcy, we intend to put greater emphasis on internal improvement opportunities rather than on external growth through new developments or acquisitions.

Extendicare is in a strong position to weather the current economic storm and continue on a successful path to growth and value creation over the long term.

At this time I would like to acknowledge the hard work and dedication of all of our team members, from those at the bedside to those in senior management, for being fully committed to our mission of helping people live better through the delivery of top quality care to our customers in both Canada and the United States.

I would like to thank the Board of Trustees of the REIT for their guidance and support of our efforts to take us where we need to go as an organization. I am proud to be leading your organization into the future.

Thank you.

That concludes our formal presentation and at this time I would like to turn things back over to our Chairman.