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Unitholders' Quarterly Report

Three Months Ended March 31, 2008

Health Care is Our Business™

Letter to Unitholders

On May 8, 2008, Extendicare Real Estate Investment Trust (“Extendicare REIT” or the “REIT”) reported its 2008 first quarter results with the following highlights:

- revenue growth, excluding foreign exchange impact, 20.5% in Q1/08 over Q1/07;
- average Medicare Part A rate of US\$410.86, up 5.9% from the 2007 first quarter;
- same-facility skilled mix census increased to 25.1% in Q1/08 from 24.1% in Q1/07;
- integration of Tendercare exceeding expectations; and
- May distribution of \$0.0925 per unit declared.

While the results for the quarter are not at the level we would like them to be, there are a number of items that make the comparison of the first quarter 2008 to the first quarter of 2007 less favourable. Some isolated challenges that have been identified and plans have been implemented to rectify them. I plan to build on the core strengths of Extendicare REIT’s past and drive future performance through a refocused effort on fundamentals of the business including census growth and cost containment. I believe our strategy to be fundamentally sound and the REIT’s outlook positive. We will continue with our program of new facility developments and enhancements to our current portfolio, and will continue to seek accretive acquisitions subject to the availability of funding from the credit and capital markets.

Earnings from continuing health care operations were \$3.9 million (\$0.05 per diluted unit) for the three months ended March 31, 2008, compared to \$18.7 million (\$0.26 per diluted unit) for the same period in 2007. Excluding separately reported gains and losses, earnings from continuing health care operations in the 2008 first quarter were \$7.4 million (\$0.10 per diluted unit) compared to earnings in the 2007 first quarter of \$17.8 million (\$0.25 per diluted unit). Earnings before interest, income taxes, depreciation, amortization, and accretion (EBITDA) for the 2008 first quarter totalled \$47.2 million compared to \$52.6 million in the same 2007 period. However, excluding a \$6.3 million negative impact of the stronger Canadian dollar, EBITDA improved \$0.9 million from the prior period level.

Acquisitions and Development Projects

The most significant acquisition made in 2007 was the purchase of Tendercare (Michigan) Inc. and affiliated entities (collectively “Tendercare”), which added 30 senior care facilities (3,301 operational beds), with two additional facilities (177 beds) under development. For the 2008 first quarter, Tendercare’s operations contributed \$56.5 million (US\$56.3 million) of revenue and \$5.8 million (US\$5.8 million) of EBITDA. We made significant progress in the integration of the Tendercare portfolio within the Extendicare operations. In the month of March 2008, we benefited from the implementation of our marketing programs, resulting in an average daily increase of 47 Medicare residents, or 12%, from the month of February 2008.

In January 2008 we opened two newly constructed skilled nursing facilities in the U.S.: a 100-bed replacement facility in Sequim, Washington, including an 11-bed addition completed in April, and a 77-bed facility in Holland, Michigan. An existing older skilled nursing facility in Washington was closed in January 2008 and the residents were relocated to the newly built facility. The Michigan facility only had 10 of its 77 beds operational for private-pay residents during the first quarter because it did not receive its Medicare and Medicaid certification until April 2008. Lastly, we reduced occupancy levels as we remodelled a newly acquired facility in Milwaukee, Wisconsin, that was completed in March 2008. In aggregate the start-up losses associated with these facilities were \$0.5 million in the 2008 first quarter.

EHSI's Skilled Nursing Facility Average Daily Census (ADC)

On a same-facility basis, the skilled mix for Extencare Health Services, Inc. (EHSI) increased from 3,135 in the 2007 first quarter to 3,219 in the 2008 first quarter, or 2.7%. Growth was primarily due to an increase of 138 in HMO/CI ADC, to 776 from 638 in the 2007 first quarter. The increase in HMO/CI residents is due to our focus on these higher acuity residents and the number of Medicare beneficiaries opting out of traditional Medicare Part A benefits and selecting coverage through a Medicare HMO product. EHSI's Medicare ADC on a same-facility basis in the 2008 first quarter was 2,443, down 2.2% from the comparable 2007 period level. In comparison to the 2007 fourth quarter, our same-facility Medicare ADC increased 7.0% from 2,283, and our HMO/CI increased 10.9% from 700.

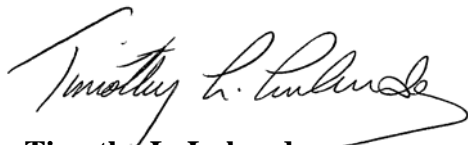
Our total ADC from same-facility skilled nursing facilities was 12,854 in the 2008 first quarter, a decline of 181, or 1.4%, from the 2007 first quarter of 13,035. Over a third of this decline, or 70 ADC, was due to clinical challenges we are experiencing at six facilities, primarily in the State of Washington, which have resulted in a voluntary slowdown in admissions. In comparison to the 2007 fourth quarter ADC of 12,863, if not for a decline of 46 ADC from these six facilities our total ADC would have improved by 37 in the 2008 first quarter.

Distributions

Since the REIT's inception in November 2006, we have paid monthly distributions of \$0.0925 per unit to our unitholders, for annual distributions of \$1.11 per unit. Based on the closing price of the REIT Units on April 30, 2008, of \$11.30, this represents a yield of 9.8%. Management estimates that approximately 70% of the 2008 distributions of the REIT will be characterized as tax deferred returns of capital for Canadian residents. The remaining 30% of distributions of the REIT paid in 2008 are expected to be taxed as dividends and those paid to Canadian residents are eligible dividends as per the *Income Tax Act* (Canada).

The Board has determined that the current level of distributions is appropriate at this time. It is our belief that the growth opportunities warrant a reinvestment of our cash to produce sustainable and growing returns over the long term. We do not believe that the current unit price adequately reflects the underlying value despite above market current yields at the present distribution level. Management intends to work hard on your behalf to increase unitholder value.

We thank you, our unitholders, for your continued confidence in us.



Timothy L. Lukenda
President and Chief Executive Officer

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Forward-looking Statements

Information provided by Extendicare REIT from time to time, including this Interim Report, contains or may contain forward-looking statements concerning anticipated future 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 “anticipate”, “believe”, “estimate”, “expect”, “objective”, “project” 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. In addition to the assumptions and other factors referred to specifically in connection with these statements, such factors are identified in the REIT’s public filings with the Canadian securities regulators and include, but are not limited to, the following: changes in the health care industry in general and the long-term care industry in particular because of political and economic influences; changes in regulations governing the industry and the compliance of the REIT and its subsidiaries with such regulations; changes in government funding levels for health care services; changes in tax laws; resident care litigation, including exposure for punitive damage claims and increased insurance costs, and other claims asserted against the REIT and its subsidiaries; the ability to maintain and increase census levels; the successful integration of the Tendercare acquisition; changes in foreign exchange rates; the ability to attract and retain qualified personnel; the availability and terms of capital to fund capital expenditures; changes in competition; and demographic changes.

Given these risks and uncertainties, readers are cautioned not to place undue reliance on the REIT’s forward-looking statements.

Management's Discussion and Analysis

May 8, 2008

BASIS OF PRESENTATION

This Management's Discussion and Analysis (MD&A) is that of Extencicare Real Estate Investment Trust and its subsidiaries. References to "Extencicare REIT", "the REIT", "we", "us" and "our" in this report mean Extencicare Real Estate Investment Trust alone or together with its subsidiaries, as the context requires. The direct ownership and operation of the senior care facilities and ancillary businesses is conducted by the subsidiaries of the REIT. The REIT itself is not a provider of services or products.

Extencicare REIT is the successor in interest to Extencicare Inc. (Extencicare) resulting from the conversion of Extencicare to an unincorporated, open-ended limited purpose trust on November 10, 2006, pursuant to a plan of arrangement (the "Arrangement"). Extencicare REIT was established under the laws of the Province of Ontario pursuant to a deed of trust, dated September 11, 2006, as amended and restated on October 28, 2006 (the "Deed of Trust"). The conversion has been accounted for as a continuity of interest, and accordingly, the consolidated financial statements of the REIT reflect the consolidated financial position, results of operations and cash flows as if the REIT had always carried on the business formerly carried on by Extencicare. Commencing with the year ended December 31, 2006, comparative information for the REIT relating to periods prior to the conversion is that of its predecessor, Extencicare.

The Arrangement included the distribution of Assisted Living Concepts, Inc. (ALC) to Extencicare's shareholders. As a result, the financial results for the year ended December 31, 2006 and prior periods reflect ALC as a discontinued operation. References to the "Reorganization" in this document are to the Arrangement completed on November 10, 2006, and to a number of pre-Arrangement transactions.

This MD&A should be read in conjunction with Extencicare REIT's unaudited interim consolidated financial statements for the three months ended March 31, 2008, and the notes thereto, together with the MD&A and the audited consolidated financial statements and accompanying notes for the year ended December 31, 2007, found in the REIT's 2007 Annual Report. This discussion should not be considered all-inclusive, as it excludes changes that may occur in general economic, political and environmental conditions. Additionally, other elements may or may not occur which could affect the REIT in the future. Extencicare REIT's accounting policies are in accordance with Canadian generally accepted accounting principles (GAAP) of The Canadian Institute of Chartered Accountants (CICA). All dollar amounts are in Canadian dollars unless otherwise indicated. Except as otherwise specified, references to years indicate the fiscal year ended December 31, 2007, or December 31 of the year referenced.

Certain comparative figures have been reclassified to conform to the presentation in 2008, mainly for discontinued operations identified in 2008.

A discussion of the non-GAAP measures is provided under the heading "Accounting Policies and Estimates – Non-GAAP Measures".

OVERVIEW

Business Overview

Extencicare REIT, through its wholly owned subsidiary operating entities, is a major provider of long-term care and related services in North America, operating 269 senior care facilities with capacity for 30,257 residents at March 31, 2008.

The REIT's wholly owned U.S. subsidiary, Extencicare Health Services, Inc. and its subsidiaries (collectively "EHSI"), operates 191 senior care facilities with capacity for 19,180 residents, and has a significant presence (more than 15% of its resident capacity) in each of Pennsylvania, Michigan and Ohio. EHSI offers a continuum of health care services, including nursing care, assisted living and related medical specialty services, such as subacute care and rehabilitative therapy on an inpatient and outpatient basis.

The REIT's wholly owned subsidiary, Extencicare (Canada) Inc. and its subsidiaries (collectively "ECI"), operates 78 senior care facilities in Canada, with capacity for 11,077 residents. ECI has a significant presence in Ontario, where 77% of its residents are served. Also, through its ParaMed Home Health Care (ParaMed) division, ECI is a major provider of home health care in Ontario and Alberta.

Business Strategy

At Extencare REIT, our strategy is to create value for our unitholders through the effective operation and growth of our core senior care operations, and complementary long-term care services. By emphasizing the quality of care provided to our residents and by clustering several long-term care facilities together within the geographic areas served, our goal is to build upon our reputation as a leading provider of a full range of long-term care services in the community. In pursuing this strategy, an overriding objective is to continually enhance the quality of clinically-based services provided to our residents and other clients. Other key components of the REIT's value creation strategy include:

- increasing the percentage of revenue from funding sources other than Medicaid by focusing on increasing the services provided to Medicare and managed care sources (Skilled Mix) as well as private-pay sources (Quality Mix), and increasing average daily revenue rates by focusing on high-acuity, medically-complex residents with intense rehabilitative needs;
- growing the business through value-creating acquisitions and new development projects;
- actively maintaining and improving its asset portfolio through a disciplined facility reinvestment program or, where appropriate, through disposal of underperforming facilities;
- expanding non-government based revenue sources and diversifying within the long-term care industry through our rehabilitative services, information technology, management and consulting businesses;
- increasing market share in the Canadian home health care operations; and
- increasing funds from operations and adjusted funds from operations, by achieving the above goals and through operational efficiencies.

Investment Overview

An investment in the units of Extencare REIT entitles the holder to a monthly cash flow stream, through distributions approved by the Board of Trustees, as well as the opportunity, or exposure, to changes in the price of the trust units of the REIT (the "REIT Units"), which are traded on the Toronto Stock Exchange (TSX) under the symbol "EXE.UN". Since the REIT's inception in November 2006, we have paid monthly distributions of \$0.0925 per unit to our unitholders, for annual distributions of \$1.11 per unit. Based on the closing price of the REIT Units on April 30, 2008, of \$11.30, this represents a yield of 9.8%. More information about distributions, including tax considerations, is provided in the section "Key Performance Indicators – Distributions".

Our long-term growth and financial performance is influenced by a number of factors. First and foremost among these factors is the demand for nursing home and other related long-term care services in the United States and Canada. In both countries, the outlook for these services is favourable due to an aging population as the "baby-boomer" generation enters its senior years. For example, the U.S. Census Bureau estimates that the number of Americans aged 65 to 84 will increase by 38.8% between 2010 and 2020 compared to a total population growth of 8.7%. Other important factors affecting results are developments related to government funding in such programs as Medicare and Medicaid in the United States and the envelope funding systems in Ontario. Given that 71.0% of our revenue in the 2008 first quarter (68.4% in the 2007 year) was generated in the United States, Medicare and Medicaid funding is particularly significant for our financial performance. For a discussion of recent Medicare and Medicaid funding increases, and factors affecting the outlook for future funding, please see the section "Update of Legislative Actions Affecting Revenue – United States".

Our financial performance is also affected by changes in the U.S./Canadian dollar exchange rate, as the results of our U.S. operations are reported in Canadian dollars, and the REIT's distributions are made in Canadian dollars. Consequently, our financial performance benefits when the Canadian dollar weakens relative to the U.S. currency, and conversely our results are negatively impacted when the U.S. dollar weakens relative to the Canadian dollar. We have implemented a foreign currency hedging strategy to reduce the risks associated with changes in the U.S. dollar and the impact such changes could have on our Canadian dollar distributions. Information about the impact of currency translation on our financial results, and a review of our foreign currency hedging strategy, is provided in the section "Impact of U.S. Dollar and Foreign Currency Translation".

KEY PERFORMANCE INDICATORS

In order to compare the REIT's financial performance between periods, management assesses the key performance indicators for all of its continuing operations. In addition, we assess the operations on a same-facility basis between the reported periods. Set forth below is an analysis of the key performance indicators and a discussion of significant trends when comparing the REIT's financial results.

The following is a glossary of terms for some of our key performance indicators:

"ADC" means average daily census, and is the number of residents occupying a bed over a period of time, divided by the number of days in that period;

"Census" is defined as the number of residents occupying beds (or units in the case of an assisted living facility);

"CI" means commercial insurance, which is a form of health care coverage in the United States;

"CMI" means case mix index, which is a measure of the relative cost or resources needed to treat the mix of patients or residents;

"HMO" means health maintenance organization, which is a type of managed care organization that provides a form of health care coverage in the United States;

"Occupancy" is measured as the percentage of census relative to the total available resident capacity. Total operational resident capacity is the number of beds (or units in the case of an assisted living facility) available for occupancy multiplied by the number of days in the period;

"Quality Mix" is the measure of the level of non-Medicaid census. In most states, Medicaid is the most unattractive payor source as rates are the lowest of all payor types;

"Same facility" refers to those facilities that were operated by us on January 1, 2007, and throughout 2007 and to date in 2008; and

"Skilled Mix" is the measure of the level of census from Medicare, HMO and CI payor sources. These sources generally include residents with short-term rehabilitative needs that EHSI is focused on serving.

U.S. Operations

Medicaid rates are generally lower than rates earned from Medicare or private/other sources. Therefore, we consider Quality Mix and its subcategory Skilled Mix to be important performance measurement indicators. In addition, within Quality Mix, we focus on short-term stay programs and services in our skilled nursing facility operations.

Our goal in the U.S. skilled nursing facility operations is to increase the percentage of revenue derived from Medicare, HMOs providing Medicare and Medicaid replacement managed care products, CI, private and other Quality Mix residents. Therefore, we focus on these payor types to increase average daily revenue rates and improve Quality Mix census as a percentage of the total ADC.

SKILLED NURSING FACILITY REVENUE BY PAYOR SOURCE

The following table provides the percentage of EHSI's revenue by payor source and the average revenue rates for its skilled nursing facilities from continuing operations, excluding prior period settlement adjustments, for the past eight quarters.

	First Quarter		Second Quarter		Third Quarter		Fourth Quarter		Year
	2008	2007	2007	2006	2007	2006	2007	2006	2007
Revenue by Payor Source (%)									
Medicare	35.5	36.7	36.4	35.5	33.9	34.3	34.4	35.7	35.3
HMO/CI	8.3	6.9	7.4	6.1	7.4	6.3	7.5	5.9	7.3
Skilled Mix	43.8	43.6	43.8	41.6	41.3	40.6	41.9	41.6	42.6
Private/other	9.5	9.8	9.4	10.4	9.8	10.0	9.8	10.2	9.7
Quality Mix	53.3	53.4	53.2	52.0	51.1	50.6	51.7	51.8	52.3
Medicaid	46.7	46.6	46.8	48.0	48.9	49.4	48.3	48.2	47.7
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Average Revenue Rate by Payor Source (US\$)									
Medicare Part A	410.86	387.95	388.93	369.48	392.42	369.12	411.87	382.78	395.56
Medicare Part A and B	448.56	424.04	423.62	404.19	434.21	406.04	450.28	421.58	433.23
HMO/CI	335.74	311.38	336.32	299.32	325.29	311.21	334.10	330.83	327.12
Private/other	207.80	205.70	194.37	188.94	199.66	187.42	196.52	192.04	198.90
Medicaid	165.21	157.68	158.38	151.87	162.70	156.43	164.18	157.30	160.90
Weighted average	231.31	221.28	221.42	208.63	222.01	211.02	225.82	216.45	222.75

In preparation for the January 1, 2006, changes to the Resource Utilization Groupings (RUGs) classifications implemented by the Centers for Medicare & Medicaid Services (CMS), which included the discontinuance of funding under the "RUGs Refinement" enhancements and implementation of nine new RUGs classifications, we refocused our marketing strategies to target residents requiring short-term rehabilitative services and trained our clinical staff to ensure that our residents are accurately assessed in accordance with the changes made in the RUGs classification system in order to maximize the average acuity level of our residents and, thereby, increase our average Medicare rates.

EHSI's average daily Medicare Part A rate in the 2008 first quarter was US\$410.86, an increase of 5.9% from US\$387.95 in the same 2007 period, and down slightly from US\$411.87 in the 2007 fourth quarter. Approximately half of the increase from the 2007 first quarter related to a 3.3% market basket inflationary increase effective October 1, 2007, with the remainder primarily related to higher average acuity levels among Medicare patients served. Excluding the Tendercare facilities, the percentage of Medicare residents in the nine highest Resource Utilization Groupings (RUGs) classifications was 37.7% in each of the 2008 and 2007 first quarters, and decreased slightly from 38.5% in the 2007 fourth quarter. The percentage of therapy residents increased to 86.9% in the 2008 first quarter from 86.7% in the same 2007 period, and from 85.9% in the 2007 fourth quarter.

The average revenue rate for HMO and CI clients, another important area of growth for EHSI that represents the highest rate component of private and other, increased to US\$335.74 in the 2008 first quarter from US\$311.38 in the 2007 first quarter, and US\$334.10 in the 2007 fourth quarter.

EHSI's average daily Medicaid rate, excluding prior period settlement adjustments, increased 4.8% in the 2008 first quarter to US\$165.21 from US\$157.68 in the 2007 first quarter, and increased slightly from US\$164.18 in the 2007 fourth quarter. For a number of states, the increase in average Medicaid revenue per resident day was primarily attributable to increases in acuity of care levels and funding for increased state assessment fees and taxes. Without these items, EHSI's average Medicaid revenue per resident day increased approximately 2.6% in the 2008 first quarter from the 2007 first quarter.

Management's Discussion and Analysis

The following table provides the percentage of EHSI's revenue by payor source for its skilled nursing facilities on a same-facility basis, excluding prior period settlement adjustments, for the 2008 first quarter, and each quarter of 2007.

	First Quarter		Q2	Q3	Q4	Total
	2008	2007	2007	2007	2007	2007
Revenue by Payor Source (%)						
Medicare	36.6	36.7	36.4	33.9	35.3	35.6
HMO/CI	8.5	6.9	7.5	7.4	7.9	7.4
Skilled Mix	45.1	43.6	43.9	41.3	43.2	43.0
Private/other	8.8	9.8	9.3	9.8	9.1	9.5
Quality Mix	53.9	53.4	53.2	51.1	52.3	52.5
Medicaid	46.1	46.6	46.8	48.9	47.7	47.5
	100.0	100.0	100.0	100.0	100.0	100.0

On a same-facility basis, EHSI's percentage of skilled mix revenue increased to 45.1% in the 2008 first quarter from 43.6% in the 2007 first quarter, and from 43.2% in the 2007 fourth quarter.

For more information on Medicare and Medicaid funding in the U.S., including recent developments and their impact or expected impact on Extencare REIT, please see "Update of Legislative Actions Affecting Revenue – United States".

SKILLED NURSING FACILITY AVERAGE DAILY CENSUS

The following table provides the ADC, percentage of total ADC, and average occupancy of EHSI's skilled nursing facilities from continuing operations, for the past eight quarters.

	First Quarter		Second Quarter		Third Quarter		Fourth Quarter		Total
	2008	2007	2007	2006	2007	2006	2007	2006	2007
Average Daily Census									
Medicare	2,910	2,497	2,479	2,367	2,253	2,318	2,571	2,396	2,449
HMO/CI	908	638	638	549	658	552	751	505	672
Skilled Mix	3,818	3,135	3,117	2,916	2,911	2,870	3,322	2,901	3,121
Private/other	1,679	1,370	1,383	1,476	1,410	1,461	1,681	1,495	1,462
Quality Mix	5,497	4,505	4,500	4,392	4,321	4,331	5,003	4,396	4,583
Medicaid	10,402	8,530	8,521	8,519	8,675	8,661	9,881	8,668	8,905
Total	15,899	13,035	13,021	12,911	12,996	12,992	14,884	13,064	13,488
Census by Payor Type (%)									
Medicare	18.3	19.2	19.1	18.3	17.4	17.8	17.3	18.4	18.2
HMO/CI	5.7	4.9	4.9	4.3	5.1	4.2	5.0	3.9	5.0
Skilled Mix	24.0	24.1	24.0	22.6	22.5	22.0	22.3	22.3	23.2
Private/other	10.6	10.5	10.6	11.4	10.8	11.3	11.3	11.4	10.8
Quality Mix	34.6	34.6	34.6	34.0	33.3	33.3	33.6	33.7	34.0
Medicaid	65.4	65.4	65.4	66.0	66.7	66.7	66.4	66.3	66.0
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Average percentage occupancy	88.8	90.6	90.1	91.3	89.8	90.8	88.9	90.8	89.8

EHSI's total skilled nursing facility ADC increased 22.0% to 15,899 in the 2008 first quarter compared to 13,035 in the 2007 first quarter, primarily due to the Tendercare acquisition. As a percent of total ADC, EHSI's Quality Mix was unchanged at 34.6% in each of the 2008 and 2007 first quarters, and increased from 33.6% in the 2007 fourth quarter. Average occupancy declined to 88.8% in the 2008 first quarter from 90.6% in the 2007 first quarter and 88.9% in the 2007 fourth quarter. This was due to a number of factors including: facilities acquired with occupancy levels that have not as yet reached our existing levels; clinical challenges at six facilities, which resulted in a voluntary slowdown in admissions; as well as our emphasis on serving medically complex residents.

Management's Discussion and Analysis

The following table provides the ADC, percentage of total ADC, and average occupancy of EHSI's nursing homes on a same-facility basis, for the 2008 first quarter, and each quarter of 2007.

	First Quarter		Q2	Q3	Q4	Total
	2008	2007	2007	2007	2007	2007
Average Daily Census						
Medicare	2,443	2,497	2,471	2,240	2,283	2,372
HMO/CI	776	638	635	654	700	657
Skilled Mix	3,219	3,135	3,106	2,894	2,983	3,029
Private/other	1,264	1,370	1,380	1,405	1,381	1,384
Quality Mix	4,483	4,505	4,486	4,299	4,364	4,413
Medicaid	8,371	8,530	8,490	8,628	8,499	8,537
Total	12,854	13,035	12,976	12,927	12,863	12,950
Census by Payor Type (%)						
Medicare	19.0	19.2	19.1	17.3	17.8	18.3
HMO/CI	6.1	4.9	4.9	5.1	5.4	5.1
Skilled Mix	25.1	24.1	24.0	22.4	23.2	23.4
Private/other	9.8	10.5	10.6	10.9	10.7	10.7
Quality Mix	34.9	34.6	34.6	33.3	33.9	34.1
Medicaid	65.1	65.4	65.4	66.7	66.1	65.9
	100.0	100.0	100.0	100.0	100.0	100.0
Average percentage occupancy	89.4	90.6	90.2	89.9	89.6	90.0

On a same-facility basis, EHSI's skilled mix increased from 3,135 in the 2007 first quarter to 3,219 in the 2008 first quarter, or 2.7%. Growth was primarily due to an increase of 138 in HMO/CI ADC, to 776 from 638 in the 2007 first quarter. The increase in HMO/CI residents is due to our focus on these higher acuity residents and the number of Medicare beneficiaries opting out of traditional Medicare Part A benefits and selecting coverage through a Medicare HMO product. EHSI's Medicare ADC on a same-facility basis in the 2008 first quarter was 2,443, down 2.2% from the comparable 2007 period level. In comparison to the 2007 fourth quarter, our same-facility Medicare ADC increased 7.0% from 2,283, and our HMO/CI increased 10.9% from 700.

As a percent of total same-facility ADC, EHSI's Quality Mix improved to 34.9% in the 2008 first quarter from 34.6% in the 2007 first quarter, and from 33.9% in the 2007 fourth quarter.

Our total ADC from same-facility skilled nursing facilities was 12,854 in the 2008 first quarter, a decline of 181, or 1.4%, from the 2007 first quarter of 13,035. Over a third of this decline, or 70 ADC, was due to clinical challenges we experienced at six facilities, primarily in the State of Washington, which resulted in a voluntary slowdown in admissions. The remaining decline was partially attributable to a planned withdrawal from providing services in certain facilities to certain client groups, such as bariatric psychiatric and/or those with substance abuse issues, and their referral to more appropriate service options. In comparison to the 2007 fourth quarter ADC of 12,863, our total ADC would have improved by 37 in the 2008 first quarter if not for a decline of 46 ADC from the six clinically challenged facilities.

Canadian Operations

The funding received by ECI for its nursing centres and home health care services are regulated by provincial authorities (rather than federal authorities), who often set the rates following consultation with the providers and their industry associations. This type of system reduces the potential for a single change or event to significantly affect the reimbursement or regulatory environment for ECI.

Revenue from provincial programs represents approximately 63% of ECI's nursing home revenue. ECI's average daily revenue rate for its senior care facilities was \$159.59 in the 2008 first quarter compared to \$152.09 in the 2007 first quarter, \$163.52 in the fourth quarter, and \$156.88 for the 2007 year. The majority of ECI's nursing home operations are in Ontario, which operates under an envelope system, in which a substantial portion of the revenue is tied to flow-through funding, and is therefore matched in the periods in which the related costs for resident care are incurred. As a result, ECI's average revenue rates fluctuate by quarter, and are generally at their lowest in the first quarter and their highest in the fourth quarter.

Management's Discussion and Analysis

In Canada, where the supply of long-term care beds historically has been very restricted, nursing home operators typically enjoy higher occupancy levels than in the United States. ECI's average occupancy was 97.6% in each of the 2008 and 2007 first quarters, and was 98.1% in the 2007 fourth quarter and 98.2% for the 2007 year. A slightly lower occupancy level during the winter months is not unusual because flu outbreaks can lead to a temporary freeze on admissions and an increase in deaths.

Revenue from provincial programs represents approximately 92% of ECI's home health care revenue. ParaMed's home health care hours of service provided in the 2008 first quarter averaged 12,101 per day compared to 12,705 per day in the 2007 first quarter and 12,443 per day in the 2007 fourth quarter, a decline of 4.8% and 2.8%, respectively. During 2007, ParaMed provided 4,571,000 hours of service, or 12,522 hours per day. Approximately half of the decline from the 2007 first quarter was due to management's decision not to compete on a contract in Alberta that matured in early 2007, and the remainder was due to a decline in volumes on continuing contracts and the inability for home health care providers to compete for new business in Ontario due to the government's freeze on the competitive bidding process (see "Update of Legislative Actions Affecting Revenue – Canada – Ontario Home Care Funding").

For more information on government funding in Canada, including recent developments and their impact or expected impact on Extencare REIT, please see "Update of Legislative Actions Affecting Revenue – Canada".

Acquisitions and Development Projects

At March 31, 2008, we operated 269 senior care facilities with capacity for 30,257 residents, with the number of total facilities unchanged from December 31, 2007, with resident capacity of 30,333. However, there was a change of facilities in the U.S. during the quarter, with the opening of two new skilled nursing facilities, one in Washington and the other in Michigan, offset by the closure of one skilled nursing facility in Washington and one assisted living facility in Pennsylvania. The number of senior care facilities operated at the end of March 2007 was 233, with capacity for 26,660 residents.

The most significant acquisition made in 2007 was the purchase of Tendercare (Michigan) Inc. and affiliated entities (collectively "Tendercare"), a private nursing home operator in the State of Michigan, on October 31, 2007. The Tendercare portfolio was all located in the State of Michigan and was comprised of 30 senior care facilities (3,301 operational beds) and two senior care facilities (177 beds) under development. Total consideration, including assumption of debt and acquisition costs, was \$221.8 million (US\$234.8 million).

For the 2008 first quarter, Tendercare's operations contributed \$56.5 million (US\$56.3 million) of revenue and \$5.8 million (US\$5.8 million) of earnings before interest, income taxes, depreciation, amortization and accretion (EBITDA). For the 2008 first quarter, Tendercare's average occupancy of its skilled nursing facilities was 86.1%, Medicare ADC as a percentage of total was 14.1%, and Tendercare's average daily Medicare Part A rate was US\$377.46. This was an improvement compared to average occupancy of 85.3%, the proportion of Medicare ADC of 13.5%, and an average daily Medicare Part A rate of US\$362.70, for the last two months of 2007, following its acquisition. In the month of March 2008, we benefited from the implementation of our marketing programs, resulting in an average daily increase of 47 Medicare residents, or 12%, from the month of February 2008.

For further details of the Tendercare acquisition and other assets acquired in 2007, please refer to "Significant Developments – Acquisitions" and to "Significant Developments – Construction" for information on construction projects.

Adjusted Funds from Operations

The following table provides a reconciliation of our EBITDA to Funds from Operations (FFO), Distributable Income (DI) and Adjusted Funds from Operations (AFFO) for the 2008 and 2007 first quarters, the 2007 fourth quarter and for the 2007 year.⁽¹⁾ Certain comparative figures have been reclassified for discontinued operations identified in 2008.

<i>(thousands of dollars unless otherwise noted)</i>	Q1 2008	Q1 2007	Q4 2007	Year 2007
EBITDA from continuing health care operations	47,201	52,649	50,254	208,175
Depreciation for furniture, fixtures, equipment and computers	(4,166)	(3,531)	(3,951)	(14,351)
Interest expense, net	(19,899)	(16,195)	(18,145)	(68,660)
	23,136	32,923	28,158	125,164
Current income tax expense ⁽²⁾	(5,879)	(5,555)	(4,933)	(25,681)
FFO (continuing operations)	17,257	27,368	23,225	99,483
Amortization of financing costs	1,562	1,079	1,526	5,336
Principal portion of government capital funding payments	541	510	513	2,047
DI (continuing operations)	19,360	28,957	25,264	106,866
Additional maintenance capital expenditures ⁽³⁾	(338)	(2,489)	(9,219)	(20,504)
AFFO (continuing operations)	19,022	26,468	16,045	86,362
AFFO (discontinued operations) ⁽⁴⁾	(593)	(230)	(739)	(852)
AFFO⁽⁵⁾	18,429	26,238	15,306	85,510
FFO from Continuing Operations per Unit (\$)				
Basic	0.245	0.390	0.329	1.414
Diluted	0.245	0.390	0.322	1.394
AFFO per from Continuing Operations Unit (\$)				
Basic	0.270	0.377	0.228	1.228
Diluted	0.263	0.377	0.220	1.203
AFFO per Unit (\$)				
Basic	0.262	0.374	0.218	1.216
Diluted	0.255	0.374	0.209	1.191
Distributions				
Declared	19,558	19,493	19,542	78,084
Declared per unit (\$)	0.2775	0.2775	0.2775	1.1100
Weighted Average Number of Units (thousands)				
Basic	70,471	70,234	70,413	70,336
Diluted ⁽⁶⁾	76,250	70,234	76,192	73,392

⁽¹⁾ "EBITDA", "FFO", "DI" and "AFFO" 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, restructuring charges, asset 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.

⁽⁵⁾ A reconciliation of AFFO to cash flow from operating activities is provided under the heading "Liquidity and Capital Resources".

⁽⁶⁾ Diluted weighted average units assumes conversion of debentures from the date of issuance in June 2007. The total number of units convertible from the debentures is 5,779.

Management's Discussion and Analysis

AFFO from continuing operations was \$19.0 million (\$0.270 per basic unit) in the 2008 first quarter compared to \$26.5 million (\$0.377 per basic unit) in the 2007 first quarter, representing a decline of \$7.5 million (\$0.107 per basic unit). There were \$7.5 million of after-tax non-recurring items and other items that impacted the comparability with the 2007 first quarter, namely:

- stronger Canadian dollar reduced AFFO by \$2.6 million;
- 2007 first quarter tax adjustment pertaining to the Reorganization of \$1.4 million;
- 2007 first quarter release of actuarial reserve provision and lower investment earnings in our captive insurance company of \$1.8 million;
- SIFT taxes that were not reflected in 2007 until the second quarter of \$1.1 million; 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 \$0.6 million.

As well, facility maintenance costs were \$4.5 million in the 2008 first quarter, or 0.9% of revenue, and were \$1.5 million less than the 2007 first quarter. Annual facility maintenance costs are anticipated to be approximately 2% of revenue, which is consistent with our objective to maintain and upgrade our facilities.

Exclusive of the above, AFFO declined by \$1.5 million due to a decline in EBITDA, and an increase in financing costs, which are discussed under the heading the "2008 First Quarter Financial Review".

In comparison to the 2007 fourth quarter AFFO from continuing operations improved by \$3.0 million. However, excluding favourable facility maintenance costs due to timing of spending during the year of \$8.7 million, AFFO declined by \$5.7 million, approximately half of which was due to favourable year-end tax adjustments in the 2007 fourth quarter of approximately \$2.3 million. The remainder was due to a decline in EBITDA and higher interest costs, which are discussed in further detail under the "2008 First Quarter Financial Review".

DISTRIBUTIONS

Distributions declared in 2007 totalled \$78.1 million or \$1.11 per REIT Unit and per Class B limited partnership unit (Exchangeable LP Unit) of Extencicare Limited Partnership (Extencicare LP). Based on total AFFO of \$85.5 million, the payout ratio in 2007 was 91.3% (90.4% based on AFFO from continuing operations of \$86.4 million).

Our current policy is to pay distributions of \$0.0925 per REIT Unit and per Exchangeable LP Unit, respectively, to the holders thereof on a monthly basis. The declaration and payment of future distributions is subject to the discretion of the Board of Trustees and will be dependent upon a number of factors including results of operations, requirements for capital expenditures and working capital, future financial prospects of the REIT, debt covenants and obligations, and any other factors deemed relevant by the Board of Trustees. If the Trustees determine that it would be in the REIT's best interests, they may reduce, for any period, the percentage of Distributable Income to be distributed, which will result in corresponding reductions in distributions on Exchangeable LP Units.

For 2007, approximately 70% of the distributions made by Extencicare REIT and Extencicare LP were tax deferred returns of capital for Canadian residents. Management estimates that, of the monthly distributions to be made in 2008 approximately 70% will also be tax deferred returns of capital for Canadian residents. The adjusted cost base of the REIT Units or Exchangeable LP Units held by a unitholder will generally be reduced by such non-taxable portion of distributions made to the unitholder. The remaining 30% of distributions of the REIT paid in 2008 to Canadian residents are expected to be taxed as eligible dividends as per the *Income Tax Act* (Canada) (the "Tax Act"). To the extent a portion of the remaining 30% of distributions of Extencicare LP allocated in 2008 is taxed as dividends, those paid to Canadian residents are eligible dividends as per the Tax Act. Extencicare REIT is not required to, and does not, calculate its "earnings and profits" pursuant to the *United States Internal Revenue Code of 1986*, as amended, (the "Code") and therefore no portion of its distributions represent qualified dividend income for U.S. tax purposes. No assurance can be given that the composition of distributions by Extencicare REIT and Extencicare LP for tax purposes will not be changed from that described above. Any change in such composition of the distributions will affect the after-tax return of the unitholder.

In 2008 there is a change impacting all of our unitholders to the taxation of certain distributions for U.S. tax purposes beginning with our May 2008 distribution. This is relevant for (i) how certain income will be taxed for U.S. tax purposes to U.S. persons who hold REIT Units and/or Exchangeable LP Units ("U.S. Holders") and (ii) U.S. withholding tax issues for non-U.S. persons who hold REIT Units and/or Exchangeable LP Units ("Non-U.S. Holders"). The change to the composition of distributions does not affect Canadian taxation of distributions, including our Canadian tax withholding obligations in respect of distributions to non-Canadian holders of our units.

Management's Discussion and Analysis

This change to the composition of our distributions arises from the financing structure we implemented in 2007 in connection with the acquisition of Tendercare. Interest payments to be made semi-annually in May and November by a wholly owned U.S. subsidiary of Extencare REIT will be treated as U.S. source interest income of the REIT and Partnership, and consequently of the unitholders for a portion of distributions in respect of those months, for U.S. tax purposes. The actual amount of U.S. source interest income pertaining to distributions to be declared in May and November will be disclosed in the distribution press releases for those months. The estimated U.S. source interest income for the first payment from October 24, 2007 to May 31, 2008, is C\$0.0497 per unit. The amount of U.S. source interest income for the interest calculation to the end of November 2008 is estimated to be approximately \$0.0464 per unit, assuming a one-month LIBOR of 2.80% and a total of 70,509,962 REIT and Exchangeable LP units outstanding.

This U.S. source interest income is subject to U.S. withholding tax for Non-U.S. Holders, and U.S. backup withholding tax for U.S. Holders. Unitholders may be eligible for the portfolio interest exemption under Sections 871 and 881 of the Code by submitting a valid Form W-8BEN or Form W-9, as applicable to their broker/administrator.

IMPACT OF U.S. DOLLAR AND FOREIGN CURRENCY TRANSLATION

Impact on Financial Statements

The majority of our operations are conducted in the United States, which accounted for 71% of revenue from continuing operations in the 2008 first quarter. As a result, changes in the exchange rates used to translate the results of the U.S. operations to Canadian dollars can affect the comparison of the consolidated results.

The table below illustrates the changes in the average exchange rates used in translating the U.S. results, and its effect on the results for the 2008 and 2007 first quarters, and the year 2007. Net earnings from our U.S. continuing operations for the 2008 first quarter were US\$3.3 million, and prior to any separately reported gains or losses, were US\$7.4 million. On an annualized basis, every one cent increase (decrease) in the Canadian dollar against the U.S. dollar would impact these earnings by \$0.1 million and \$0.3 million, respectively.

	First Quarter		Year	
	2008	2007	2007	2006
Average US/Canadian dollar exchange rate	1.0042	1.1716	1.0748	1.1341
Impact on 2008 First Quarter and the 2007 Year (millions of dollars)				
Revenue	(58.2)		(68.0)	
EBITDA	(6.3)		(8.5)	
Earnings from continuing operations	(0.6)		(2.4)	
Net earnings	(0.5)		(2.4)	
Same-facility Operations:				
Revenue	(47.8)			
EBITDA	(5.2)			

Impact on Distributions – Foreign Currency Forward Contract Strategy

Approximately 75% of our distributions are funded by our U.S. operations. To limit the exposure to converting our U.S. cash flow into Canadian dollars, we implemented a foreign currency hedging strategy to maintain up to 36 months of foreign currency forward contracts, provided the conditions are favourable at the time. EHSI entered into three foreign currency forward contracts to acquire Canadian dollars for US\$4.0 million on a monthly basis to June 2011. The first contract locks EHSI's exchange rate to acquire Canadian dollars at 1.1141 for a 36-month period that commenced in December 2006 and ends in November 2009. In June 2007, EHSI entered into a second foreign currency forward contract to cover the 7-month period from December 2009 to June 2010. This contract provides for the prevailing exchange rate at that time (locked at a range between 1.00 and 1.1050). In March 2008, EHSI entered into a third contract, also based on a range of rates that covers 11 months from August 2010 to June 2011. This contract provides for the prevailing exchange rate at that time (locked at a range between 1.00 and 1.09). Management continues to monitor the U.S. to Canadian dollar exchange rate, with the aim of maintaining its foreign exchange hedging strategy. There can be no assurance that the foreign currency contracts that EHSI has put in place will be sufficient to protect against currency exchange rate losses.

SUMMARY OF RESULTS

Summary of Quarterly Results

The following is a summary of selected consolidated financial information derived from unaudited interim period consolidated financial statements for each of the eight most recently completed quarters. Certain comparative figures have been reclassified for discontinued operations identified in 2008.

<i>(thousands of dollars unless otherwise noted)</i>	First Quarter		Second Quarter		Third Quarter		Fourth Quarter	
	2008	2007	2007	2006	2007	2006	2007	2006
Revenue	491,551	456,273	443,315	424,593	433,459	433,388	469,167	452,390
EBITDA ⁽¹⁾	47,201	52,649	53,967	48,346	51,305	47,886	50,254	50,458
EBITDA margin	9.6%	11.5%	12.2%	11.4%	11.8%	11.0%	10.7%	11.2%
Earnings from continuing								
health care operations								
before undernoted ⁽¹⁾	7,387	17,806	14,119	13,698	14,346	15,869	12,879	16,289
Gain (loss) on derivative financial instruments and foreign exchange, net of taxes	(3,529)	897	11,521	215	2,162	(9,893)	(1,636)	(46,415)
Gain (loss) from restructuring charges, asset disposals and other items, net of taxes	–	–	1,428	(2,349)	–	(7,929)	–	(22,294)
Taxes associated with reorganization	–	–	–	(15,570)	–	–	–	–
Share of equity accounted earnings	–	580	961	1,603	–	1,239	–	1,528
Earnings (loss) from continuing operations								
Discontinued operations, net of income taxes	(280)	(3,917)	280	45	(280)	2,370	(765)	2,148
Net earnings (loss)	3,578	15,366	28,309	(2,358)	16,228	1,656	10,478	(48,744)
Components of Diluted Earnings (Loss) per Unit/Share (\$) ⁽²⁾								
Continuing health care operations before undernoted								
	0.10	0.25	0.20	0.20	0.21	0.23	0.18	0.23
Gain (loss) on derivative financial instruments and foreign exchange	(0.05)	0.01	0.17	–	0.02	(0.14)	(0.02)	(0.67)
Gain (loss) from restructuring charges, asset disposals and other items	–	–	0.02	(0.04)	–	(0.12)	–	(0.32)
Taxes associated with reorganization	–	–	–	(0.23)	–	–	–	–
Share of equity accounted earnings	–	0.01	0.01	0.03	–	0.02	–	0.02
Earnings (loss) from continuing operations								
Discontinued operations	0.05	0.27	0.40	(0.04)	0.23	(0.01)	0.16	(0.74)
	–	(0.05)	–	–	–	0.03	(0.01)	0.03
Net earnings (loss)	0.05	0.22	0.40	(0.04)	0.23	0.02	0.15	(0.71)

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

⁽²⁾ Diluted earnings per share calculations for the quarters presented before the Reorganization are based on earnings prior to the subordinate voting share preferential dividend.

Management's Discussion and Analysis

The following is a reconciliation of earnings (loss) from continuing health care operations before income taxes to EBITDA for each of the eight most recently completed quarters. Certain comparative figures have been reclassified for discontinued operations identified in 2008.

	First Quarter		Second Quarter		Third Quarter		Fourth Quarter	
<i>(thousands of dollars)</i>	2008	2007	2007	2006	2007	2006	2007	2006
Earnings (loss) from continuing health care operations before income taxes	8,671	24,965	41,306	17,842	26,101	(8,425)	16,193	(63,232)
Add (Deduct):								
Depreciation and amortization	14,044	12,645	12,300	11,841	11,771	11,937	13,115	12,375
Accretion expense	375	341	331	315	317	314	340	314
Interest expense, net	19,899	16,195	17,779	14,900	16,541	14,678	18,145	13,718
Loss (gain) on derivative financial instruments and foreign exchange	4,212	(1,497)	(15,557)	(359)	(3,425)	16,627	2,461	50,585
Loss (gain) from restructuring charges, asset disposals and other items	–	–	(2,192)	3,807	–	12,755	–	36,698
EBITDA	47,201	52,649	53,967	48,346	51,305	47,886	50,254	50,458
Segmented EBITDA								
US operations – US\$	37,596	35,672	36,029	32,074	34,524	30,834	37,563	33,546
US operations – C\$	37,752	41,793	39,582	36,023	36,059	34,578	37,110	38,185
Cdn operations – C\$	9,449	10,856	14,385	12,323	15,246	13,308	13,144	12,273
EBITDA	47,201	52,649	53,967	48,346	51,305	47,886	50,254	50,458
Average US/Canadian dollar exchange rate⁽¹⁾	1.0042	1.1716	1.0986	1.1219	1.0477	1.1216	0.9837	1.1386

⁽¹⁾ These are the actual Bank of Canada average rates of exchange for the period. The year-to-date revenue and expenses of self-sustaining foreign operations are translated at the average year-to-date rates of exchange, and the results of the quarters are calculated by deducting the previously reported year-to-date results from the current year-to-date results. In addition, specific transactions such as gains or losses related to restructuring charges, asset disposals, impairment and other items, are translated at rates of exchange in effect at the time of the transactions. Therefore, the effective exchange rates calculated from the translated amounts reported above, may differ from the actual average rates of exchange indicated for the period.

There are a number of factors affecting the REIT's trend of quarterly results. For seasonal trends, while year-over-year quarterly comparisons will remain appropriate, sequential quarters will vary materially. We already report as separate line items the "loss (gain) on derivative financial instruments and foreign exchange" and "loss (gain) from restructuring charges, asset disposals and other items", which are transitional in nature and would otherwise distort historical trends. With respect to our core operations, the significant factors that impact the results from period to period are as follows:

- Medicare admissions are usually the highest in the first and second quarter, begin to decline during the latter portion of the second quarter, and are generally at their lowest in the summer months, as there tends to be fewer elective surgeries performed;
- Medicaid rate changes, including adjustments for the case mix index and provider taxes, occur with each state's fiscal year, which is on July 1, for the majority of the states in which EHSI operates;
- Medicare rate changes generally occur on October 1 (federal fiscal year), and typically include a market basket inflationary increase;
- Ontario long-term care providers receive annual acuity-based flow-through funding adjustments effective April 1 and accommodation funding increases on July 1, and Alberta long-term care providers receive annual inflationary rate increases on April 1;
- utility costs are generally at their highest in the first quarter and their lowest in the third quarter, with differences between the two of as much as \$3.0 million; and
- fluctuations in the U.S. dollar and foreign currency translation of the REIT's U.S. operations impact results.

Management's Discussion and Analysis

During 2007, the following unique tax events occurred that impacted the quarterly results:

- in the 2007 first quarter, we recorded a favourable tax provision adjustment of \$1.4 million, or \$0.02 per diluted unit resulting from an adjustment to the taxes pertaining to the Reorganization; and
- in the 2007 second quarter, we recorded a provision for tax applicable to specified investment flow-through trusts or partnerships (SIFTs), which was enacted in June 2007, of \$2.3 million, or \$0.03 per diluted unit, half of which applied to the 2007 first quarter.

Further details on the above can be found under the sections "Key Performance Indicators", "Impact of U.S. Dollar and Foreign Currency Translation", "Significant Developments" and "Update of Legislative Actions Affecting Revenue".

2008 FIRST QUARTER FINANCIAL REVIEW

<i>(thousands of dollars unless otherwise noted)</i>	Q1 2008	Q1 2007	<i>Change Q1/08 over Q1/07</i>	Q4 2007	<i>Change Q1/08 over Q4/07</i>
Earnings (Loss) from Continuing Health Care Operations					
U.S. operations (US\$)	3,298	13,663	(10,365)	8,549	(5,251)
U.S. operations (C\$)	3,298	15,976	(12,678)	8,538	(5,240)
Canadian operations	560	2,727	(2,167)	2,705	(2,145)
	3,858	18,703	(14,845)	11,243	(7,385)
Share of equity accounted earnings	–	580	(580)	–	–
Earnings from continuing operations	3,858	19,283	(15,425)	11,243	(7,385)
Discontinued operations	(280)	(3,917)	3,637	(765)	485
Net earnings	3,578	15,366	(11,788)	10,478	(6,900)
Diluted Earnings per Unit (\$)					
Earnings from continuing operations	0.05	0.27		0.16	
Net earnings	0.05	0.22		0.15	
Earnings from Continuing Health Care Operations before Undernoted Separately Reported Items					
U.S. operations (US\$)	7,427	12,892	(5,465)	11,187	(3,760)
U.S. operations (C\$)	7,456	15,079	(7,623)	11,054	(3,598)
Canadian operations	(69)	2,727	(2,796)	1,825	(1,894)
Earnings from continuing health care operations before undernoted separately reported items	7,387	17,806	(10,419)	12,879	(5,492)
Gain (loss) on derivative financial instruments and foreign exchange, net of taxes	(3,529)	897	(4,426)	(1,636)	(1,893)
Earnings from continuing health care operations	3,858	18,703	(14,845)	11,243	(7,385)
Average US/Canadian dollar exchange rate	1.0042	1.1716		0.9837	

The average exchange rates used to translate the results of the U.S. operations to Canadian dollars were 1.0042 for the 2008 first quarter, 1.1716 for the 2007 first quarter and 0.9837 for the 2007 fourth quarter. However, separately reported items such as gains or losses related to derivative financial instruments, foreign exchange, restructuring charges, asset disposals, and other items, are translated at the rates of exchange in effect at the time of the transactions.

Revenue

<i>(millions of dollars unless otherwise noted)</i>	Q1 2008	Q1 2007	<i>Change Q1/08 over Q1/07</i>	<i>Change (%)</i>	Q4 2007	<i>Change Q1/08 over Q4/07</i>
Revenue						
U.S. operations (US\$)	347.7	272.4	75.3	27.6	321.6	26.1
U.S. operations (C\$)	349.1	319.1	30.0	9.4	320.3	28.8
Canadian operations	142.4	137.1	5.3	3.9	148.9	(6.5)
Total revenue ⁽¹⁾	491.6	456.3	35.3	7.7	469.2	22.4

⁽¹⁾ Amounts may not add due to rounding.

Revenue from continuing operations improved \$35.3 million to \$491.6 million in the 2008 first quarter from \$456.3 million in the 2007 first quarter. Newly acquired facilities generated revenue of \$62.6 million in the 2008 first quarter, none of which were acquired during the 2007 first quarter. The stronger Canadian dollar unfavourably impacted same-facility revenue by \$47.8 million. Excluding this negative foreign exchange impact, revenue from same-facility operations improved between periods by \$20.5 million, or 4.5%, due to funding improvements, a more favourable patient acuity mix, and the additional leap day, partially offset by lower U.S. occupancy levels.

Revenue from U.S. operations grew 27.6% in its functional currency to US\$347.7 million in the 2008 first quarter compared to US\$272.4 million in the 2007 first quarter, representing an increase of US\$75.3 million, of which US\$62.3 million resulted from new facilities in operation since January 2007. New facilities related to 36 senior care facilities, which were comprised of: 33 skilled nursing facilities; two assisted living facilities; and an inpatient rehabilitation hospital, all of which were acquired in 2007, and include one which was under development at the time of acquisition and opened in January 2008 (see "Significant Developments – Acquisitions"). Revenue from same-facility operations increased by US\$13.0 million, or 4.8%, between periods. Increases in average nursing home rates contributed US\$14.8 million of additional revenue in the 2008 first quarter. Higher rates reflected both inflationary increases in Medicare and Medicaid funding, as well as higher average acuity levels among Medicare, Medicaid and private/other residents. The favourable impact of higher rates and the additional leap day in the 2008 first quarter was only partially offset by lower Medicare and Medicaid census. Same-facility revenue was unfavourably impacted by the transfer of residents from one older skilled nursing facility in Washington, which was subsequently closed, to a newly opened skilled nursing facility in Washington. As well, clinical challenges at six facilities, primarily in Washington, resulted in a voluntary slowdown in admissions, which unfavourably impacted revenue. Revenue from the six clinically challenged and two Washington facilities declined by US\$1.8 million between periods. More information about revenue rates and census is provided under "Key Performance Indicators – U.S. Operations".

The following table provides further details on the change in revenue from same-facility U.S. operations.

(US\$ millions)

14.8 – increase in average nursing home rates (Medicare \$5.6 million, Medicaid \$6.0 million, and private/other \$3.2 million)
(3.5) – decrease in nursing home resident census (Medicare \$(1.9) million, Medicaid \$(2.2) million, and private/other \$0.6 million)
2.7 – increase in revenue due to additional leap day
(0.8) – other revenue, primarily lower investment income in captive insurance company
13.2
(0.2) – lower prior period revenue adjustments (\$0.2 million in 2007)
13.0

Revenue from U.S. operations in comparison to the 2007 fourth quarter improved by US\$26.1 million to US\$347.7 million from US\$321.6 million. New facilities contributed US\$62.3 million of revenue in the 2008 first quarter compared to US\$40.0 million in the 2007 fourth quarter, or US\$22.3 between periods. Revenue from same-facility operations increased by US\$3.8 million, or 1.3%, despite there being one less day in the 2008 first quarter compared to the 2007 fourth quarter, and a decline of US\$1.1 million from the six clinically challenged facilities and two Washington facilities. Improvements in average revenue rates and overall higher occupancy increased same-facility revenue by US\$3.2 million and US\$3.3 million, respectively.

Management's Discussion and Analysis

Revenue from Canadian operations grew \$5.3 million, or 3.9%, to \$142.4 million in the 2008 first quarter from \$137.1 million in the 2007 first quarter. Of this improvement, \$6.0 million was derived from nursing home operations, and represented funding to enhance resident care. Revenue from home health care operations declined by \$1.1 million, primarily due to lower Caplan funding recognized in the 2008 first quarter compared to the 2007 first quarter. This funding is required to be matched with costs, and therefore does not impact earnings. For further information on the Caplan funding refer to "Update of Legislative Actions Affecting Revenue – Canada – Ontario Home Care Funding". Other revenue increased by \$0.4 million.

Revenue from Canadian operations in comparison to the 2007 fourth quarter declined by \$6.5 million, of which \$4.3 million was in the nursing home operations as a result of timing of the recognition of revenue to match spending under the Ontario nursing home envelopes, and because there was one less day in the 2008 first quarter than the 2007 fourth quarter. Home health care revenue was lower by \$1.9 million, or 5.2%, due to the flu program that is only conducted in the fall, a 2.8% decline in average daily hours of service provided, and one less day between periods. Other revenue was lower by \$0.3 million.

EBITDA

<i>(millions of dollars unless otherwise noted)</i>	Q1	<i>% of</i>	Q1	<i>% of</i>	<i>Change</i>	<i>Change</i>	Q4	<i>Change</i>
	2008	<i>revenue</i>	2007	<i>revenue</i>	<i>Q1/08</i>	<i>Q1/07</i>	2007	<i>Q1/08</i>
					<i>over</i>	<i>(%)</i>		<i>over</i>
					<i>Q1/07</i>			<i>Q4/07</i>
EBITDA								
U.S. operations (US\$)	37.6	<i>10.8</i>	<i>35.7</i>	<i>13.1</i>	<i>1.9</i>	<i>5.3</i>	<i>37.6</i>	<i>–</i>
U.S. operations (C\$)	37.8	<i>10.8</i>	<i>41.8</i>	<i>13.1</i>	<i>(4.0)</i>	<i>(9.6)</i>	<i>37.1</i>	<i>0.7</i>
Canadian operations	9.4	<i>6.6</i>	<i>10.8</i>	<i>7.9</i>	<i>(1.4)</i>	<i>(13.0)</i>	<i>13.1</i>	<i>(3.7)</i>
Total EBITDA ⁽¹⁾	47.2	<i>9.6</i>	<i>52.6</i>	<i>11.5</i>	<i>(5.4)</i>	<i>(10.3)</i>	<i>50.2</i>	<i>(3.0)</i>
Average US/Canadian dollar exchange rate	1.0042		<i>1.1716</i>				<i>0.9837</i>	

⁽¹⁾ Amounts may not add due to rounding.

EBITDA from continuing operations declined \$5.4 million to \$47.2 million in the 2008 first quarter from \$52.6 million in the 2007 first quarter. New facilities contributed \$6.6 million to EBITDA in the 2008 first quarter. EBITDA from same-facility operations was \$40.6 million in the 2008 first quarter and \$52.6 million in the 2007 first quarter, reflecting a decline of \$12.0 million, of which \$5.2 million was due to the negative impact of the stronger Canadian dollar. The remaining decline of \$6.8 million reflected higher operating, administrative and lease costs from same-facility operations of \$27.3 million in excess of the \$20.5 million revenue improvement. Labour-related costs accounted for \$17.5 million of the increase in costs. Canadian operations EBITDA accounted for \$1.4 million of the decline in same-facility operations, and the U.S. operations accounted for the remaining \$5.4 million, which are discussed further below.

Labour-related costs from continuing operations represented 73.4% of operating and administrative costs in the 2008 first quarter compared to 74.0% in the 2007 first quarter, and as a percent of revenue, were 65.9% and 64.9%, respectively. Administrative costs of \$17.1 million were unchanged between the quarters.

EBITDA from U.S. operations improved US\$1.9 million to US\$37.6 million in the 2008 first quarter from US\$35.7 million in the 2007 first quarter, and as a percent of revenue was 10.8% compared to 13.1%. New facilities contributed US\$6.6 million to EBITDA in the 2008 first quarter. EBITDA from same-facility operations was US\$31.0 million in the 2008 first quarter compared to US\$35.7 million in the 2007 first quarter, representing a decline of US\$4.7 million. EBITDA from same-facility operations increased US\$1.5 million, or 4.4%, through increases in revenue rates and skilled mix census; however, in comparison to the 2007 first quarter, the results were unfavourably impacted by the following three items:

- start-up costs at two facilities and clinical challenges at six facilities (voluntary slowdown in admissions and incremental staffing costs) resulted in reduced earnings of US\$2.2 million;
- an increase in bad debts of US\$2.2 million in specific facilities in Pennsylvania; and
- 2007 first quarter release of actuarial reserve provision and lower investment earnings in our captive insurance company of US\$1.8 million.

Management's Discussion and Analysis

The \$4.7 million decline in same-facility EBITDA was comprised of higher revenue of US\$13.0 million, discussed previously, offset by higher operating, administrative and lease costs of US\$17.7 million, as detailed in the table below.

(US\$ millions)

9.8	– rise in labour-related costs of 5.9%, which included an average wage rate increase of 2.9% in nursing home operations
2.2	– increase in bad debts
1.4	– increase in food, medical equipment, and supplies
0.3	– increase in utilities, telephone and travel costs
0.5	– increase in repairs and maintenance
0.6	– increase in state assessment and provider tax
0.6	– increase in property tax
0.7	– increase in professional fees, fines and penalties
1.6	– increase in other costs
17.7	

Labour-related cost increases were primarily driven by enhancements offered to attract and/or retain therapists, as part of management's strategy to focus on Medicare rehabilitative residents. As a percent of operating and administrative costs, labour costs for the U.S. operations represented 69.6% in the 2008 first quarter compared to 70.5% in the 2007 first quarter. As a percent of revenue, labour costs for the U.S. operations represented 61.7% in the 2008 first quarter and 60.7% in the 2007 first quarter.

EBITDA from U.S. operations in comparison to the 2007 fourth quarter was unchanged at US\$37.6 million, with the improvement in revenue of US\$26.1 million offset with an increase in operating, administrative and lease costs. New facilities contributed US\$6.6 million of EBITDA in the 2008 first quarter compared to US\$3.6 million in the 2007 fourth quarter, or a US\$3.0 million increase between periods. EBITDA from same-facility operations increased US\$3.0 million, or 9.2%, through increases in revenue rates and skilled mix census; however, in comparison to the 2007 fourth quarter, the results were unfavourably impacted by the following items:

- start-up costs at two facilities and clinical challenges at six facilities resulted in reduced earnings of US\$1.0 million;
- an increase in bad debts of US\$2.6 million in specific facilities in Pennsylvania;
- 2007 fourth quarter release of actuarial reserve provision and lower investment earnings in our captive insurance company of US\$1.4 million; and
- an increase in utilities of US\$1.0 million due to the winter months.

EBITDA from Canadian operations declined \$1.4 million to \$9.4 million in the 2008 first quarter from \$10.8 million in the 2007 first quarter, due to increased wage costs primarily resulting from three additional statutory holidays in the 2008 first quarter and timing of spending under the Ontario nursing home envelope system. Additional revenue of \$5.3 million was offset by higher operating, administrative and lease costs of \$6.7 million, with labour-related costs representing \$6.1 million of the increase. As a percent of operating and administrative costs, labour costs represented 82.3% in the 2008 first quarter compared to 81.8% in the 2007 first quarter. As a percent of revenue, labour costs represented 76.3% in the 2008 first quarter and 74.7% in the 2007 first quarter.

EBITDA from Canadian operations in comparison to the 2007 fourth quarter declined by \$3.7 million to \$9.4 million in the 2008 first quarter compared to \$13.1 million in the 2007 fourth quarter. The comparison of the quarters was impacted by a number of items as follows:

- an increase in utility costs due to the winter months of \$1.5 million;
- higher spending of labour costs within the Ontario flow-through envelope system of \$1.0 million; and
- lower home health care earnings resulting from lower volumes and a favourable Workplace Safety and Insurance Board adjustment late in 2007.

Depreciation, Amortization and Accretion

Depreciation, amortization and accretion costs were higher by \$1.4 million in the 2008 first quarter compared to the 2007 first quarter. Excluding a \$1.6 million reduction due to the stronger Canadian dollar, these costs rose by \$3.0 million, of which \$2.0 million related to acquisitions and the remaining \$1.0 million to the completion of construction projects and capital maintenance expenditures.

Interest

Interest expense, net of interest income, increased \$3.7 million to \$19.9 million in the 2008 first quarter from \$16.2 million in the 2007 first quarter. Excluding a favourable impact of \$1.7 million from the stronger Canadian dollar, net interest costs increased \$5.4 million between periods primarily due to: (i) the issuance of \$115 million of convertible debentures in June 2007 and assumption of debt related to acquisitions; and (ii) a US\$90 million loan in March 2007 relating to the distribution of ALC.

Loss (Gain) on Derivative Financial Instruments and Foreign Exchange

The REIT reported a pre-tax loss of \$4.2 million in the 2008 first quarter related to the valuation of derivative financial instruments and foreign exchange compared to a gain of \$1.5 million in the 2007 first quarter. The shift to a loss in 2008, from the gain in 2007 was due to the change in the U.S./Canadian exchange rates and its impact on the valuation of EHSI's forward currency contracts. For the year 2007, the REIT recorded a pre-tax \$18.0 million gain, which was comprised of a foreign exchange gain of \$6.3 million due primarily to the settlement of intercompany borrowings between the Canadian and U.S. operations and \$11.7 million primarily related to the valuation and settlement of foreign currency forward contracts during the year.

EHSI has in place foreign currency forward contracts to fix the exchange rate on acquiring Canadian dollars in exchange for US\$4.0 million per month until June 2011. For further information on these forward contracts, refer to "Impact of U.S. Dollar and Foreign Currency Translation – Impact on Distributions – Foreign Currency Forward Contract Strategy".

<i>(thousands of dollars unless otherwise noted)</i>	Q1 2008	Q1 2007	Q4 2007	Year 2007
Loss (Gain) on Derivative Financial Instruments and Foreign Exchange				
U.S. operations (US\$)	4,873	(1,287)	3,637	(10,264)
U.S. operations (C\$)	4,906	(1,497)	3,488	(11,743)
Canadian operations	(694)	–	(1,027)	(6,275)
	4,212	(1,497)	2,461	(18,018)
Loss (Gain) on Derivative Financial Instruments and Foreign Exchange, Net of Income Tax				
U.S. operations (US\$)	4,129	(771)	2,638	(5,880)
U.S. operations (C\$)	4,158	(897)	2,516	(6,816)
Canadian operations	(629)	–	(880)	(6,128)
	3,529	(897)	1,636	(12,944)

Income Taxes

The tax provision from continuing operations was \$4.8 million in the 2008 first quarter compared to \$6.3 million in the 2007 first quarter, representing effective tax rates of 55.5% and 25.1%, respectively. The effective tax rates for each year were distorted by the gains and losses from derivative financial instruments and foreign exchange, as well as a credit adjustment in the 2007 first quarter of \$1.4 million for withholding taxes associated with the Reorganization, and the fact that the REIT did not start recording SIFT tax until the second quarter of 2007, of which approximately \$1.1 million related to the 2007 first quarter. Excluding these items, the effective tax rate for the 2008 first quarter was 42.7% compared to 35.1% in the 2007 first quarter. The higher effective tax rate in 2008 is due primarily to a shift in income between taxable and non-taxable entities.

The REIT began recording an income tax provision for SIFT tax in June 2007 as a result of new legislation, retroactive to January 1, 2007. The provision represents management's estimate based on its understanding of the SIFT tax rules and the REIT's current structure. For further information on the SIFT tax, refer to the discussion under "Significant Developments – Canadian Federal Income Tax on Income Trusts".

Share of Equity Accounted Earnings

The share of equity accounted earnings was \$0.6 million in the 2007 first quarter. On July 5, 2007, Extencicare finalized the sale of its investment in Crown Life Insurance Company (Crown Life). For further information on this, refer to "Significant Developments – 2007 Sale of Investment in Crown Life Insurance Company".

Discontinued Operations

Discontinued operations reported a loss of \$0.3 million in the 2008 first quarter compared to a loss of \$3.9 million in the 2007 first quarter. In the 2008 first quarter, due to poor financial performance and the need for extensive future capital outlays, EHSI decided to close an assisted living facility (92 units) located in Pennsylvania and actively pursue the disposition of the property on the market. As a result, the financial results of this facility have been reclassified to discontinued operations and an impairment charge of \$0.9 million (US\$0.9 million) was recorded to reduce the property value to its estimated fair value of US\$1.0 million. As well, in the 2008 first quarter, EHSI disposed of a previously closed skilled nursing facility in Ohio for proceeds of US\$1.5 million, resulting in a recovery of \$1.3 million (US\$1.3 million). During the 2007 first quarter, EHSI voluntarily closed the Ohio skilled nursing facility and recorded an impairment charge of \$6.0 million (US\$5.1 million) to reduce the property value to US\$0.3 million. Further details of the components of the results of the discontinued operations are provided in *note 4* of the unaudited consolidated financial statements for the three months ended March 31, 2008.

SIGNIFICANT DEVELOPMENTS

The following developments had a significant effect on the financial results of Extendicare REIT for the first three months of 2008 in comparison to the same period in 2007.

Canadian Federal Income Tax on Income Trusts

On October 31, 2006, the day before Extendicare was initially scheduled to have completed the Arrangement, the Minister of Finance (Canada) (the "Minister") announced proposals to amend the Tax Act, to alter the taxation regime applicable to certain publicly traded entities that are specified investment flow-through trusts or partnerships, or SIFTs, and their investors (the "SIFT Rules"). The SIFT Rules were subsequently enacted by Bill C-52, the *Budget Implementation Act, 2007*, which received Royal Assent on June 22, 2007. Extendicare REIT is a SIFT, and is therefore subject to the SIFT Rules. Accordingly, beginning with its 2007 second quarter results, Extendicare REIT's results include an income tax provision for the SIFT tax.

Under the SIFT Rules, an income trust that is a SIFT is subject to tax in respect of certain income that is distributed to its unitholders, at rates that are substantially equivalent to the general corporate tax rate applicable to Canadian corporations. Distributions from income in respect of which this tax is payable will be treated in the same manner as taxable dividends from a taxable Canadian corporation in the hands of unitholders and will be eligible for the enhanced dividend tax credit if paid to an individual resident in Canada. Distributions paid by a SIFT as returns of capital will not be subject to the distribution tax contained in the SIFT Rules.

The SIFT Rules generally apply to a SIFT for taxation years ending after 2006 unless the SIFT would have qualified as a SIFT on October 31, 2006, in which case the SIFT is eligible for transitional relief from the SIFT tax through 2010. Extendicare REIT would not have qualified as a SIFT on October 31, 2006, because its units were not listed or traded on a stock exchange or other public market on that date. Furthermore, due to the nature of its income and investments, Extendicare REIT does not qualify for the exemption from the SIFT Rules applicable to "real estate investment trusts" (as defined in the SIFT Rules). As a result, Extendicare REIT is subject to the SIFT tax commencing January 1, 2007.

On December 20, 2007, the Department of Finance announced in a press release an intention to introduce technical amendments to the SIFT Rules. The technical amendments do not change the SIFT status for Extendicare REIT. Extendicare REIT is currently assessing the impact of these technical amendments, which are expected to be introduced as legislation in 2008, but with effect to taxation years ending after 2006. As legislation has not yet been released, it is not possible to determine the precise impact of these technical amendments at this point in time.

2007 Sale of Investment in Crown Life Insurance Company

Extencare completed the sale of its approximate 35% equity interest in Crown Life on July 5, 2007, which together with a purchase and sale with HARO Financial Corporation of certain securities received from Crown Life as a dividend in June 2007, resulted in net proceeds of cash of \$82.5 million and securities valued at approximately \$3.6 million.

Under the Crown Life share sale agreement with Canada Life entered into on June 8, 2007, Extencare remains responsible for certain specified contingent claims against Crown Life of up to approximately \$18.8 million and in support of the claims, has delivered letters of credit to Crown Life in such amount. In connection with the letters of credit, Extencare amended its revolving line of credit with Royal Bank of Canada (the "RBC Credit Facility") to increase the availability to \$70.0 million from \$50.0 million. Depending on the type of contingent claim, the letters of credit have various terms ranging from 5 to 15 years. Management estimates that Extencare's aggregate liability for such claims will not exceed \$8.0 million, and has recorded a provision for this amount in other long-term liabilities on the balance sheet as of March 31, 2008.

Acquisitions

2008

Pursuant to the Tendercare acquisition agreement, ECI acquired Tendercare's affiliated insurance company domiciled in Barbados, LTC Professional Insurance Company, Ltd. (LTC Professional), for a nominal amount on January 1, 2008. Consideration for the acquisition will be adjusted annually thereafter based on the actuarial determined liabilities until December 31, 2012, with an option to increase the review period to December 31, 2015.

On closing, LTC Professional had US\$7.2 million in assets, primarily comprised of investments. Liabilities assumed included loss reserves of US\$6.0 million and a contingent liability due to the former shareholders of LTC Professional amounting to US\$1.2 million, which will be discharged as the liabilities are settled and ultimate claims are determined.

Further details of the acquisitions are provided in *note 3* of the unaudited consolidated financial statements for the three months ended March 31, 2008.

2007

On October 31, 2007, EHSI completed the acquisition of Tendercare, which was comprised of 30 senior care facilities (3,301 beds), including one inpatient rehabilitation hospital. As well, Tendercare had two skilled nursing facilities under development (177 beds), one of which opened in January 2008 (77 beds), with the other expected to be completed in early 2009. In addition, EHSI assumed the management of an assisted living facility (51 units), which continues to be owned by the previous shareholders of Tendercare. The cost of the transaction in 2007 was \$221.8 million (US\$234.8 million) and was comprised of US\$197.2 million for Tendercare's 30 senior care facilities (approximately US\$60,000 per operational bed), US\$6.0 million for the two skilled nursing facilities under development and US\$31.6 million for existing working capital. Total consideration was comprised of the assumption of debt of US\$76.4 million, with a weighted average interest rate of 7.2%, the issuance of US\$26.4 million of 7.5% seller notes (the "Seller Notes"), and US\$132.0 million in cash. EHSI paid US\$5.4 million of the Seller Notes in January 2008, and US\$16.0 million of the Seller Notes are payable commencing in 2010 at US\$4.0 million per annum until maturity in 2013. The balance of the Seller Notes of US\$5.0 million is payable based upon certain factors being met, but has a term of no longer than 18 months. Under the terms of the agreement, the balance of acquired working capital is subject to adjustment based upon finalization of the assets subsequently received and liabilities subsequently incurred. The adjustments will occur annually 90 days after the anniversary date of the Tendercare acquisition over a four year period until January 2012. EHSI and Tendercare reached agreement on the first adjustment in March 2008, which resulted in EHSI recording an increase in goodwill of US\$2.0 million and a liability of US\$2.0 million in March, which was settled in April 2008. In addition, the purchase price allocation was revised during the first quarter, resulting in a further increase in goodwill of \$1.0 million (US\$1.0 million), representing management's best estimate as of March 31, 2008, which is subject to change until the end of 2008.

On April 7, 2008, Tim Lukenda, the former President of Tendercare was appointed President and Chief Executive Officer of Extencare REIT. As part of Mr. Lukenda's terms of employment, the employment contract provides a mechanism and process that effectively removes Mr. Lukenda from the decision-making process in situations where a conflict of interest may arise on any matter between Extencare REIT and his predecessor employer, or with respect to any financial interest that Mr. Lukenda or his family have with Extencare REIT and its subsidiaries. As part of the acquisition of Tendercare, in addition to normal representative and warranty provisions, EHSI has to agree on any adjustments to the final purchase price as described above, before making any payments to Mr. Lukenda or his family. EHSI and ECI also provide certain

Management's Discussion and Analysis

services to three long-term care facilities that are owned or partially owned by members of Mr. Lukenda's immediate family.

In addition to the Tendercare acquisition, EHSI acquired six senior care facilities representing 579 beds for a total cost of \$39.9 million (US\$38.0 million), as summarized in the table below.

Summary of 2007 Acquisitions (dollar amounts are in millions)

# of Facilities	Type of Facility ⁽¹⁾	Date Acquired	Beds/Units	State	Consideration	Cost (US\$)	Cost (C\$)	
1	SNF	January	111 ⁽²⁾	Ohio	Cash	7.4	8.7	
1	SNF	May	191 ⁽³⁾	Wisconsin	Cash	2.5	2.8	
1	ALF	August	56	Wisconsin	Cash	5.4	5.8	
1	SNF	September	99	Wisconsin	Cash	7.4	7.3	
2	SNF & ALF	December	60	Wisconsin	Cash and assumed debt	15.3	15.3	
6			579			38.0	39.9	
30	SNF ⁽⁴⁾	October	3,301	Michigan	Cash and debt	234.8	221.8	
36			3,880			272.8	261.7	
Less: cash acquired and debt assumed/issued							(119.4)	
							142.3	

(1) "SNF" stands for skilled nursing facility and "ALF" stands for assisted living facility.

(2) EHSI was already operating this Ohio nursing facility under an operating lease arrangement, prior to the acquisition.

(3) EHSI is operating the facility as an 80-bed nursing facility and plans to relocate the remaining beds to another facility.

(4) Includes an inpatient rehabilitation hospital.

Construction

UNITED STATES

EHSI currently has a 100-bed skilled nursing facility under construction in Michigan at a cost of US\$10.4 million, which is expected to be completed in early 2009.

During the 2008 first quarter, EHSI completed two skilled nursing facility projects, followed by an 11-bed addition to one of them in April, at a total cost of US\$17.5 million. The first project added 77 beds in Holland, Michigan, of which only 10 beds were operational at March 31, 2008, because the facility was not licensed to accept Medicare or Medicaid residents until April 2008. The second project was a 100-bed skilled nursing facility in Sequim, Washington, which replaced a 74-bed skilled nursing facility in Port Angeles, Washington, of which 89 beds opened in January 2008, followed by 11 beds in April.

In October 2007 EHSI completed a construction project in Ohio at a cost of US\$2.9 million providing 20 new rehabilitative suites within the existing operating capacity of the facility.

CANADA

During 2007 ECI was awarded three projects representing 480 long-term care beds under the Ontario government's October 2006 emergency room wait time strategy that included the construction of 1,750 new and the replacement of 662 long-term care beds. As well, ECI expects to manage an additional 160-bed nursing home in Windsor that was awarded to a partner. The three nursing homes awarded to ECI are in Kingston (160 beds), Windsor (128 beds) and Guelph (192 beds). In addition, ECI is planning to construct a 100-unit assisted living facility on the same property as the Kingston nursing home. Total cost of these four projects is estimated to be approximately \$96.0 million. The first project, the Kingston nursing home, is anticipated to be completed by the end of 2009, and the others are expected to be completed during 2010. ECI is in the process of securing financing for these projects. Once the nursing homes are opened, they are eligible for government capital funding at \$10.35 per bed per day over a 20-year period.

In April 2007 ECI entered into an agreement with the local Regional Health Authority (David Thompson Health Region) to construct, own and operate a 280-bed continuing care centre in the city of Red Deer, Alberta. The centre will be part of a seniors' community that will include an independent living housing complex being developed by a third party. The estimated cost of this 280-bed project, net of government grants, is approximately \$36.3 million, and is anticipated to be completed in early 2010.

Management's Discussion and Analysis

In January 2008 ECI entered into an agreement with the local Regional Health Authority (Chinook Regional Health Authority) to construct, own and operate a 140-unit assisted living facility in Lethbridge, Alberta. This new facility could become a replacement for an existing 120-bed nursing home that ECI operates in the region. The cost of the new facility, net of government grants, is estimated to be approximately \$20.0 million, with completion anticipated to be in early 2010.

Financing Activity

UNITED STATES

CMBS Financings

On March 6, 2007, EHSI raised US\$90.0 million from the completion of a commercial mortgage backed securitization transaction due 2012 (the "2012 CMBS Financing"), with a fixed interest rate of 6.79%. The 2012 CMBS Financing has a 5-year term and stipulates monthly payments of interest only for the first two years, and monthly payments of principal and interest thereafter, based upon a 25-year amortization period. The proceeds from the 2012 CMBS Financing were used primarily to cover current taxes payable on the sale of ALC by EHSI to Extendicare.

EHSI also has another commercial mortgage backed securitization loan of US\$500.0 million, which it raised in 2006, and is due in 2011 (the "2011 CMBS Financing"). The 2011 and 2012 CMBS financings are collateralized by first mortgages on 86 and 14 of EHSI's skilled nursing facilities, respectively, and all other assets owned by these facilities including personal property and receivables. Under both financings, EHSI is required to maintain: (1) a consolidated leverage ratio (exclusive of any notes owing to Extendicare REIT and its subsidiaries) of less than 5.5 to 1.0; and (2) a consolidated fixed charge ratio of at least 1.5 to 1.0. EHSI is in compliance with these requirements as of March 31, 2008. If an event of default occurs, the lenders may appoint an interim manager and charge a default rate of interest, and/or foreclose on the mortgages and other collateral securing the loans.

Credit Facility

EHSI's Credit Facility is used to back letters of credit and for general corporate purposes. It matures in October 2009, has no required principal repayments, and has a floating interest rate based on a pricing grid. At EHSI's option, the interest rate is either the Eurodollar rate plus a margin from 1.5% to 2.5%, or the U.S. prime rate plus a margin from 0.5% to 1.5%. The specific margin is based on EHSI's consolidated senior leverage ratio as defined in the Credit Facility.

The Credit Facility has 24 skilled nursing facilities as specific collateral and is guaranteed by Extendicare Holdings, Inc. (EHSI's parent company) and EHSI's material domestic subsidiaries, but excluding Tendercare and its subsidiaries. On October 26, 2007, the Credit Facility was amended in connection with the Tendercare acquisition. Tendercare and its subsidiaries are classified as unrestricted subsidiaries under the Credit Facility and, accordingly, do not constitute part of the lenders' collateral.

Under the Credit Facility, EHSI is required to comply with various financial covenants, including fixed charge coverage, debt leverage, and tangible net worth ratios. The Credit Facility contains customary covenants and events of default, and is subject to various mandatory prepayment and commitment reductions. If an event of default occurs, the lenders may accelerate the maturity of the loans under the Credit Facility, charge a default rate of interest, and/or foreclose on the mortgages and other collateral securing the Credit Facility. EHSI is permitted to make voluntary prepayments at any time under the Credit Facility.

The amount available to be borrowed under EHSI's Credit Facility is the lesser of: (1) 60% of the appraised values of the nursing facilities collateralizing the Credit Facility, or (2) an amount based on the actual net cash flow of these facilities for the last 12 months. The amount available to be borrowed as of March 31, 2008, was US\$91.3 million, of which EHSI had US\$19.0 million drawn and US\$17.4 million securing outstanding letters of credit, leaving the unused portion of the Credit Facility at US\$54.9 million.

Assumed Tendercare Debt

With the October 2007 acquisition of Tendercare, EHSI assumed long-term debt largely comprised of mortgage loans with a carrying value at March 31, 2008, of US\$49.9 million due to LaSalle Bank, and US\$25.5 million due to U.S. Department of Housing and Urban Development (HUD).

The US\$49.9 million of mortgage loans with LaSalle Bank were due on April 30, 2008, for which management has arranged a 30-day extension, and is confident in refinancing before May 31, 2008.

Management's Discussion and Analysis

Tendercare's HUD mortgage loans of US\$25.5 million are secured by first mortgages on 10 nursing facilities owned by Tendercare and its subsidiaries. These loans mature from 2018 through 2032 and have an average rate of 5.2%.

CANADA

2008

Extendicare has \$10.5 million in mortgages on three nursing homes that have been extended beyond their February 1, 2008, maturity date. We have received Canada Mortgage and Housing Corporation (CMHC) insurance certificates to increase the mortgages on the three nursing homes to \$20.7 million. Management anticipates finalizing the agreement by the end of June 2008.

ECI has received CMHC insurance certificates to finance approximately 81% of the construction costs for the two Alberta projects. In April 2008, ECI agreed to terms for construction loans for a maximum of \$48.5 million over 24 months, with interest-only payments based on 30-day Asset Backed Commercial Paper rates plus 1.5%. Management anticipates finalizing the agreements by the end of June 2008. In addition, management is in the process of obtaining long-term financing for these projects.

2007

On January 19, 2007, ECI received \$26.3 million of CMHC financing secured by three of its Canadian nursing facilities. The three loans have 10-year terms with weighted average monthly payments amortized over 20 years at 4.67%.

On June 21, 2007, the REIT completed a public offering of \$115.0 million of 5.70% convertible subordinated unsecured debentures, with a \$19.90 conversion price, due June 30, 2014 (the "2014 Debentures"). The net proceeds from the 2014 Debentures were \$109.3 million, of which \$49.4 million (US\$46.0 million) was used to repay the balance outstanding under EHSI's Credit Facility. A portion of the net proceeds was used to finance the acquisition of Tendercare in October 2007, and the remainder was used to finance internal growth, and for other general business purposes.

In June 2007 Extendicare amended its RBC Credit Facility to increase its availability from \$50.0 million to \$70.0 million. The RBC Credit Facility is due on demand, is secured by 14 Canadian nursing homes, and is guaranteed by certain Canadian operating subsidiaries of Extendicare. It is primarily used to back letters of credit, of which there were \$63.9 million issued and outstanding as at March 31, 2008, leaving \$6.1 million available. The letters of credit secure \$45.1 million of Extendicare's executive pension obligations and \$18.8 million of Extendicare's obligations for contingent liabilities in connection with the sale of its investment in Crown Life. In April 2008, the letters of credit securing Extendicare's executive pension obligations were reduced to \$42.1 million, leaving \$9.1 million available under the RBC Credit Facility.

Discontinued Operations

Extendicare REIT continually assesses the performance of its asset portfolio, and for those assets that fail to meet operating and financial standards, a decision may be made to dispose of the asset. Assets to be disposed of are recorded at the lower of the carrying value or estimated fair value net of disposal costs. Earnings and associated taxes derived from both divested operations and operations that have been classified for disposition are reported separately within the consolidated statements of earnings as discontinued operations.

As at March 31, 2008, EHSI had assets held for sale of \$1.0 million (US\$1.0 million) related to two closed assisted living properties, one in Pennsylvania and the other in Oregon. The increase in the balance of assets held for sale from \$0.3 million (US\$0.3 million) at December 31, 2007, resulted from the reclassification of an assisted living property in Pennsylvania to discontinued operations with a carrying value of \$1.0 million, partially offset by the sale of the Ohio nursing home property, which had a carrying value of \$0.3 million.

During 2007, EHSI disposed of four nursing facilities and an assisted living facility in Texas that had been designated as held for sale and reclassified to discontinued operations. In January 2007 EHSI sold the Texas assisted living property for \$2.2 million (US\$1.9 million) in cash that resulted in a pre-tax gain of \$0.2 million (US\$0.1 million). In November 2007 EHSI sold its four owned Texas properties for net proceeds that approximated their carrying value. In addition EHSI completed the transfer of a closed Wisconsin nursing home to a non-profit organization at its carrying value.

More information on EHSI's discontinued operations is available in *note 4* to the unaudited consolidated financial statements for the three months ended March 31, 2008.

UPDATE OF LEGISLATIVE ACTIONS AFFECTING REVENUE

Regulatory Environment Affecting Operations

We operate in a competitive marketplace and depend substantially on revenue derived from government sources, with the remaining revenue derived from commercial insurers, managed care plans and private individuals. The ongoing pressures from government programs, along with other payors seeking to control costs and/or limit reimbursement rates for medical services, are a risk to us. We also operate in a heavily regulated industry, subject to the scrutiny of federal, state and provincial regulators. Each of our nursing homes must comply with regulations regarding staffing levels, resident care standards, occupational health and safety, resident confidentiality, billing and reimbursement, along with environmental, biological and other standards. Government agencies have steadily increased their enforcement activity over the past several years. We continually allocate increased resources to ensure compliance with applicable regulations and to respond to inspections, investigations and/or enforcement actions.

U.S. federal law requires each state to have a Medicaid Fraud Control Unit, which is responsible for investigating provider fraud and resident abuse in Medicaid funded facilities. EHSI has had previous investigations from these Medicaid Fraud Units, but it is not aware of any liability relating thereto at this time.

In 1998 CMS created the Special Focus Facility (SFF) program for the purpose of decreasing the number of persistently poorly performing nursing facilities. Under the SFF program, immediate sanctions must be imposed on a SFF nursing facility that fails to achieve and maintain significant progress in correcting deficiencies. Sanctions may include termination from the Medicare and/or Medicaid programs. SFF facilities that significantly improve may be removed from the SFF list. EHSI has certain facilities currently included in the SFF program, and like other operators, its facilities can be subject to the SFF program at any time. These facilities are being aggressively monitored by management.

United States

The majority of the REIT's operations are in the United States where 71.0% of its revenue was earned in the 2008 first quarter. EHSI receives payment for its services and products from the federal (Medicare) and state (Medicaid) medical assistance programs, as well as from private payors. Private-pay revenue includes payments from individuals, commercial insurers, HMOs, preferred provider organizations and other charge-based payment sources, including Blue Cross associations and the Department of Veterans Affairs.

MEDICARE FUNDING

Effective January 1, 2006, CMS terminated the funding of the RUGs Refinement enhancements. In conjunction with this change, CMS expanded the 44 RUGs classifications to 53, providing nine new RUGs classifications to reimburse operators for the care provided for medically complex residents who require rehabilitation services and treatment of multiple illnesses. In addition, effective January 1, 2006, CMS also increased RUGs rates in the nursing and therapy components of the case mix index (CMI) for all 53 RUGs rates. In preparation of these changes, EHSI refocused its marketing strategies to target residents requiring short-term rehabilitative services and trained its clinical staff to ensure that its residents are accurately assessed in accordance with the changes made in the RUGs classification system in order to maximize the average acuity level of its residents and thereby increase EHSI's average Medicare rates. As a result, though EHSI experienced a decline in census, it was successful in not only recovering the loss from the RUGs refinements, but also increasing its Medicare rates. For information on Extencare REIT's average Medicare rates, see "Key Performance Indicators – U.S. Operations".

Changes in Medicare funding levels typically occur on October 1st in each year to coincide with the federal government's fiscal year, and generally represent an inflationary increase for the Medicare Part A rate, otherwise referred to as a "market basket" increase. On October 1, 2007, the market basket increase was 3.3% compared to 3.1% received October 1, 2006. EHSI estimates that the latest rate increase has resulted in a net improvement of approximately US\$12.95 in its average daily Medicare Part A rate, and will lead to an estimated annual increase in revenue of approximately US\$11.4 million.

Effective January 1, 2006, CMS implemented a cap on Part B therapy services for physical and speech therapy, and a second cap for occupational therapy. The caps increase annually for inflation, and amounted to US\$1,740 per annum in 2006, US\$1,780 in 2007, and US\$1,810 in 2008. A one-year exception process to the therapy caps was established in 2005 for individuals who can prove medical necessity for the therapy, and has been further extended through to December 31, 2008. The one-year exception process applies to approximately 35% of EHSI's residents requiring Part B therapy services and therefore, there has been no significant reduction in its Part B therapy revenue.

Management's Discussion and Analysis

The Medicare Part D benefit that arose from the *Medicare Prescription Drug Improvement and Modernization Act of 2003* was implemented by CMS effective January 1, 2006, and provides access to prescription drug coverage for Medicare beneficiaries. Medicare Part D is a voluntary drug benefit, except for dually eligible Medicare and Medicaid residents, who must enroll in the program. The program provides a prescription drug benefit through a fee-for-service prescription drug plan, or PDP. For a premium, eligible residents have their drug costs administered through a government contracted PDP provider, who negotiates contracts with the institutional pharmacies, including Omnicare, Inc. (Omnicare), which provides pharmacy services to the majority of EHSI's nursing facilities. Omnicare has contracted with the majority of all PDPs to which EHSI's residents subscribe. To date, as a result of the transition plans put into place by CMS, EHSI has not experienced an increase in its drug costs as a result of these changes. However, EHSI could be faced with incremental drug and administrative costs as PDPs exercise their strategies to manage drug costs on behalf of their subscribers.

New Federal Legislation

President Bush signed the *Medicare, Medicaid, and SCHIP Extension Act of 2007*, the fiscal 2008 omnibus federal budget bill, into law on December 26, 2007. The bill eliminated the administration's planned Medicare cuts and CMS's revisit user fees. The bill provides for a six-month extension on the exceptions process for Medicare Part B outpatient therapy services. The bill freezes the inpatient rehabilitation facility compliance threshold (75 Percent Rule) permanently at 60%, including co-morbidities, retroactive to July 1, 2006, cost reports. These changes will not have a material impact on EHSI's financial results.

Pending Federal Legislation/Regulations

On May 1, 2008, CMS announced a recalibration of the case mix weights used to establish the RUGs rates. The announcement indicated that the objective of the recalibration was to reduce Medicare rates by 3.3% on October 1, 2008, which would more than negate the 3.1% market basket increase. The announcement is subject to public comment until June 30, 2008. We are currently in the process of examining its impact. Our preliminary estimates indicate that the proposal would offset the normal October 1, 2008, increase, maintaining revenue rates at a consistent level to our 2008 first quarter rates.

President Bush's fiscal 2009 budget proposal calls for Medicare reductions of US\$180.0 billion over five years. The proposal would eliminate the annual Medicare market basket update for the next three federal fiscal years, 2009 through 2011, and then reduce the market basket by 0.65% for the following two years. Medicare Part A bad debt allowances are targeted for elimination by applying a four-year phase out.

The 2009 budget proposal also includes savings from regulatory actions not requiring congressional approval. Regulatory changes are expected to adjust Medicare rates for "code creep", which relates to the increase in billings under the higher rate reimbursement categories. This adjustment is seen as necessary because more Medicare beneficiaries were paid in the higher nine new RUG categories than were projected by CMS. As noted above, CMS announced a recalibration of RUGs rates on May 1, 2008. Survey revisit fees are also likely to be added back into the savings plan. Also, it is likely there will be legislative proposals from the President in response to the *Medicare Prescription Drug and Modernization Act of 2003*, which requires the President to introduce Medicare expenditure reductions when there is a two-year history of expenditures by Medicare exceeding 45% of Medicare tax revenues, which has now occurred.

The U.S. President's budget is subject to change upon review before being passed by both houses of Congress of the United States.

MEDICAID RATES

Each year in July, EHSI receives new annual Medicaid rates in seven of the eleven states in which it operates nursing facilities. EHSI's estimated increases in Medicaid rates as of July 1, 2007, excluding the impact of provider taxes and changes in CMI were: Pennsylvania – 0.4%, Ohio – 2.0%, Washington – 5.0%, Wisconsin – 1.1%, Kentucky – 4.5%, Oregon – 5.3% and Idaho – 10.8%. EHSI's estimated weighted average increase in Medicaid rates effective July 1, 2007, for these seven states was 2.4%, excluding the impact of provider taxes and CMI changes. For all states in which EHSI operates, the estimated weighted average increase in Medicaid rates on their respective effective dates in 2007 was 3.1%, excluding the impact of provider taxes and CMI changes. These estimates are subject to change based on future legislative and regulatory actions.

Over the past few years, several states in which EHSI operates received approval from CMS for state plan amendments and waivers, which increases the level of federal funding for each state's Medicaid program, and provides nursing facilities with revenue rate increases to offset new or increased state provider taxes.

Management's Discussion and Analysis

In December 2006 the *Tax Relief and Health Care Act of 2006* established that the state provider tax limit would be reduced from the 6% established by CMS to 5.5% effective January 1, 2008 through December 31, 2011. The limit returns to 6% after 2011; however, this limit cannot be changed by CMS regulations in the future. The change does not have a material impact on future revenue; however, it does limit the risk for reduced Medicaid rates to the level of funding provided through provider tax funding.

Canada

The fees charged by ECI for its Canadian nursing centres and home health care services are regulated by provincial authorities. Accordingly, provincial programs fund a substantial portion of these fees, with the remainder paid by individuals. Ontario is ECI's largest market for both its long-term care and home health care services. Funding for Ontario long-term care centres is based on reimbursement for the level of care expected to be required by residents. The provincial government allocates funds, or "envelopes", for services such as nursing, programs, food and accommodation. Providers may retain excess funding over costs incurred only with respect to the accommodation envelope, while funding for the other envelopes is returned to the extent costs incurred are below the rates funded, otherwise referred to as "flow-through envelopes".

ONTARIO LONG-TERM CARE LEGISLATION

New legislation governing Ontario long-term care facilities, the *Long-term Care Homes Act, 2007* (Bill 140) was given Royal Assent on June 4, 2007, although it will not be proclaimed into law until the regulations dealing with the specific aspects of the legislation are drafted and approved. ECI has provided input on the proposed regulations and anticipates continued involvement in the consultation process. Bill 140 amalgamates three existing pieces of legislation currently governing long-term care facilities in the province: the *Nursing Homes Act*; the *Homes for the Aged and Rest Homes Act*; and the *Charitable Institutions Act*. Through consolidation, the government expects that Bill 140 will ensure uniform standards and accountability. Among other things, Bill 140 includes a new licensing process with defined terms for various classes of homes as follows: four years for a home with class "D" beds that have not been upgraded; 10 years for a home with upgraded class "D" beds; 15 years for homes with class "C" and "B" beds; 20 years for a home with class "A" beds; and 25 years for new homes. ECI has 11 new post-1998 homes in Ontario that qualify for 25-year licenses and the rest are homes with class "C" beds that qualify for 15-year licenses under Bill 140. Bill 140 does not include a commitment to a capital renewal program for older buildings. However, on July 31, 2007, the Ontario government announced a project to redevelop 35,000 older long-term care beds over the next 10 years, beginning in 2008 with 3,500 beds being redeveloped annually. ECI currently owns and operates approximately 3,572 older long-term care beds in 23 "C" rated facilities that would benefit from this redevelopment project. Details of the project have yet to be provided. ECI and others have been working with the government to determine new design standards and will continue to advocate appropriate changes.

ONTARIO LONG-TERM CARE FUNDING

On April 1st each year, the Ontario government provides acuity-based flow-through funding increases based on the provincial resident classification results of the previous year. This increase was approximately 1.87% in 2008 compared to 3.15% in 2007. In addition, the Ontario government provided additional funding effective April 1, 2007, targeted to add more nurses in long-term care homes to help manage the rising cost of labour within the flow-through envelopes.

ECI estimates that based on the number of long-term care beds it operates in Ontario, the above April 1st flow-through funding increases received in 2007 and 2008 represent additional annual revenue of approximately \$6.0 million and \$2.8 million, respectively. These funding enhancements were provided to the flow-through envelopes and therefore, are offset by additional costs for resident care.

On July 1st each year, the Ontario government generally implements annual accommodation funding increases for long-term care providers. The increase in July 2007 was \$0.11 per resident per day (or 2%) for food costs and \$0.74 per resident per day (or 1.6%) for the non flow-through component of the accommodation envelope. ECI estimates that the July 1, 2007 funding enhancement represented an annual revenue increase to it of approximately \$1.5 million, of which approximately \$0.2 million was directly allocated to food costs with the remainder available to assist in offsetting inflationary cost increases of accommodation.

Effective September 1, 2007, the Ontario government increased the daily food allowance for long-term care residents by 26% to \$7.00. Based on the number of residents served, this flow-through funding represents additional annual revenue to ECI of approximately \$2.6 million, and is required to be directed towards enhanced food costs.

Management's Discussion and Analysis

ALBERTA LONG-TERM CARE FUNDING

In Alberta, long-term care providers generally receive annual inflationary rate increases on April 1st and annual CMI funding adjustments on July 1st. However, in 2007 the normal annual CMI adjustment was not received because the Alberta government is in the process of implementing changes to its funding methodology for assessing resident care needs.

The April 1st weighted average annual inflationary rate increase for 2008 has not yet been announced. In 2007 this increase to ECI was approximately 4.7%.

Effective October 1, 2007, the Alberta government increased the long-term care accommodation fee by approximately 5%, to meet rising costs. The province's last adjustment to accommodation fees occurred in 2003. ECI estimates this funding improvement to represent annual revenue of approximately \$0.9 million.

ONTARIO HOME CARE FUNDING

ECI is a major private-sector provider of home health care services through ParaMed, which operates in Alberta and Ontario. Ontario is ParaMed's largest market, representing approximately 97% of its revenue.

On May 1, 2006, the Ontario government announced funding of \$117.8 million to improve home care, of which \$30.0 million would be used to implement recommendations from a comprehensive review (the "Caplan Report") of the Community Care Access Centre Procurement Process. The announcement stated it was the intention of the government to implement 68 of 70 recommendations from the Caplan Report, which is intended to improve the procurement model with open and transparent practices, improve the quality and continuity of care, and support home care workforce stability. A Personal Support Worker Stabilization Strategy resulted in funding that was released in November 2006 on a retroactive basis to April 2006. ECI's portion for the period April 1, 2006 to March 31, 2007 was \$4.3 million. From April 1, 2007, this funding continues to be paid to providers separately until new contracts under the request for proposal process are negotiated, at which time the funding will be embedded into the new contractual rates. Service providers will be required to report how the funds were spent. The majority of the funds received by ECI were allocated towards labour-related costs, such as compensation payments, enhanced travel and training programs and other employee benefits.

The home health care competitive bidding process was frozen in 2004 as a result of the study undertaken by the Ontario government. During that time contracts that were due to expire were extended. The bidding process resumed in August 2007 under a revised template. However, on January 28, 2008, the government announced that it was halting the competitive bidding process for home care contracts in order to conduct a further review of the bidding process and the related policies and procedures. Existing contracts that expire during the further review period will be extended. The government has yet to announce when the process will be restarted or whether a new process will be implemented.

LIQUIDITY AND CAPITAL RESOURCES

Sources and Uses of Cash

At March 31, 2008, the REIT had cash and cash equivalents of \$28.1 million compared with \$44.2 million at December 31, 2007.

<i>(thousands of dollars unless otherwise noted)</i>	Q1 2008	Q1 2007	Year 2007
Cash provided by operating activities, before working capital changes	21,724	29,135	110,832
Net change in operating assets and liabilities	(9,755)	1,212	4,755
Cash provided by operating activities	11,969	30,347	115,587
Cash used in investing activities	(11,815)	(22,462)	(117,087)
Cash provided by (used in) financing activities	(16,488)	6,926	19,297
Foreign exchange gain (loss) on U.S. cash held	216	(10)	(1,620)
Increase (decrease) in cash and cash equivalents	(16,118)	14,801	16,177
Cash and cash equivalents at beginning of period	44,234	28,057	28,057
Cash and cash equivalents at period end	28,116	42,858	44,234
Average US/Canadian dollar exchange rate	1.0042	1.1716	1.0748

Management's Discussion and Analysis

Cash provided by operating activities was \$12.0 million in the first three months of 2008 compared to \$30.3 million in the first three months of 2007, with the decline reflecting the reduction in earnings and an unfavourable change of \$11.0 million in operating assets and liabilities between periods. The use of cash of \$9.8 million for the net change in operating assets and liabilities in the 2008 first quarter related to an increase in accounts receivable and prepaid expenses, partially offset by an increase in accounts payable and income taxes payable. The increase in accounts receivable primarily resulted from an increase in trade receivables due to funding improvements and the number of HMO residents served. The increase in prepaid expenses related to the payment of reinsurance premiums. The source of cash of \$1.2 million for the net change in operating assets and liabilities in the 2007 first quarter primarily related to a net income tax refund of \$19.8 million, partially offset by reduction in accounts payable due to a payment in January 2007 of a prior year Medicare settlement of approximately \$14.0 million and an increase in prepaid expenses.

The following table provides a reconciliation of the cash provided by operating activities to DI and AFFO for the periods reported in this MD&A. ⁽¹⁾

<i>(thousands of dollars)</i>	Q1 2008	Q1 2007	Q4 2007	Year 2007
Cash provided by operating activities	11,969	30,347	27,864	115,587
Add (Deduct):				
Net change in operating assets and liabilities	9,755	(1,212)	96	(4,755)
Current tax recovery on gain from derivatives, foreign exchange, asset impairment, disposals and other items	104	(1,587)	(3,020)	(2,324)
Net provisions and payments for self-insured liabilities	307	3,705	2,958	9,100
Depreciation for furniture, fixtures, equipment and computers	(4,166)	(3,531)	(3,951)	(14,351)
Principal portion of government capital funding payments	541	510	513	2,047
Other	257	495	65	710
DI	18,767	28,727	24,525	106,014
Additional maintenance capital expenditures ⁽²⁾	(338)	(2,489)	(9,219)	(20,504)
AFFO	18,429	26,238	15,306	85,510

⁽¹⁾ "DI" and "AFFO" 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⁾ Represents total facility maintenance capital expenditures less depreciation for furniture, fixtures, equipment and computers already deducted in determining DI.

Cash used in investing activities was \$11.8 million in the 2008 first quarter compared to \$22.5 million in the 2007 first quarter and reflects expenditures for property and equipment and acquisitions, net of proceeds on disposal of assets.

Capital additions to property and equipment, excluding acquisitions, were \$14.1 million in the 2008 first quarter compared to \$15.3 million in the 2007 first quarter. The table below breaks out the components of the property and equipment expenditures. Growth expenditures of the REIT relate to the construction of new beds, building improvements or capital costs aimed at earnings growth. The remaining costs are the capital costs to sustain and upgrade existing property and equipment assets, which were \$4.5 million in the 2008 first quarter, or 0.9% of revenue, compared to \$6.0 million in the 2007 first quarter. These costs fluctuate on a quarterly basis with the timing of projects and seasonality. Annual facility maintenance costs are anticipated to be approximately 2% of revenue, which is consistent with our objective to maintain and upgrade our facilities.

Capital Additions to Property and Equipment	Q1	Q1	Year
<i>(thousands of dollars unless otherwise noted)</i>	2008	2007	2007
Growth expenditures	9,561	9,323	40,107
Facility maintenance	4,504	6,020	34,855
	14,065	15,343	74,962
Average US/Canadian dollar exchange rate	1.0042	1.1716	1.0748

Acquisition costs of \$8.7 million in the 2007 first quarter related to the purchase of a previously leased Ohio skilled nursing facility in January. Refer to "Significant Developments – Acquisitions" for more information.

Management's Discussion and Analysis

Net proceeds from dispositions of \$1.5 million in the 2008 first quarter and \$2.2 million in the 2007 first quarter related to the disposal of U.S. facilities held for sale (see "Significant Developments – Discontinued Operations").

Cash used in financing activities was \$16.5 million in the 2008 first quarter compared to a cash provided of \$6.9 million in the 2007 first quarter. The financing activities in the 2008 first quarter primarily reflected the payment of distributions of \$18.9 million. The 2007 first quarter financing activities included the issuance of new long-term debt primarily to finance the March 2007 income taxes owing on the distribution of ALC, partially offset by distributions paid of \$24.8 million, which represented four months worth of distributions from November 2006. For information on the change in long-term debt, refer to "Liquidity and Capital Resources – Capital Structure – Long-term debt".

Capital Structure

(millions of dollars unless otherwise noted)

	March 31, 2008	December 31, 2007
Unitholders' Deficiency		
REIT and Exchangeable LP units	315.8	315.2
Equity component of convertible debentures	8.2	8.2
Deficit at beginning of period	(343.1)	(336.6)
Adjustment due to adoption of new accounting standards	–	1.2
Net earnings for the period	3.6	70.4
Purchase of shares in excess of book value	(0.1)	–
Unitholder distributions declared	(19.6)	(78.1)
Deficit at end of period	(359.2)	(343.1)
Accumulated other comprehensive income (loss)	0.7	(3.9)
Unitholders' deficiency	(34.5)	(23.6)
US/Canadian dollar exchange rate (at period end)	1.0265	0.9913

Unit Information (thousands)	April 30 2008	March 31 2008	Dec. 31 2007
REIT Units (TSX symbol: EXE.UN) ⁽¹⁾	61,068.0	61,051.1	60,962.6
Exchangeable LP Units	9,442.0	9,439.8	9,481.4
	70,510.0	70,490.0	70,444.0

⁽¹⁾ Closing market value per the TSX on April 30, 2008, was \$11.30

The closing rates used to translate assets and liabilities of the U.S. operations were 1.0265 at March 31, 2008 and 0.9913 at December 31, 2007. As a result of the weaker Canadian dollar at the end of the 2008 first quarter, our U.S. operations assets increased by approximately \$38.7 million and our U.S. liabilities increased by approximately \$33.9 million, with the net change resulting in an increase in the foreign currency translation adjustment of \$4.8 million included in accumulated other comprehensive income. Every one cent increase (decrease) in the Canadian dollar against the U.S. dollar would impact the net assets of our U.S. operations by approximately \$1.1 million, and would be reflected as a change in foreign currency translation adjustments in accumulated other comprehensive income.

DISTRIBUTIONS DECLARED

In the 2008 first quarter, we generated DI of \$18.8 million and AFFO of \$18.4 million and declared monthly distributions of \$0.0925 per unit to holders of REIT Units and Exchangeable LP units totalling \$19.6 million, of which \$18.9 million was paid in cash and \$0.7 million by way of issued units under a distribution reinvestment plan. A total of 56,888 units were issued during 2008 first quarter through the distribution reinvestment plan.

There are a number of factors that affect the quarterly funds generated for distribution that our Board of Trustees takes into consideration in determining the monthly distributions for the year. Factors affecting quarterly trends in earnings are discussed under the headings "Summary of Results" and "2008 First Quarter Financial Review".

As was the case in 2007, we estimate that approximately 70% of our 2008 distributions will be tax deferred returns of capital to Canadian residents.

Management's Discussion and Analysis

During 2007 monthly distributions of \$0.0925 were declared totalling \$78.1 million, or 91.3% of AFFO, of which \$74.5 million was paid in cash and \$3.6 million by way of issued units under a distribution reinvestment plan, to holders of REIT Units and Exchangeable LP Units. A total of 239,033 units were issued during 2007 through the distribution reinvestment plan.

NORMAL COURSE ISSUER BID

On December 21, 2007, we received approval from the TSX to make a normal course issuer bid (the "Bid") for up to 5,500,000 of the REIT Units on the TSX, representing approximately 9.7% of the public float of the REIT Units outstanding at December 14, 2007. The Bid provides our Board of Trustees with flexibility to repurchase units for cancellation until December 24, 2008. In March 2008 we acquired, for cancellation, 10,000 REIT Units at a cost of \$0.1 million under the Bid. During the period of the Bid, we plan to continue our acquisition and capital improvement programs.

LONG-TERM DEBT

Long-term debt, including current portion, was \$1,099.4 million at March 31, 2008, and was net of \$20.1 million of financing costs. Details on the components, terms and conditions of long-term debt are provided in *note 8* of the unaudited consolidated financial statements for the three months ended March 31, 2008.

The following summarizes the changes in the carrying amounts of long-term debt for the 2008 first quarter and 2007 year.

Continuity of Long-term Debt (<i>millions of dollars</i>)	Q1 2008	Year 2007
Long-term debt at beginning of period, prior to equity allocation and financing costs	1,100.5	851.2
Issue of long-term debt		
2012 CMBS Financing, 6.79%, issued in March 2007	–	105.4
CMHC mortgages, 4.63%, issued in January 2007	–	26.3
2014 Debentures at face value, 5.7%, issued in June 2007	–	115.0
Other	1.8	1.1
Issue on line of credit	9.0	10.7
Repayment of long-term debt	(9.1)	(13.8)
Debt assumed/issued on acquisitions		
Tendercare LaSalle mortgages, variable rate	–	46.2
Tendercare HUD loans, 5.0% to 5.5%	–	24.5
Notes payable and other	–	34.0
Change due to period-end foreign exchange rate	25.2	(100.1)
	1,127.4	1,100.5
Equity portion of 2014 Debentures	(7.9)	(8.2)
Financing costs	(20.1)	(20.6)
Long-term debt at end of period	1,099.4	1,071.7
Less: current portion	(77.4)	(80.4)
	1,022.0	991.3

The current portion of long-term debt at March 31, 2008, of \$77.4 million included mortgage loans of \$61.7 million that have been extended beyond their 2008 maturity dates. EHSI has US\$49.9 million of mortgage loans with LaSalle Bank that were due on April 30, 2008, for which we have arranged an extension until May 31, 2008. We are currently in the process of, and are confident in, refinancing these mortgage loans by the end of May. These loans are secured by first mortgages on 19 nursing facility properties owned by Tendercare and its subsidiaries, and provide Tendercare with a revolving US\$7.0 million line of credit and a US\$19.5 million construction loan facility. In Canada, we have \$10.5 million of mortgages on three nursing homes that were extended beyond their February 1, 2008, maturity date. We have received CMHC insurance certificates to increase the mortgages to \$20.7 million. Management anticipates finalizing the agreements by the end of June 2008.

The REIT and its subsidiaries are in compliance with all of their respective financial covenants as of March 31, 2008.

Management's Discussion and Analysis

Debt to Adjusted Gross Book Value (AGBV)

Extencicare REIT's financial position continues to be strong, with long-term debt (at face value and including current portion) representing 43.5% of AGBV at March 31, 2008, and excluding the 2014 Debentures, debt to AGBV was 39.0%.

AGBV is defined in the REIT's Deed of Trust, and in general is determined by taking total reported assets at a period in time, adding back accumulated depreciation and amortization and making a one-time adjustment for incremental value of the assets at the effective date of the Arrangement. The calculations as at March 31, 2008 and December 31, 2007, are indicated in the following table.

<i>(millions of dollars unless otherwise noted)</i>	March 31 2008	Dec. 31 2007
Long-term Debt ⁽¹⁾		
Debt	1,012.4	985.5
Convertible debentures (face value)	115.0	115.0
	1,127.4	1,100.5
AGBV		
Total assets	1,498.2	1,440.2
Accumulated depreciation and amortization	421.6	398.2
Incremental value	675.0	675.0
	2,594.8	2,513.4
Long-term Debt to AGBV		
Excluding convertible debentures	39.0%	39.2%
Including convertible debentures	43.5%	43.8%

⁽¹⁾ Long-term debt includes current portion and excludes financing costs.

Credit Rating

Moody's Investor Services Inc. (Moody's) has assigned the REIT a Corporate Family Rating of "B1" with a "stable" outlook. The "stable" rating outlook means that the rating is not likely to change. A "B" rating is considered speculative and subject to high credit risk, while the modifier "1" indicates a ranking in the higher end of the rating category.

Moody's Corporate Family Ratings are generally employed for speculative grade corporate issuers. A Corporate Family Rating is an opinion of a corporate family's ability to honour all of its financial obligations and is assigned to a corporate family as if it had a single class of debt and a single consolidated legal entity structure.

A Corporate Family Rating does not reference an obligation or class of debt and thus does not reflect priority of claim. It applies to all affiliates under the management control of the entity to which it is assigned. Moody's employs the general long-term rating scale for Corporate Family Ratings.

The ratings accorded to the REIT are not recommendations to purchase, hold or sell the REIT's securities. There can be no assurance that any rating will remain in effect for any given period of time or that any rating will not be withdrawn or revised by a rating agency at any time.

Interest Rates and Aggregate Debt Maturities

In order to meet the REIT's monthly distributions, management has limited the amount of debt that may be subject to changes in interest rates. As a result, all but \$70.7 million (US\$68.9 million) of our long-term debt outstanding at March 31, 2008, excluding financing costs and equity allocation, was at fixed rates. The US\$68.9 million of variable-rate debt related to EHSI's Credit Facility, of which US\$19.0 million was drawn at quarter end, and to US\$49.9 million of variable-rate debt assumed in connection with the acquisition of Tendercare. EHSI has two interest rate swaps to fix the rate on a notional US\$25.8 million of its variable-rate debt. The weighted average interest rate of our long-term debt at March 31, 2008, including the impact of the interest rate swaps, was approximately 6.7% compared to 6.8% at December 31, 2007. The weighted average interest rate of our long-term debt at March 31, 2008, for our Canadian and U.S. operations was 7.0% and 6.5%, respectively, compared to 7.0% and 6.7% at December 31, 2007, respectively.

Management's Discussion and Analysis

Under the two interest rate swap agreements, EHSI pays an average fixed rate of 6.16% and receives variable rates based on one-month LIBOR and one-month commercial paper rates, adjustable monthly. The average variable rate under the swaps was 2.57% at March 31, 2008, compared to 4.63% at December, 31, 2007. These swaps are not accounted for as hedges since the variable rate on the associated debt is based on an index (U.S. prime rate as of March 31, 2008) that is different than those used by the swaps (LIBOR and commercial paper rates). The fair value of the swaps as of March 31, 2008, was a liability of \$1.4 million (US\$1.4 million), compared to \$1.0 million (US\$1.0 million) at December 31, 2007.

CONTRACTUAL OBLIGATIONS

The table below provides summary information about the contractual obligations at March 31, 2008. In addition, the table excludes self-insured liabilities, pension and other retirement benefit obligations. As well, it excludes conditional asset retirement obligations totalling \$22.6 million as of March 31, 2008, due to the uncertainty as to the timing of payments to be made under these obligations.

<i>(millions of dollars)</i>	Total	To the end of			
		2008	2009 – 2010	2011 – 2012	After 2012
REIT convertible debentures (face value)	115.0	–	–	–	115.0
Canadian Subsidiary Operations					
Long-term debt	148.6	14.5	17.6	13.7	102.8
Capital lease obligations	245.9	9.3	25.4	25.4	185.8
Operating lease obligations	6.8	1.6	3.4	1.8	–
United States Subsidiary Operations					
Long-term debt	734.1	57.5	47.1	606.0	23.5
Capital lease obligations	1.9	0.3	0.6	0.5	0.5
Operating lease obligations	36.8	5.8	13.9	7.3	9.8
Purchase obligations	18.2	18.2	–	–	–

In addition to the operating lease amounts identified in the table above, EHSI remains party to ALC's master leases with LTC Properties, Inc. (LTC) following the Arrangement. For further details on these commitments, refer to "Off-balance Sheet Arrangements".

Future Liquidity and Capital Resources

Management is confident that cash from operating activities, together with available bank credit facilities, and debt refinancings in process, will be sufficient to meet the REIT's current requirements to support ongoing operations and maintenance capital expenditures, service debt obligations and pay declared distributions to unitholders. Capital additions to property and equipment, excluding acquisitions, are anticipated to be approximately \$120.0 million in 2008, with \$40.0 million directed towards sustaining and upgrading existing property and equipment and the remaining \$80.0 million directed towards organic growth initiatives. The REIT raises funds through the capital markets and debt financing to fund strategic acquisitions and growth capital expenditures.

At March 31, 2008, EHSI had US\$54.9 million available under its Credit Facility and our Canadian operations had cash on hand of \$25.3 million and available bank lines of \$6.1 million.

At March 31, 2008, outstanding capital expenditure commitments for EHSI totalled US\$17.7 million, and included US\$8.1 million related to construction projects with an estimated cost of US\$10.1 million, of which US\$1.6 million was spent through to March 31, 2008.

In EHSI, we are currently refinancing certain facilities within the Tendercare portfolio and have arranged for an extension of the existing US\$49.9 million loan until May 31, 2008. We are confident in refinancing these mortgage loans prior to May 31, 2008.

In Canada, we are in the process of refinancing \$10.5 million of mortgages that were extended beyond their February 1, 2008, maturity date, and have received CMHC insurance certificates to increase the mortgages to \$20.7 million. Management anticipates finalizing the agreements by the end of June 2008.

In addition, we have received CMHC insurance certificates to finance approximately 81% of the construction costs of the two Alberta projects. We have agreed to terms for construction loans of \$48.5 million over 24 months, and continue to seek long-term financing for these projects.

DISTRIBUTIONS

Our current policy is to pay distributions of \$0.0925 per REIT Unit and Exchangeable LP Unit, respectively, to the holders thereof on a monthly basis. The declaration and payment of future distributions is subject to the discretion of our Board of Trustees and will be dependent upon a number of factors including results of operations, requirements for capital expenditures and working capital, future financial prospects of the REIT, debt covenants and obligations, and any other factors deemed relevant by the Board of Trustees. If our Trustees determine that it would be in the REIT's best interests, they may reduce, for any period, the percentage of Distributable Income to be distributed, which will result in corresponding reductions in distributions on Exchangeable LP Units.

ACCRUAL FOR SELF-INSURED LIABILITIES

At March 31, 2008, the accrual for self-insured general and professional liabilities was \$49.8 million compared to \$42.4 million at the beginning of the year. The acquisition of LTC Professional increased the accrual by \$6.0 million, and the change in the foreign exchange rate increased it by \$1.7 million. Claims payments, net of the current period provision, decreased the balance of the accrual by \$0.3 million in the 2008 first quarter. The accrual for self-insured liabilities includes estimates of the costs of both reported claims and claims incurred but not yet reported. Provisions recorded in the first quarter of 2008 and 2007 for potential general and professional liability claims were \$3.9 million and \$2.3 million, respectively. Payments for self-insured liabilities during the same periods were \$4.2 million and \$6.0 million, respectively. Payments made for resident care liability claims have been in excess of the current accrual levels because claims related to ceased operations in Florida and Texas in 2000 and 2001 are still being settled, for which provisions were previously recorded. Exclusive of claims pertaining to these disposed operations, the growth of claims has increased, but within management's projections. An independent actuarial review was completed as part of the year-end financial reporting process, which confirmed the adequacy of the balance of the reserves for resident care liability claims as at December 31, 2007. Management estimates that \$18.2 million of the accrual for self-insured general and professional liabilities will be paid within the next year. The timing of payments is not directly in management's control and therefore, estimates could change in the future. Management believes sufficient reserves have been provided as of March 31, 2008, for estimated costs of self-insured liabilities.

We invest funds to support the accrual for self-insured liabilities. These funds are reported in other assets and totalled \$53.1 million at March 31, 2008, compared to \$45.2 million at the end of 2007. The acquisition of LTC Professional added \$7.2 million to the balance of investments. Most of the risks that Extencare self-insures are long-term in nature and accordingly, claims payments for any particular policy year occur over a long period of time. Management believes that Extencare has sufficient cash resources to meet its estimated current claims payment obligations.

OFF-BALANCE SHEET ARRANGEMENTS

Both ALC and EHSI are the lessees under lease agreements with LTC (the "Master Leases"), which cover 37 assisted living properties operated by ALC. LTC declined to remove EHSI as a party to the leases following the distribution of ALC. Therefore, EHSI continues to be bound by the terms of the leases, while only ALC has a financial interest in the leased properties. Pursuant to a separation agreement entered into between Extencare Inc. and ALC (the "Separation Agreement"), ALC has indemnified EHSI against any claims arising as a result of ALC's non-performance relating to the Master Leases.

The Master Leases provide for an initial 10-year term and three successive 10-year lease terms at the option of the lessee. There are no significant economic penalties if the renewal options are not exercised. The aggregate minimum rental payment for the 2008 calendar year is US\$10.7 million. The minimum rent will increase by 2% over the prior year's minimum rent for each of the calendar years 2009 through 2014. Annual minimum rent during any renewal term will increase by a minimum of 2% over the minimum rent of the immediately preceding year.

ACCOUNTING POLICIES AND ESTIMATES

Non-GAAP Measures

Extencare REIT assesses and measures operating results and financial position based on performance measures referred to as "net operating income", "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,

Management's Discussion and Analysis

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.

References to "net operating income" in this document are to revenue less direct operating expenses. References to "EBITDA" in this document are to earnings from continuing operations before interest, income taxes, depreciation, amortization, and accretion. In this calculation, the REIT has excluded the line items "loss (gain) on derivative financial instruments and foreign exchange" and "loss (gain) from restructuring charges, asset disposals and other items". These line items are reported separately because they relate to the change in the fair value of, or gains and losses on termination of, interest rate agreements and foreign currency forward contracts, as well as gains or losses on the disposal or impairment of assets, provisions for restructuring charges, foreign exchange gains or losses on capital items, and the write-off of unamortized financing costs on early retirement of debt. These items are reported separately and excluded from EBITDA, because they are transitional in nature and would otherwise distort historical trends. Management believes that certain lenders, investors and analysts use EBITDA to measure a company's ability to service debt and meet other payment obligations, and as a common valuation measurement in the long-term care industry. For example, certain of EHSI's debt covenants use EBITDA in their calculations. EBITDA is presented by the REIT on a consistent basis from period to period, thereby allowing for consistent comparability of its operating performance.

In addition, significant income tax items that did not relate to income earned in the current period are reported separately and have been identified as "taxes associated with reorganization". In the second quarter of 2006, an income tax provision was recorded with respect to the Reorganization and related primarily to withholding taxes on the cumulative undistributed share of earnings of EHSI.

The above line items are calculated on an after-tax basis as a means of deriving the remaining earnings from health care operations and related diluted earnings per unit/share, the results of which are referred to as "continuing health care operations before undernoted". This is a measure commonly used by the REIT and its investors as a means of assessing the performance of the core operations in comparison to prior periods.

Distributable Income, or DI, is defined by Extencicare REIT's Deed of Trust as net earnings (loss) of the REIT, on a consolidated basis, as determined in accordance with GAAP, subject to certain adjustments as set out in the REIT's Deed of Trust. Funds from Operations, or FFO, is defined as net earnings (loss) of the REIT adjusted for non-cash items and other items not representative of the REIT's operating performance. Adjusted Funds from Operations, or AFFO, is defined as Distributable Income further reduced by maintenance (non-growth) capital expenditures not already reflected in the calculation of Distributable Income.

Critical Accounting Policies and Estimates

The REIT's consolidated financial statements have been prepared in accordance with Canadian GAAP. For a full discussion of the REIT's critical accounting policies and estimates, readers should refer to the MD&A of the REIT's 2007 Annual Report. The disclosures in such report have not materially changed since that report was filed; however, to the extent there have been changes in accounting policies or management's estimates, they are discussed under "Significant Developments" and under "Changes in Accounting Policies". Management considers an understanding of the REIT's accounting policies to be essential to an understanding of the REIT's financial statements because their application requires significant judgement and reliance on estimations of matters that are inherently uncertain. There is measurement uncertainty relating to the accounting policies applied to: revenue recognition and the valuation of accounts receivable; the measurement of acquired assets and assumed liabilities in business combinations; the valuation of assets and determination of asset impairment; the valuation of conditional asset retirement obligations; the determination of the accrual for self-insured liabilities; accounting for tax uncertainties, and the valuation for future tax assets and liabilities.

New Accounting Policies Adopted

Our unaudited interim consolidated financial statements are based upon accounting principles consistent with those used and described in *note 1* of the audited consolidated financial statements of our 2007 Annual Report, except that, effective January 1, 2008, we adopted the following new or revised CICA accounting standards: Section 1535 "Capital Disclosures"; Section 3862 "Financial Instruments – Disclosures"; Section 3863 "Financial Instruments – Presentation"; and Section 1400, "General Standards of Financial Statement Presentation". These accounting standards are summarized below, and are more fully described in *note 2* of the unaudited consolidated financial statements for the three months ended March 31, 2008

Management's Discussion and Analysis

Section 1535 “Capital Disclosures”, establishes standards for disclosure of an entity's objectives, policies, and processes for managing capital, and quantitative data about what is considered capital, whether an entity has complied with any capital requirements and consequences of any non-compliance. The adoption of this standard had no effect on the recognition or measurement of amounts recorded in our interim consolidated balance sheets or consolidated statements of earnings, comprehensive income, unitholders' deficiency and cash flows. The effect of adopting this standard has been detailed in *note 16* to the unaudited consolidated financial statements for the three months ended March 31, 2008.

Section 3862 “Financial Instruments – Disclosures” and Section 3863 “Financial Instruments – Presentation”, together replaced Section 3861 “Financial Instruments – Disclosure and Presentation”. These new standards carried forward the existing presentation requirements and revised and enhanced the disclosure requirements for financial instruments. These new standards require disclosures about the nature and extent of risks arising from financial instruments and the management of these risks. For additional details, see *note 15* to the unaudited consolidated financial statements for the three months ended March 31, 2008.

Section 1400 “General Standards of Financial Statement Presentation” was amended to include requirements to assess and disclose material uncertainties that may cast significant doubt upon an entity's ability to continue as a going concern. The application of this revised standard had no material impact on our financial position or results of operations.

Future Accounting Policies

The following new accounting policy has been issued, and will impact us at a future date.

In February 2008 the CICA issued Section 3064 “Goodwill and Intangible Assets” to replace existing guidance on accounting for intangible assets. The revised standards reinforce the principle-based approach to the recognition of costs as an asset and clarify the application of the matching concept of revenue and expenses. The new standards clarify the distinction between assets and expenses and add guidance on the definition of an intangible asset and the recognition of internally generated intangible assets. These accounting standards are effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2009. The application of this standard is not anticipated to have a material impact on our financial position or results of operations.

ADDITIONAL INFORMATION

Additional information about Extencicare REIT, including the Annual Information Form, may be found on the SEDAR website at www.sedar.com and on Extencicare's website at www.extencicare.com. A copy of this document and other public documents of the REIT are available upon request to the Secretary.

Extendicare Real Estate Investment Trust

Consolidated Statements of Earnings

(Unaudited)

	Three months ended March 31	
<i>(in thousands of dollars except per unit amounts)</i>	2008	2007
Revenue		
Nursing and assisted living centres		
United States	337,533	305,072
Canada	105,574	99,560
Home health – Canada	34,311	35,380
Outpatient therapy – United States	2,992	3,254
Other	11,141	13,007
	491,551	456,273
Operating expenses	424,197	383,338
Administrative costs	17,073	17,070
Lease costs	3,080	3,216
	444,350	403,624
Earnings before undernoted	47,201	52,649
Depreciation and amortization	14,044	12,645
Accretion expense	375	341
Interest expense, net (<i>note 9</i>)	19,899	16,195
Loss (gain) on derivative financial instruments and foreign exchange (<i>note 10</i>)	4,212	(1,497)
Earnings from continuing health care operations before income taxes	8,671	24,965
Income tax expense (recovery)		
Current	6,459	6,312
Future	(1,646)	(50)
	4,813	6,262
Earnings from continuing health care operations	3,858	18,703
Share of equity accounted earnings	-	580
Earnings from continuing operations	3,858	19,283
Loss from discontinued operations, net of income taxes	(280)	(3,917)
Net earnings	3,578	15,366
Basic and Diluted Earnings per Unit		
Earnings from continuing operations	0.05	0.27
Net earnings	0.05	0.22

See accompanying notes to unaudited consolidated financial statements.

Certain 2007 figures have been revised for comparative purposes (*note 4*).

Extendicare Real Estate Investment Trust

Consolidated Balance Sheets

(Unaudited)

<i>(in thousands of dollars)</i>	March 31 2008	December 31 2007
Assets		
Current assets		
Cash and short-term investments	36,376	44,234
Invested assets	2,402	2,439
Accounts receivable, less allowances of \$28,409 and \$24,213, respectively	241,111	214,305
Income taxes recoverable	-	2,640
Future income tax assets	29,246	27,504
Supplies and prepaid expenses	28,574	25,467
	337,709	316,589
Property and equipment	863,585	842,648
Goodwill and other intangible assets <i>(note 6)</i>	170,830	162,481
Other assets <i>(note 5)</i>	126,042	118,445
	1,498,166	1,440,163
Liabilities and Unitholders' Deficiency		
Current liabilities		
Outstanding cheques in excess of bank balance	8,260	-
Accounts payable	38,558	35,963
Accrued liabilities	222,291	203,084
Accrual for self-insured liabilities	18,170	12,392
Current portion of long-term debt <i>(note 8)</i>	77,456	80,378
Income taxes payable	515	-
	365,250	331,817
Accrual for self-insured liabilities	31,620	30,018
Long-term debt <i>(note 8)</i>	1,021,958	991,333
Other long-term liabilities	66,462	63,978
Future income tax liabilities	47,406	46,595
	1,532,696	1,463,741
Unitholders' deficiency	(34,530)	(23,578)
	1,498,166	1,440,163

Commitments and contingencies *(note 12)*.

See accompanying notes to unaudited consolidated financial statements.

Certain 2007 figures have been revised to conform with presentation in 2008.

Extencicare Real Estate Investment Trust
Consolidated Statements of Cash Flows
(Unaudited)

	Three months ended March 31	
<i>(in thousands of dollars)</i>	2008	2007
Operating Activities		
Net earnings	3,578	15,366
Adjustments for:		
Depreciation and amortization	14,063	12,788
Provision for self-insured liabilities	3,907	2,264
Payments for self-insured liabilities	(4,214)	(5,969)
Future income taxes	(1,139)	(28)
Undistributed share of earnings from equity accounted investments	-	(580)
Loss (gain) on derivative financial instruments and foreign exchange <i>(note 10)</i>	4,212	(1,497)
Loss (gain) from asset impairment, disposals and other items from discontinued operations <i>(note 4)</i>	(368)	5,845
Other	1,685	946
	21,724	29,135
Net change in operating assets and liabilities		
Accounts receivable	(17,609)	879
Supplies and prepaid expenses	(8,083)	(4,864)
Accounts payable and accrued liabilities	12,574	(14,561)
Income taxes	3,363	19,758
	(9,755)	1,212
	11,969	30,347
Investing Activities		
Capital additions	(14,065)	(15,343)
Acquisitions <i>(note 3)</i>	-	(8,693)
Net proceeds from dispositions <i>(note 4)</i>	1,528	2,228
Other assets	722	(654)
	(11,815)	(22,462)
Financing Activities		
Issue of long-term debt	962	131,695
Repayment of long-term debt	(9,073)	(2,758)
Issue on line of credit	9,038	19,917
Decrease in investments held for self-insured liabilities	893	7,838
Distributions paid	(18,917)	(24,845)
Financing costs	(310)	(3,862)
Income taxes paid on the distribution of ALC	-	(120,220)
Other	919	(839)
	(16,488)	6,926
Foreign exchange gain (loss) on cash held in foreign currency	216	(10)
Increase (decrease) in cash and cash equivalents	(16,118)	14,801
Cash and cash equivalents at beginning of period	44,234	28,057
Cash and cash equivalents at end of period	28,116	42,858
Cash and Cash Equivalents		
Cash and short-term investments	36,376	42,858
less: Outstanding cheques in excess of bank balance	8,260	-
	28,116	42,858
Supplementary Information		
Cash interest paid in determining earnings	17,925	15,958
Cash taxes paid	2,227	104,445
Units issued pursuant to Distribution Reinvestment Plan	637	1,136
<i>Cash distributions for REIT and Exchangeable LP units are at the discretion of the Board of Trustees.</i>		

See accompanying notes to unaudited consolidated financial statements.

Extendicare Real Estate Investment Trust
Consolidated Statements of Unitholders' Deficiency
(Unaudited)

<i>(in thousands of dollars for amounts)</i>	Three months ended March 31			
	2008		2007	
	<i>Number</i>	<i>Amount</i>	<i>Number</i>	<i>Amount</i>
Unit Capital				
REIT Units				
Issued and outstanding at beginning of period	60,962,653	272,912	59,178,781	262,617
Repurchased pursuant to issuer bid	(10,000)	(45)	-	-
Issued pursuant to Distribution Reinvestment Plan	50,372	564	64,274	1,052
Converted from Exchangeable LP Units	48,065	215	1,291,141	5,738
	61,051,090	273,646	60,534,196	269,407
Exchangeable LP Units				
Issued and outstanding at beginning of period	9,481,383	42,279	11,026,222	48,931
Issued pursuant to Distribution Reinvestment Plan	6,516	73	5,356	84
Converted to REIT Units	(48,065)	(215)	(1,291,141)	(5,738)
	9,439,834	42,137	9,740,437	43,277
Units issued and outstanding at end of period	70,490,924	315,783	70,274,633	312,684
Equity portion of convertible debentures		8,234		-
	70,490,924	324,017	70,274,633	312,684
Deficit				
Balance at beginning of period		(343,151)		(336,619)
Transition adjustment on adoption of financial instruments				
Amortization of financing costs (net of tax of \$4)		-		(7)
Share of equity accounted investments		-		1,208
Net earnings for the period		3,578		15,366
Purchase of units for cancellation in excess of book value		(72)		-
Distributions declared		(19,558)		(19,493)
Balance at end of period		(359,203)		(339,545)
Accumulated Other Comprehensive Income				
Balance at beginning of period		(3,852)		-
Transition adjustment on adoption of financial instruments				
Unrealized gain on available-for-sale securities (net of tax of \$131)		-		245
Share of other comprehensive income of equity accounted investments		-		4,272
Reclassification from foreign currency translation adjustments		-		1,417
Net change in available-for-sale securities (net of tax of \$112 and net of tax of \$91, respectively)		(304)		(167)
Unrealized foreign currency translation adjustments		4,812		(119)
Share of net change in accumulated other comprehensive income from equity accounted investments		-		1,013
Balance at end of period		656		6,661
		(34,530)		(20,200)

See accompanying notes to unaudited consolidated financial statements.

Extencicare Real Estate Investment Trust

Consolidated Statements of Comprehensive Income

(Unaudited)

	Three months ended March 31	
<i>(in thousands of dollars)</i>	2008	2007
Net earnings	3,578	15,366
Other comprehensive income (loss), net of income taxes		
Net unrealized gain (loss) on available-for-sale securities (net of tax recovery of \$93 and tax expense of \$13, respectively)	(272)	24
Reclassification of gain on available-for-sale securities to earnings (net of tax expense of \$19 and \$104, respectively)	(32)	(191)
	(304)	(167)
Net change in foreign currency translation gains (losses)	4,812	(119)
Share of net change in accumulated other comprehensive income from equity accounted investments	-	1,013
	4,508	727
Comprehensive income	8,086	16,093

See accompanying notes to unaudited consolidated financial statements.

Extencicare Real Estate Investment Trust

Notes to Interim Consolidated Financial Statements

Periods ended March 31, 2008 and 2007
(Tabular amounts in thousands except per unit data)

(Unaudited)

1. BASIS OF PRESENTATION

The unaudited interim consolidated financial statements of Extencicare Real Estate Investment Trust have been prepared in accordance with Canadian generally accepted accounting principles. References to “Extencicare REIT”, “the REIT”, “we”, “us” and “our” in these statements mean Extencicare Real Estate Investment Trust alone or together with its subsidiaries, as the context requires. The direct ownership and operation of the senior care facilities and ancillary businesses is conducted by the subsidiaries of the REIT. The REIT itself is not a provider of services or products.

The consolidated financial statements include those of Extencicare Inc. (Extencicare), an indirect wholly owned subsidiary of Extencicare REIT. Health care operations are conducted through wholly owned subsidiaries, Extencicare Health Services, Inc. and its subsidiaries (collectively “EHSI”) in the United States, and Extencicare (Canada) Inc. and its subsidiaries (collectively “ECI”) in Canada.

The unaudited interim consolidated financial statements included the REIT’s 34.8% ownership interest in Crown Life Insurance Company (Crown Life), which was accounted for by the equity method, through to the date of disposal. On July 5, 2007, Extencicare completed the sale of its investment in Crown Life (*note 7*).

The preparation of financial data is based on accounting policies and practices consistent with those used in the preparation of the annual audited consolidated financial statements. All dollar amounts are in Canadian dollars unless otherwise indicated. These unaudited interim consolidated financial statements do not include all disclosures normally provided in annual consolidated financial statements and should be read together with the annual audited consolidated financial statements and the accompanying notes included in our 2007 Annual Report.

Certain comparative figures for the 2007 reported periods have been reclassified to conform to the presentation in 2008, mainly for discontinued operations as described in *note 4*.

2. ADOPTION OF NEW ACCOUNTING POLICIES

a) Accounting Policies Adopted

Effective January 1, 2008, Extencicare REIT adopted the new Handbook Sections issued by the Canadian Institute of Chartered Accountants (CICA): Section 1535 “Capital Disclosures”, Section 3862 “Financial Instruments – Disclosures” and Section 3863 “Financial Instruments – Presentation”. In addition, Extencicare REIT implemented the revised Section 1400, “General Standards of Financial Statement Presentation”.

CAPITAL DISCLOSURES

Section 1535 establishes standards for disclosure of an entity’s objectives, policies, and processes for managing capital, quantitative data about what is considered capital, whether an entity has complied with any capital requirements and consequences of any non-compliance.

The adoption of this standard had no effect on the recognition or measurement of amounts recorded in the interim consolidated balance sheets or consolidated statements of earnings, comprehensive income, unitholders’ deficiency and cash flows. The effect of adopting this standard has been detailed in *note 16*.

FINANCIAL INSTRUMENTS – DISCLOSURES AND PRESENTATION

Sections 3862 and 3863 replaced Section 3681, “Financial Instruments – Disclosure and Presentation”, revised and enhanced the disclosure requirements, and continued the existing presentation requirements for financial instruments. These new standards require disclosures about the nature and extent of risks arising from financial instruments and the management of these risks. See *note 15* for additional details.

GENERAL STANDARDS OF FINANCIAL STATEMENT PRESENTATION

Section 1400 was amended to include requirements to assess and disclose material uncertainties that may cast significant doubt upon an entity’s ability to continue as a going concern. The application of this revised standard does not have a material impact on the financial position or results of operations.

b) Future Change in Accounting Policies

In February 2008, the CICA issued the new Handbook Section 3064 “Goodwill and Intangible Assets”, to replace existing guidance on accounting for intangible assets. The revised standards reinforce the principle-based approach to the recognition of costs as an asset and clarify the application of the matching concept of revenue and expenses. The new standards clarify the distinction between assets and expenses and add guidance on the definition of an intangible asset and the recognition of internally generated intangible assets. These accounting standards are effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2009. The application of this standard is not anticipated to have a material impact on the financial position or results of operations of the REIT.

3. ACQUISITIONS

LTC Professional

Prior to its acquisition on October 31, 2007, by EHSI, Tendercare (Michigan) Inc. and its affiliated entities (collectively “Tendercare”) insured its general and professional liability through an affiliated insurance subsidiary, LTC Professional Insurance Company Ltd. (LTC Professional), which is domiciled in Barbados. Pursuant to the share purchase agreement, ECI agreed to acquire LTC Professional upon approval of the Barbados regulator. ECI received approval from the Barbados regulator, and completed the acquisition of LTC Professional, effective January 1, 2008, for a nominal amount that will be adjusted based upon the ultimate valuation of the excess of assets in LTC Professional on the acquisition date and the actual settlement of all outstanding claims incurred prior to the acquisition of Tendercare on October 31, 2007. Consideration for the acquisition will be adjusted annually thereafter based on the actuarial determined liabilities at December 31st of each year through 2012, with an option to increase the review period to December 31, 2015.

Below is the preliminary purchase price allocation as at March 31, 2008. ECI is reviewing the valuation of net assets acquired; therefore, certain items disclosed below may change when the final valuation is completed in 2008.

The accrual for self-insured liabilities includes a liability of \$1.2 million (US\$1.2 million) due to the former shareholders of LTC Professional that will be discharged as the liabilities are settled and ultimate claims are determined.

	<i>Jan. 1/08</i> Barbados
Investments	7,241
Current liabilities	66
Accrual for self-insured liabilities	7,175
Purchase price – C\$	–
<i>Purchase price – US\$</i>	–

Tendercare

In October 2007, EHSI completed the acquisition of Tendercare. During the first quarter of 2008, the purchase price allocation was revised, resulting in an increase of \$3.0 million (US\$3.0 million) in goodwill (*note 6*). This represents management’s best estimate as of March 31, 2008, and is subject to change until it is finalized at the end of 2008.

On April 7, 2008, Tim Lukenda, the former President of Tendercare was appointed President and Chief Executive Officer of Extendicare REIT. As part of Mr. Lukenda’s terms of employment, the employment contract provides a mechanism and process that effectively removes Mr. Lukenda from the decision making process in situations where a conflict of interest may arise on any matter between the REIT and his predecessor employer on any financial interest that Mr. Lukenda or his family have with the REIT and its subsidiaries. As part of the acquisition of Tendercare, in addition to normal representative and warranty provisions, EHSI has to agree on any adjustments to the final purchase price before making any payments to Mr. Lukenda or his family. EHSI and ECI also provide certain services on three long-term care facilities that are owned or partially owned by members of Mr. Lukenda’s immediate family.

Other

In January 2007, EHSI completed the acquisition of a nursing facility that it was leasing in Ohio for cash of \$8.7 million (US\$7.4 million). Below is the purchase price allocation.

	<i>Jan. 5/07</i>
	Ohio
	<i>(nursing – 111 beds)</i>
Property and equipment	6,449
Goodwill	2,244
Purchase price – C\$	8,693
<i>Purchase price – US\$</i>	<i>7,414</i>

4. DISCONTINUED OPERATIONS

The following is a summary of discontinued operations with prior periods revised for operations identified as discontinued as of March 31, 2008.

	Three months ended	
	March 31	
	2008	2007
Revenue	467	3,326
Operating expenses	1,453	4,296
Lease costs	–	6
Loss before undernoted	(986)	(976)
Depreciation and amortization	19	144
Accretion expense	5	21
Loss before the undernoted	(1,010)	(1,141)
Loss from asset impairment, disposals and other items		
Impairment charges	(891)	(5,996)
Recoveries on sale of facilities	1,259	151
	368	(5,845)
Loss from discontinued operations before income taxes	(642)	(6,986)
Income tax recovery	(362)	(3,069)
Loss from discontinued operations	(280)	(3,917)
Loss per basic and diluted unit <i>(in dollars)</i>	–	(0.05)

2008**PENNSYLVANIA ASSISTED LIVING PROPERTY**

In the first quarter of 2008, due to poor financial performance and the need for extensive future capital outlays, EHSI decided to close an assisted living facility (92 beds) located in Pennsylvania and actively pursue the disposition of the property. As a result, EHSI reclassified the financial results of this facility to discontinued operations and recorded an impairment charge of \$0.9 million (US\$0.9 million) to reduce the property to its fair value net of disposal cost. The facility was closed in April 2008.

2007**OHIO NURSING PROPERTY**

In the first quarter of 2007, due to poor financial performance and regulatory issues of the facility, EHSI decided to close a nursing facility (175 beds) located in Dayton, Ohio and actively pursue the disposition of the property. As a result, EHSI reclassified the financial results of this facility to discontinued operations and recorded an impairment charge of \$6.0 million (US\$5.1 million) to reduce the property to its fair value of \$0.3 million (US\$0.3 million). The facility was closed in May 2007, and was sold during first quarter of 2008. The net proceeds were \$1.5 million (US\$1.5 million), resulting in a recovery of \$1.3 million (US\$1.3 million).

TEXAS AND WASHINGTON ASSISTED LIVING PROPERTIES

In the first quarter of 2007, EHSI sold a 60-unit assisted living facility located in San Antonio, Texas, for proceeds of \$2.2 million (US\$1.9 million), resulting in a recovery of \$0.2 million (US\$0.1 million).

5. OTHER ASSETS

	March 31 2008	December 31 2007
Investments held for self-insured liabilities:		
Held-to-maturity securities, at amortized cost	5,987	5,765
Available-for-sale securities, at fair value	47,156	39,480
Notes, mortgages and amounts receivable	58,574	55,180
Fair value of foreign currency forward contracts (<i>note 15</i>)	2,775	5,768
Medicare and Medicaid settlement receivables, less allowance of nil (2007 – nil)	9,938	11,505
Deferred transaction costs	572	470
Assets held for sale	1,040	277
	126,042	118,445

The investments held for self-insured liabilities are subject to insurance regulatory requirements and are categorized as held to maturity and available for sale. The investment portfolio is comprised of U.S. dollar-denominated cash, money market funds and investment-grade corporate and government securities. Certain of these investments in the amount of \$2.2 million (US\$2.2 million) have been pledged as collateral for letters of credit issued by the banker of the REIT's captive insurance company in favour of ceding companies. Assets held for sale of \$1.0 million at March 31, 2008, related to the approximate carrying value of the assisted living property in Pennsylvania which was identified as discontinued operations during the first quarter of 2008 (*note 4*).

6. GOODWILL AND OTHER INTANGIBLE ASSETS

	March 31 2008	December 31 2007
Goodwill	168,226	159,501
Other intangible assets	2,604	2,980
	170,830	162,481

EHSI and Tendercare reached an agreement on the first adjustment relating to the acquisition which resulted in EHSI recording an increase in goodwill and liability of \$2.0 million (US\$2.0 million); the amount was settled in April 2008. In addition, the purchase price allocation was revised during the first quarter of 2008, resulting in a further increase in goodwill of \$1.0 million (US\$1.0 million).

As at March 31, 2008, intangible assets had a gross carrying value of \$3.7 million and accumulated amortization of \$1.1 million, for a net book value of \$2.6 million. The aggregate amortization expense for the three months ended March 31, 2008, was \$0.4 million (2007 – \$0.1 million).

7. EQUITY ACCOUNTED INVESTMENTS

The REIT's reported share of Crown Life's earnings for the first quarter ended March 31, 2007 was \$0.6 million. Extencicare completed the sale of its 34.8% equity interest in Crown Life on July 5, 2007.

8. LONG-TERM DEBT

		Mar. 31 2008		Dec. 31 2007
	<i>US\$</i>		<i>US\$</i>	
EHSI (payable in US\$)				
CMBS Financing, 6.6525%, due 2011	500,000	513,250	500,000	495,650
Financing costs	(9,363)	(9,611)	(9,756)	(9,671)
CMBS Financing, 6.79%, due 2012	90,000	92,385	90,000	89,217
Financing costs	(2,182)	(2,240)	(2,262)	(2,242)
Line of credit under Credit Facility, variable rates, due 2009	19,000	19,504	10,000	9,913
Financing costs	(1,828)	(1,876)	(2,124)	(2,106)
LaSalle mortgages, variable rates, due 2008	49,894	51,216	49,489	49,058
HUD mortgages, 5% to 5.5%, due 2018 to 2032	25,470	26,145	25,765	25,541
Other mortgage loans, 6.25% to 12.47%, maturing through to 2010	8,781	9,014	8,892	8,815
Notes payable, 6.655% to 7.5%, maturing through to 2013	22,012	22,595	27,987	27,743
Obligations under capital leases, 5.24% to 7.65%, maturing through to 2015	1,539	1,579	724	718
	703,323	721,961	698,715	692,636
Extencicare REIT and Canadian Subsidiaries (payable in C\$)				
Convertible Unsecured Subordinated Debentures, 5.7%, due 2014		107,099		106,843
Financing costs		(4,637)		(4,837)
Mortgages, 4.59% to 9.809%, maturing through to 2017		148,614		150,049
Financing costs		(1,155)		(1,153)
Obligations under capital leases, 7.02% to 8.1%, maturing through to 2028		128,141		128,807
Financing costs		(609)		(634)
		377,453		379,075
		1,099,414		1,071,711
Less: current portion		77,456		80,378
		1,021,958		991,333

The changes to long-term debt since December 31, 2007, are described below.

Debt to be Refinanced**LASALLE MORTGAGES**

With the October 2007 acquisition of Tendercare, EHSI assumed mortgage loans due April 30, 2008, to LaSalle Bank. These are secured by first mortgages on 19 skilled nursing facilities owned by Tendercare and its subsidiaries. The loans were made to Tendercare under a credit agreement dated November 30, 2005, (the "Credit Agreement") that provides Tendercare with a revolving US\$7.0 million line of credit and a US\$19.5 million construction loan facility. Under the Credit Agreement, Tendercare and its subsidiaries are required to maintain a minimum consolidated debt service coverage ratio. At EHSI's option, the interest rate is either LIBOR plus a margin from 2% to 2.755%, or the U.S. prime rate less a margin from 0% to 0.5%. The specific margin is based on Tendercare's consolidated debt service coverage ratio as defined in the Credit Agreement.

In April 2008, the maturity date was extended to May 31, 2008; therefore, they are reported as current as at March 31, 2008. EHSI is in the process of refinancing these mortgage loans prior to that date.

EXTENCICARE REIT AND CANADIAN SUBSIDIARIES DEBT - MORTGAGES

Extencicare has \$10.5 million of mortgages on three nursing homes that have been extended beyond their February 1, 2008, maturity date. We have received Canada Mortgage and Housing Corporation (CMHC) insurance certificates to increase the mortgages on the three nursing homes to \$20.7 million. We are in the process of preparing a formal financing agreement; consequently, these mortgages are considered as current. We anticipate finalizing the agreement by the end of June 2008.

Line of Credit**EHSI – CREDIT FACILITY**

On October 16, 2006, EHSI entered into a new credit facility that provides for borrowings of up to US\$120.0 million, subject to certain limits (the “Credit Facility”).

The amount available to be borrowed under the Credit Facility is the lesser of: (1) 60% of the appraised values of the skilled nursing facilities collateralizing the Credit Facility, or (2) an amount based on the actual net cash flow of these facilities for the last 12 months. The amount available to be borrowed as of March 31, 2008, was US\$91.3 million.

As of March 31, 2008, EHSI had US\$19.0 million in borrowings under its Credit Facility. The unused portion of the Credit Facility that was available for working capital and corporate purposes, after reduction for outstanding letters of credit of US\$17.4 million was US\$54.9 million as of March 31, 2008 (US\$64.3 million as of December 31, 2007).

EXTENDICARE REIT AND CANADIAN SUBSIDIARIES – RBC CREDIT FACILITY

The maximum availability under Extencicare’s revolving line of credit with Royal Bank of Canada (the “RBC Credit Facility”) is \$70.0 million. It is used to back letters of credit to secure Extencicare’s pension obligations, of which there were \$45.1 million issued and outstanding as at March 31, 2008, and to secure \$18.8 million of Extencicare’s obligation for contingent liabilities in connection with the sale of Extencicare’s investment in Crown Life. The unused portion of the RBC Credit Facility was \$6.1 million as of March 31, 2008; unchanged from December 31, 2007. In April 2008, the letters of credit securing Extencicare’s executive pension obligations were reduced to \$42.1 million, leaving \$9.1 million available under the RBC Credit Facility.

Other**EHSI – NOTES PAYABLE**

Notes payable primarily consist of US\$21.0 million (US\$26.4 million at December 31, 2007) in seller notes with an interest rate of 7.5% arising from the Tendercare acquisition. Seller notes of US\$16.0 million are payable commencing on the third anniversary date at US\$4.0 million per annum until maturity in 2013; whereas, the balance of the notes of US\$5.0 million is payable based upon certain factors being met, but have a term of no longer than 18 months. In January 2008, one of the factors was met and EHSI paid US\$5.4 million of the seller notes.

FINANCING COSTS

Financing costs included as part of long-term debt amounted to \$20.1 million at March 31, 2008 (\$20.6 million at December 31, 2007). Financing costs increased \$0.3 million during 2008 associated with debt refinancing, offset by \$1.3 million amortized to interest expense and a \$0.5 million decrease due to foreign exchange.

9. NET INTEREST EXPENSE AND OTHER REVENUE

	Three months ended	
	March 31	
<i>Recognized in net earnings</i>	2008	2007
Interest expense	21,350	17,842
Interest income	(1,451)	(1,647)
Interest expense, net	19,899	16,195

Interest income on investments, which was included in other revenue, amounted to \$0.4 million during the first quarter of 2008 (2007 – \$0.4 million).

10. DERIVATIVE FINANCIAL INSTRUMENTS AND FOREIGN EXCHANGE

For the first quarter ended March 31, 2008, Extencicare REIT recorded a net foreign exchange loss of \$4.2 million (2007 – gain of \$1.5 million).

Included in the total was a foreign exchange gain of \$0.7 million (2007 – nil), resulting from the revaluing of U.S. dollar denominated notes between EHSI and some of the Canadian-based subsidiaries.

In addition, the revaluation of EHSI's foreign currency forward contracts resulted in an unrealized loss of \$4.5 million (2007 – gain of \$1.5 million). This was related to revaluation of three contracts that locked in the purchase of Canadian dollars at specified foreign exchange rates for US\$4.0 million per month: the October 2006 contract which covers a 36-month period commencing December 2006 is locked at a fixed exchange rate of 1.1141; the June 2007 contract covers a seven-month period from December 2009 to June 2010 at the prevailing exchange rate at that time (locked at a range between 1.00 and 1.1050); EHSI entered into an additional foreign currency contract in March 2008 for the 11-month period from August 2010 to June 2011 at the prevailing exchange rate at that time (locked at a range between 1.00 and 1.09).

EHSI assumed two interest rate swap agreements in connection with the acquisition of Tendercare in October 2007, with a notional amount of US\$25.8 million that partially offset changes in rates on variable-rate debt of Tendercare, with maturity dates in 2008 and 2011. The revaluation of these agreements amounted to an unrealized loss of \$0.4 million for the first quarter of 2008 (2007 – nil).

11. EARNINGS PER UNIT

Basic earnings per unit is calculated using the weighted average number of units outstanding during the period. Diluted earnings per unit, using the "if-converted" method and to the extent the conversion is dilutive, assumes all convertible securities have been converted at the beginning of the period, or at the time of issuance, if later, and any charges or returns on the convertible securities, on an after-tax basis, are removed from net earnings.

The following table reconciles the numerator and denominator of the basic and diluted earnings per unit computation.

	Three months ended March 31	
	2008	2007
Numerator for Basic and Diluted Earnings per Unit		
<i>Net earnings for basic earnings per unit</i>	3,578	15,366
Add: after-tax interest on convertible debt	1,477	–
Total for diluted earnings per unit	5,055	15,366
Earnings from continuing operations		
Total of net earnings for basic earnings per unit	3,578	15,366
Loss from discontinued operations, net of tax	280	3,917
Total from continuing operations for basic earnings per unit	3,858	19,283
After-tax interest on convertible debt	1,477	–
Total from continuing operations for diluted earnings per unit	5,335	19,283
Denominator for Basic and Diluted Earnings per Unit (thousands)		
Weighted average number of units for basic earnings per unit	70,471	70,234
Units issued if all convertible debt was converted	5,779	–
Total for diluted earnings per unit	76,250	70,234
Basic and Diluted Earnings per Unit (dollars)		
Earnings from continuing operations	0.05	0.27
Net earnings	0.05	0.22

12. COMMITMENTS AND CONTINGENCIES

Property and Equipment Commitments

As of March 31, 2008, EHSI's outstanding capital expenditure purchase commitments totalled US\$17.7 million. Included in EHSI's outstanding commitments was US\$8.1 million related to construction projects in progress, representing 111 beds. The projects are comprised of a 100-bed skilled nursing facility in Michigan, expected to be completed in the first quarter of 2009, and an 11-bed skilled nursing facility addition in Washington, already completed in April of this year. The total estimated cost of these projects is US\$11.5 million, of which US\$1.6 million had been incurred through to March 31, 2008.

CONTINGENT LIABILITIES

The REIT and its consolidated subsidiaries are defendants in actions brought against them from time to time in connection with their operations. It is not possible to predict the ultimate outcome of the various proceedings at this time or to estimate additional costs that may result.

13. SEGMENTED INFORMATION

	Three months ended	
	March 31	
	2008	2007
Revenue		
United States	349,135	319,135
Canada	142,416	137,138
	491,551	456,273
EBITDA ⁽¹⁾		
United States	37,752	41,793
Canada	9,449	10,856
	47,201	52,649
Earnings from Continuing Health Care Operations		
United States	3,298	15,976
Canada	560	2,727
	3,858	18,703
	Mar. 31	Dec. 31
	2008	2007
Goodwill		
United States ⁽²⁾	168,183	159,458
Canada	43	43
	168,226	159,501
Health Care Assets		
United States	1,157,013	1,089,761
Canada	341,153	350,402
Total consolidated assets	1,498,166	1,440,163

⁽¹⁾ EBITDA refers to earnings before interest, taxes, depreciation, amortization, accretion, loss (gain) on derivative financial instruments and foreign exchange, and loss (gain) from asset impairment, disposals and other items.

⁽²⁾ The increase in goodwill is due to a \$3.0 million adjustment to the purchase price allocation relating to the Tendercare acquisition in 2007, and \$5.7 million for foreign currency translation of U.S. operations.

14. EMPLOYEE FUTURE BENEFITS

The future benefit expense of the REIT's defined benefit pension plans for the first quarter ended March 31, 2008 was \$0.4 million (2007 – \$0.6 million).

15. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS**a) Risk Associated with Financial Instruments**

Extendicare REIT is exposed to the following risks as a result of holding financial instruments: credit risk, currency risk, interest rate risk and liquidity risk. The following is a description of those risks and the objectives, policies and processes which have been implemented to measure and manage the risks.

CREDIT RISK

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the REIT by failing to discharge its obligation. The nature and maximum exposure to credit risk as at March 31, 2008, was:

	Carrying Amount
Cash and cash equivalents	28,116
Invested assets (total of \$2,402 less equity investments of \$1,400)	1,002
Accounts receivable, less allowance	241,111
Investments held for self-insured liabilities (total of \$53,143 less equity investments of \$6,245)	46,898
Notes, mortgages and amounts receivable	58,574
Medicare and Medicaid settlement receivables	9,938
Foreign currency forward contract asset (including current portion of \$4,183)	6,958
	392,597

The majority of our cash and cash equivalents are held with highly rated financial institutions in Canada and United States.

Receivables from the U.S. and Canadian government agencies, which are included in accounts receivables, notes, mortgages and amounts receivable, and Medicare and Medicaid settlement receivables, represent the only concentrated group of credit risks for the REIT. As at March 31, 2008, receivables from government agencies represent 74% of the total receivables. Management does not believe that there is any credit risk associated with these government agencies other than possible funding delays. Receivables, other than those from government agencies, consist of receivables from various payors and do not represent any concentrated credit risks to the REIT. Management continually monitors and adjusts its allowances associated with these receivables; partial allowance is provided for items overdue past 90 days. During the first quarter of 2008, the allowance for doubtful accounts increased by \$4.2 million. We have no significant exposure to any single party.

The REIT's investments held for self-insured liabilities are with high-quality financial institutions, as is counterparty to the foreign currency forward contracts; and the REIT limits the amount of exposure to any one institution.

CURRENCY RISK

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The REIT finances and secures Canadian debt on only Canadian operations and assets, and similarly, finances and secures U.S. debt on only U.S. operations and assets. Therefore, there is no currency exposure in respect of the valuation of assets and associated debt. The REIT can raise equity and convertible debentures to finance, through cross-border loans or an injection of capital, the REIT's U.S. operations. Any cross-border loans are subject to exchange fluctuations that may result in realized gains or losses as and when the balances are settled and upon the payment of interest on such loans.

The majority of the REIT's operations are conducted in the United States, which accounted for 71% of its total revenue in the first quarter of 2008. All of the REIT's distributions are denominated in Canadian dollars, and therefore, to the extent those distributions are funded by our U.S. operations, the REIT is subject to currency risk. Approximately 70% of the REIT's distributions are funded from the flow of funds from the U.S. to the REIT as a repayment of loans, interest or dividends. To limit the exposure to converting the REIT's U.S. cash flow into Canadian dollars, we implemented a foreign currency hedging strategy, provided the conditions are favourable at the time, through foreign currency forward contracts. As a result, EHSI has entered into three forward contracts to acquire Canadian dollars on a monthly basis to June 2011. Refer to *note 10* for further details on the forward contracts that the REIT has in effect.

Notes to Unaudited Interim Consolidated Financial Statements

The REIT maintains risk management control systems to monitor foreign cash flow risk attributable to its outstanding or forecasted debt obligations as well as its offsetting hedge positions. The REIT does not enter into financial instruments for trading or speculative purposes.

Our exposure to foreign currency risk as at March 31, 2008, was as follows:

<i>(in thousands of US\$)</i>	March 31 2008
Assets	
Current assets	272,712
Property and equipment, goodwill, intangibles & other assets	854,434
Liabilities	
Current liabilities	271,651
Long-term debt & other liabilities	743,850
Net exposure	111,645

Cash flow sensitivity:

Below is the cash flow sensitivity for the current level of distribution from U.S. to Canada:

- Since the foreign currency forward contracts we currently have in place, covering the period to November 2009, are locked at a fixed exchange rate, any fluctuation in currency will not impact our monthly distribution from the U.S. to Canada;
- From December 2009 to June 2010, if the prevailing exchange rate at that time falls between 1.00 and 1.1050, for every one cent change in exchange rate, our exposure would be \$0.5 million per year; and
- From August 2010 to June 2011, if the prevailing exchange rate at that time falls between 1.00 and 1.09, for every one cent change in exchange rate, our exposure would be \$0.5 million per year.

Net earnings sensitivity analysis:

Every one cent strengthening of the Canadian dollar against the US dollar would negatively impact net earnings and other comprehensive income by amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

<i>Favourable (unfavourable) impact:</i>	March 31 2008
Net earnings	144
Other comprehensive income	(1,116)

INTEREST RATE RISK

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The REIT assesses interest rate risk by continually identifying and monitoring changes in interest rates that may adversely impact expected future cash flows and by evaluating hedging opportunities. The REIT maintains risk management control systems to monitor interest rate risk attributable to its outstanding or forecasted debt obligations as well as its offsetting hedge positions.

In order to meet its monthly distributions, the REIT has limited the amount of debt that may be subject to changes in interest rates. As at March 31, 2008, all but \$70.7 million (US\$68.9 million) of the REIT's outstanding long-term debt was at fixed rates. EHSI had two interest rate swaps to fix the rate on a notional US\$25.8 million of its variable-rate debt. The REIT does not enter into financial instruments for trading or speculative purposes.

Notes to Unaudited Interim Consolidated Financial Statements

The interest rate profile of our interest-bearing financial instruments at March 31, 2008, was:

	Carrying Amount
Fixed-rate instruments:	
Invested assets (included in the total of \$2,402)	1,002
Investments held for self-insured liabilities (included in the total of \$53,143)	33,522
Less: Long-term debt, including current portion (excluding financing costs)	1,048,822
Net liability in fixed-rate instruments	(1,014,298)
Variable-rate instruments:	
Long-term debt, including current portion (excluding financing costs)	70,720
Interest rate swap liability	1,356
Total liability in variable-rate instruments	72,076

Fair value sensitivity analysis for fixed-rate instruments:

We do not account for any financial assets and liabilities as held for trading, and we do not designate interest rate derivatives as hedging instruments under a fair value hedge accounting model. Therefore, changes in interest rates would not affect net earnings with respect to these fixed-rate instruments.

Fair value sensitivity analysis for variable-rate instruments:

A change of 100 basis points in interest rates would have increased or decreased other comprehensive income by amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. Long-term debt is classified as other financial liabilities which are measured at amortized cost using the effective interest rate method of amortization; therefore, changes in interest rates would not affect other comprehensive income with respect to variable-rate debt.

	March 31, 2008	
	100bp increase	100bp decrease
Other comprehensive income – favourable (unfavourable)		
Long-term debt, including current portion	–	–
Interest rate swap liability	390	(401)
Fair value sensitivity (net)	390	(401)

Cash flow sensitivity analysis for variable-rate instruments:

A change of 100 basis points in interest rates would have increased or decreased net earnings by amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	March 31, 2008	
	100bp increase	100bp decrease
Net earnings		
Variable-rate instruments	(99)	99
Interest rate swap liability	37	(37)
Cash flow sensitivity (net)	(62)	62

LIQUIDITY RISK

Liquidity risk is the risk that the REIT will encounter difficulty in meeting its contractual obligations associated with financial liabilities.

The REIT manages its liquidity risk through the use of budgets and forecasts. Cash requirements are monitored regularly based on actual financial results and actual cash flows to ensure that there are sufficient resources to meet operational requirements. We always ensure that there are sufficient funds for declared and payable distributions and any other future commitments at any time. In addition, because there is a risk that long-term debt may not be refinanced or may not be refinanced on as favourable terms or with interest rates as favourable as those of the existing debt, the REIT attempts to appropriately structure the timing of contractual long-term debt renewal obligations and exposures.

Notes to Unaudited Interim Consolidated Financial Statements

At March 31, 2008, the REIT had a net cash balance of \$28.1 million. The unused portion of EHSI's Credit Facility that was available for working capital and corporate purposes, after reduction for outstanding letters of credit of US\$17.4 million was US\$54.9 million; and the unused portion of Canada's RBC Credit Facility was \$6.1 million, which was subsequently increased to \$9.1 million in April (*note 8*).

b) Fair Values of Financial Instruments

	March 31, 2008	
	Carrying Amount	Fair Value
Financial assets:		
Invested assets	2,402	2,402
Accounts receivable, less allowance	248,834	248,230
Notes, mortgages and amounts receivable, including current portion	62,398	66,912
Investments held for self-insured liabilities	53,143	53,585
Foreign currency forward contract asset, including current portion	6,958	6,958
Financial liabilities:		
Long-term debt, including current portion	1,099,414	1,171,110
Interest rate swap liability, including current portion	1,356	1,356
Net liabilities	(727,035)	(794,379)
Net unrealized loss		(67,344)

Basis for determining fair values:

The following summarizes the significant methods and assumptions used in estimating the fair values of financial instruments reflected in the table above.

Fair values for investments designated as held to maturity and available for sale are based on quoted market prices.

Loans and receivables include accounts receivable as well as notes and mortgages receivable. Accounts receivable including other long-term receivables, are recorded at amortized cost. The carrying values of accounts receivable approximate fair values due to their short-term maturities, with the exception of certain settlement receivables from third-party payors that are anticipated to be collected beyond one year. The fair values of these settlement receivables are estimated based on discounted cash flows at current borrowing rates. Notes and mortgages receivable primarily consist of notes and amounts receivable from government agencies, and third-party notes on the sale of assets. The fair values for these instruments are based on the amount of future cash flows associated with each instrument, discounted using current applicable rates for similar instruments of comparable maturity and credit quality.

The fair value of the foreign currency forward contracts and interest rate swap agreements are based upon the valuation as provided by the financial institution that is the counterparty to the agreements.

The fair values for long-term debt are based on the amount of future cash flows associated with each instrument discounted using current applicable rates for similar instruments of comparable maturity and credit quality.

16. CAPITAL MANAGEMENT

The REIT's objective is to preserve a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. We seek to balance the need for maintaining an attractive payout ratio with maintaining adequate capital to grow the business by acquisition or internal growth.

The REIT must access the capital markets periodically to fund acquisitions, growth capital expenditures and certain other expenditures. We monitor the capital markets on the ability to raise capital and the cost of such capital relative to the return on any acquisitions or growth capital projects. We monitor the level, nature of debt and leverage ratios, along with its compliance with debt covenants continuously to ensure that sufficient resources exist.

In December 2007, the REIT filed a normal course issuer bid, which provides the flexibility to acquire up to 5,500,000 REIT Units until December 24, 2008. All purchases are to be made on the open market. During the first quarter of 2008, management acquired, for cancellation, 10,000 REIT Units at a cost of \$0.1 million under this issuer bid.

Capital Structure

The REIT defines its capital structure to include long-term debt, net of cash and cash equivalents, and unit capital.

	March 31 2008	December 31 2007
Current portion of long-term debt	77,456	80,378
Long-term debt (net of financing costs)	1,021,958	991,333
Total debt	1,099,414	1,071,711
Cash and cash equivalents	28,116	44,234
Net debt	1,071,298	1,027,477
Unit capital	324,017	323,425
	1,395,315	1,350,902

Distributions

In accordance with the REIT's deed of trust, dated September 11, 2006, as amended and restated on October 28, 2006 (the "Deed of Trust"), distributions to holder's of REIT Units (the "Unitholders") are declared at the discretion of the REIT's Board of Trustees. The REIT's Deed of Trust provides that to the extent the aggregate amount of distributions to Unitholders for a taxation year of the REIT is less than the sum of (i) the net income of the REIT for such year determined pursuant to the provisions of the *Income Tax Act* (Canada) (excluding any capital gains and capital losses of the REIT and without regard to the deduction under subsection 104(6) of the *Income Tax Act* (Canada) in respect of amounts that became payable to Unitholders in such year), and (ii) the net realized capital gains of the REIT for such year, an amount equal to such shortfall shall, unless otherwise determined by the Trustees, be automatically due and payable by the REIT to Unitholders of record on December 31 of such year. The REIT has no requirements pursuant to the Deed of Trust concerning Debt to Adjusted Gross Book Value or any other financial requirements.

REIT Unit Redemption Rights

REIT Units are redeemable at any time on demand by the holders. Upon receipt by the REIT of a notice to redeem REIT Units, all rights to and under the REIT Units tendered for redemption shall be surrendered and the holder shall be entitled to receive a price per REIT Unit in cash equal to the lesser of:

- a) 95% of the "market price" of the REIT Units on the principal stock exchange or market on which the REIT Units are quoted for trading during the 10 consecutive trading days ending on the trading day immediately prior to the redemption date; and
- b) 100% of the "closing market price" of the REIT Units on the principal stock exchange or market on which the REIT Units are quoted for trading on the redemption date.

The aggregate cash redemption price payable by the REIT in respect of all REIT Units surrendered for redemption during any calendar month shall be satisfied by a cash payment no later than the last day of the month following the month in which the REIT Units were tendered for redemption, and shall not exceed \$100,000, unless waived at the discretion of the Trustees. If the holder is not entitled to receive his, her or its redemption price in cash upon redemption as a result of the foregoing and other limitations, then each REIT Unit tendered for redemption will be redeemed by way of a distribution in *specie* of securities held by the REIT, subject to any applicable regulatory approvals.

Financial Covenants

The REIT is subject to externally imposed capital requirements detailed as follows, all are related to EHSI:

<i>(dollar amounts in millions of US\$)</i>	March 31 2008	December 31 2007
Line of credit under Credit Facility:		
Consolidated leverage ratio (<i>maximum 5.25</i>)	4.97	4.89
Consolidated fixed charge ratio (<i>minimum 1.50</i>)	1.85	1.96
Consolidated tangible net worth (<i>minimum \$150.0</i>)	\$234.1	\$277.3
CMBS Financing, due 2011:		
Consolidated leverage ratio (<i>maximum 5.50</i>)	4.97	4.89
CMBS Financing, due 2012:		
Consolidated leverage ratio (<i>maximum 5.50</i>)	4.97	4.89
Consolidated fixed charge ratio (<i>minimum 1.50</i>)	1.85	1.96

Management and the Board of Trustees monitor these covenant ratios on a monthly and quarterly basis. The REIT is in compliance with all of their respective financial covenants as of March 31, 2008.

17. SUBSEQUENT EVENTS

On April 7, 2008, Phil Small resigned as President and CEO of the REIT and Tim Lukenda was appointed as his successor. Mr. Small's resignation was voluntary and as part of his continued involvement and assistance in the transition of responsibilities through to December 31, 2008, the REIT has agreed to a severance arrangement consistent with his terms of employment. The aggregate liability of \$2.4 million will be charged to earnings in the second quarter of 2008.

ECI has received CMHC insurance certificates to finance approximately 81% of the construction costs for the two Alberta projects. In April 2008, ECI agreed to terms for construction loans for a maximum of \$48.5 million over 24 months, with interest-only payments based on 30-day Asset Backed Commercial Paper rates plus 1.5%. Management anticipates finalizing the agreement by the end of June 2008.

EXTENDICARE

Facility Location and Resident Capacity

<i>at March 31, 2008</i>	Nursing Centres		Assisted Living and Retirement Centres		Rehab Hospital / Chronic Care Units		Total	
By State/Province	Number of Facilities	Resident Capacity	Number of Facilities	Resident Capacity	Number of Facilities	Resident Capacity	Number of Facilities	Resident Capacity
United States								
Pennsylvania	28	3,438	5	155	-	-	33	3,593
Michigan	30	3,278	1	51	1	24	32	3,353
Ohio	28	2,861	-	30	-	-	28	2,891
Wisconsin	26	2,199	2	135	-	-	28	2,334
Indiana	19	1,866	-	35	-	-	19	1,901
Kentucky	21	1,822	-	-	-	-	21	1,822
Washington	15	1,619	1	47	-	-	16	1,666
Minnesota	8	1,017	-	-	-	-	8	1,017
Idaho	2	194	-	-	-	-	2	194
Oregon	2	169	-	-	-	-	2	169
Delaware	1	120	-	-	-	-	1	120
West Virginia	1	120	-	-	-	-	1	120
Total United States	181	18,703	9	453	1	24	191	19,180
Canada								
Ontario	53	7,911	1	493	1	120	55	8,524
Alberta	13	1,137	-	-	-	-	13	1,137
Saskatchewan	5	654	-	-	-	-	5	654
Manitoba	5	762	-	-	-	-	5	762
Total Canada	76	10,464	1	493	1	120	78	11,077
TOTAL	257	29,167	10	946	2	144	269	30,257
By Type of Ownership								
United States								
Owned	167	17,126	3	247	1	24	171	17,397
Leased	7	764	-	-	-	-	7	764
Managed	7	813	6	206	-	-	13	1,019
Total United States	181	18,703	9	453	1	24	191	19,180
Canada								
Owned	45	6,083	-	-	-	-	45	6,083
Leased	9	1,155	-	76	-	-	9	1,231
Managed	22	3,226	1	417	1	120	24	3,763
Total Canada	76	10,464	1	493	1	120	78	11,077
TOTAL	257	29,167	10	946	2	144	269	30,257

Unitholder Information

Stock Exchange Listing

Toronto Stock Exchange – EXE.UN

Transfer Agent

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Published Information

Extendicare REIT's 2007 Annual Report is available for viewing or printing on its website, in addition to news releases, quarterly reports and other filings with the securities commissions.

Printed copies are available upon request to the Secretary.

Visit Extendicare's website @ www.extendicare.com

