

**Notice of Annual Meeting of Unitholders and  
Management Information and Proxy Circular**

**Annual Meeting May 6, 2010**

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## **NOTICE OF ANNUAL MEETING OF UNITHOLDERS OF EXTENDICARE REAL ESTATE INVESTMENT TRUST**

NOTICE IS HEREBY GIVEN that the Annual Meeting (the “Meeting”) of the holders of trust units and special voting units (collectively, the “Unitholders”) of Extendicare Real Estate Investment Trust (the “REIT”) will be held on Thursday, May 6, 2010, at 4:00 p.m. (Toronto time) at The Gallery, TSX Broadcast Centre, 130 King Street West, Toronto, Ontario, Canada, for the following purposes:

- (1) to receive the consolidated financial statements of the REIT for the year ended December 31, 2009 and the report of the auditors thereon;
- (2) to appoint the auditors of the REIT;
- (3) to elect trustees of the REIT; and
- (4) to transact such further business as may properly come before the Meeting or any adjournment thereof.

A description of the matters to be submitted to the Meeting is contained in the Management Information and Proxy Circular accompanying this Notice of Meeting.

Unitholders who are unable to attend the Meeting in person are requested to date, sign and return the accompanying appropriate form of proxy in the envelope provided for that purpose. Proxies to be used at the Meeting must be received by Computershare Trust Company of Canada, Stock Transfer Services, 100 University Avenue, 9<sup>th</sup> Floor, Toronto, Ontario M5J 2Y1, no later than 4:00 p.m. (Toronto time) on Tuesday, May 4, 2010, and if the Meeting is adjourned, not less than 24 hours prior to the commencement of the adjourned Meeting. In addition, the proxy forms provide instructions on how to vote by telephone or over the internet.

If you are a new Unitholder or a non-registered Unitholder who did not elect to receive our 2009 Annual Report, you can view this report on our website at [www.extendicare.com](http://www.extendicare.com). If you wish a hard copy of this report, please contact the Secretary of the REIT at 905-470-5534.

**DATED** at Markham, Ontario on March 5, 2010.

By order of the Trustees of  
Extendicare Real Estate Investment Trust

By: /s/ Jillian E. Fountain

**Jillian E. Fountain**  
Secretary

## MANAGEMENT INFORMATION AND PROXY CIRCULAR OF EXTENDICARE REAL ESTATE INVESTMENT TRUST

### NOTICE TO HOLDERS OF CLASS B LIMITED PARTNERSHIP UNITS OF EXTENDICARE LIMITED PARTNERSHIP

Holders of Class B limited partnership units (the “Exchangeable LP Units”) issued by Extendicare Limited Partnership (Extendicare LP) should note that this Management Information and Proxy Circular (the “Circular”) relates solely to Extendicare Real Estate Investment Trust (“Extendicare REIT” or the “REIT”) and not to Extendicare LP. On October 31, 2006, Extendicare LP was granted relief from certain of the continuous disclosure requirements normally associated with being a “reporting issuer” under applicable securities legislation for so long as certain conditions continue to be met, including the requirement that the REIT concurrently sends to all holders of Exchangeable LP Units all disclosure material furnished to holders of trust units of the REIT (the “Trust Units”) under National Instrument 51-102 - Continuous Disclosure Obligations of the Canadian Securities Administrators. The exemptive relief was granted to Extendicare LP, in part, on the basis that the REIT is the indirect beneficial owner of all of the issued and outstanding voting securities of Extendicare LP, other than the Exchangeable LP Units (which have voting rights only in very limited circumstances), and the consolidated financial results of the REIT wholly reflect the financial performance of Extendicare LP. The Exchangeable LP Units are intended to be, to the extent possible, the economic equivalent of the Trust Units and are exchangeable for an equal number of Trust Units, subject to customary anti-dilution adjustments.

### VOTING RIGHTS

The REIT has two classes of units outstanding, being Trust Units and special voting units of the REIT (the “Special Voting Units”). Holders of Trust Units and Special Voting Units are entitled to cast one vote per Trust Unit or Special Voting Unit on all matters coming before the Meeting (as defined below). The REIT issued Special Voting Units to the former shareholders of Extendicare Inc. (Extendicare) that elected to receive Exchangeable LP Units under the plan of arrangement of Extendicare (the “Plan of Arrangement”), that was effective November 10, 2006. The Plan of Arrangement involved the distribution by Extendicare of Assisted Living Concepts, Inc. (ALC) to the shareholders of Extendicare and the conversion of Extendicare into a Canadian real estate investment trust. Under the Plan of Arrangement, the former holders of subordinate voting shares of Extendicare (the “Subordinate Voting Shares”) ultimately received for each share, one subordinate voting share of Class A common stock (the “Class A Shares”) of ALC and one Trust Unit or one Exchangeable LP Unit and the former holders of multiple voting shares of Extendicare ultimately received for each share, one multiple voting share of Class B common stock of ALC and 1.075 Trust Units or 1.075 Exchangeable LP Units. In addition, one Special Voting Unit and other ancillary rights were received by each holder of Exchangeable LP Units for each Exchangeable LP Unit received by such holder under the Plan of Arrangement.

Each Special Voting Unit is intended to be the voting equivalent of a Trust Unit and entitles the holder thereof to a number of votes equal to the number of Trust Units that may be obtained upon the exchange of the Exchangeable LP Units to which the Special Voting Units relate. The certificates representing the Exchangeable LP Units to which the Special Voting Units relate also evidence the Special Voting Units. Upon the exchange of Exchangeable LP Units for Trust Units by a holder of Exchangeable LP Units, the corresponding Special Voting Units will be redeemed by the REIT for no consideration and will be cancelled.

### SOLICITATION OF PROXIES

This Circular is furnished in connection with the solicitation of proxies by or on behalf of the trustees (the “Trustees”) of the REIT for use at the annual meeting of the holders of Trust Units (the “Trust Unitholders”) and holders of Special Voting Units (the “Special Voting Unitholders”; the Trust Units and Special Voting Units being hereinafter collectively referred to as the “Units” and Trust Unitholders and Special Voting Unitholders being hereinafter collectively referred to as the “Unitholders”) to be held at 4:00 p.m. (Toronto time) on Thursday, May 6, 2010 (the “Meeting”), or at any adjournment thereof, for the purposes set forth in the accompanying Notice of Meeting (the “Notice”).

It is anticipated that the solicitation of proxies will be primarily by mail, but proxies may also be solicited personally or by telephone by management of the REIT, who will not be specifically compensated therefor, or agents of the REIT who will be specifically compensated therefor. All costs of the solicitation will be borne, directly or indirectly, by the REIT.

The information contained herein is given as of March 6, 2010, except as otherwise noted. All amounts referred to herein are in Canadian dollars unless otherwise stated.

### **APPOINTMENT OF PROXIES**

The persons named in the accompanying forms of proxy are officers and/or trustees of the REIT. **A Unitholder has the right to appoint some other person or company (who need not be a Unitholder) to represent him or her at the Meeting or at any adjournment thereof. To exercise this right, the Unitholder may strike out the printed names and insert the name of the Unitholder's chosen proxy in the blank space provided in the form of proxy for that purpose or complete another form of proxy.**

To be valid, Unitholders' proxies must be deposited with the REIT's registrar and transfer agent, Computershare Trust Company of Canada, Attention: Stock Transfer Services, 100 University Avenue, 9<sup>th</sup> Floor, Toronto, Ontario M5J 2Y1 no later than 4:00 p.m. (Toronto time) on Tuesday, May 4, 2010 or, in the case of any adjournment, not less than 24 hours prior to the commencement of the adjourned Meeting. In addition, the proxy forms provide instructions on how to vote by telephone or over the internet.

Non-registered Unitholders or Unitholders that hold their Units in the name of a "nominee" such as a bank, trust company, securities broker or other financial institution, must seek instructions from their nominee as to how to complete their form of proxy and vote their Units. Non-registered Unitholders will have received this Circular in a mailing from their nominee, together with a form of proxy or voting instruction form. It is important that non-registered Unitholders adhere to the voting instructions provided to them by their nominee. Since the registrar and transfer agent of the REIT, Computershare Trust Company of Canada, does not have a record of the names of the non-registered Unitholders, Computershare Trust Company of Canada will have no knowledge of a non-registered Unitholder's right to vote, unless the nominee has appointed the non-registered Unitholder as proxyholder. Non-registered Unitholders that wish to vote in person at the Meeting must insert their name in the space provided on the form of proxy or voting instruction form, and adhere to the signing and return instructions provided by their nominee. By doing so, non-registered Unitholders are instructing their nominee to appoint them as proxyholder.

### **REVOCATION OF PROXY**

Any Unitholder who has given a proxy may revoke it by preparing a written statement to this effect. The statement must be executed by the Unitholder or by his or her attorney authorized in writing to do so. Non-registered Unitholders who wish to revoke their proxy should contact their nominee well in advance of the Meeting to determine how they can do so. This statement must be delivered either to the Secretary at the head office of the REIT no later than 4:00 p.m. (Toronto time) on Tuesday, May 4, 2010 or with the chairman of the Meeting on the day of the Meeting or any adjournment thereof.

### **EXERCISE OF DISCRETION BY PROXYHOLDERS**

The Units represented by properly executed proxies appointing officers and/or trustees of the REIT will be voted for or withheld from voting in accordance with the instructions of the Unitholder on the appropriate form of proxy. **In the absence of any such instructions, it is intended that proxies appointing officers and/or trustees of the REIT will be voted in favour of the matters to be acted upon as specified in the Notice.**

The accompanying forms of proxy confer discretionary authority upon the persons named therein with respect to amendments or variations to matters identified in the Notice and with respect to other matters which may properly come before the Meeting. At the date of this Circular, the Trustees of the REIT know of no such amendments, variations or other matters to come before the Meeting other than the matters referred to in the Notice. If any such amendment, variation or other matter which is not now known should properly come before the Meeting, then the persons named in the enclosed forms of proxy will vote on such matters in accordance with their judgement, pursuant to the discretionary authority conferred by the forms of proxy with respect to such matters.

## **RECORD DATE AND PRINCIPAL HOLDERS OF UNITS**

The Trustees have fixed March 12, 2010 (the “Record Date”) for the purpose of determining Unitholders entitled to receive notice of and to vote at the Meeting. Only Unitholders of record at the close of business on the Record Date shall be entitled to vote at the Meeting or any adjournment thereof, except that a person who has acquired Units subsequent to such date will be entitled to vote such Units, instead of the holder of record on the Record Date, upon making a written request, not later than 10 days preceding the date of the Meeting to the REIT’s registrar and transfer agent, Computershare Trust Company of Canada, Attention: Stock Transfer Services, 100 University Avenue, 9th Floor, Toronto, Ontario M5J 2Y1, to be included on the list of Unitholders entitled to vote at the Meeting, or any adjournment thereof, and establishing ownership of such Units.

As of the close of business on March 5, 2010, there were 79,200,716 Trust Units (representing approximately 96% of the voting rights) and 3,267,276 Special Voting Units (representing approximately 4% of the voting rights) issued and outstanding.

To the knowledge of the Trustees and the executive officers of the REIT, as of the close of business on March 6, 2010, no person or company beneficially owned, directly or indirectly, or exercised control or direction over, more than 10% of the voting rights attached to the Units.

## **INTEREST OF INSIDERS IN MATERIAL TRANSACTIONS**

There are no material interests, direct or indirect, of the Trustees, or the directors or executive officers of the REIT or its subsidiaries, the nominees for Trustee, or any known associate or affiliate of such persons, in any transaction since the commencement of the last completed fiscal year, or any proposed transaction which has materially affected or would materially affect the REIT or any of its subsidiaries.

## **INTERESTS OF CERTAIN PERSONS AND COMPANIES IN MATTERS TO BE ACTED UPON**

The board of trustees of the REIT (the “Board of Trustees”) is not aware of any material interest of any Trustee or nominee for Trustee or any one who has held office as such since the beginning of the last fiscal year or any associate or affiliate of any of the foregoing in any matter to be acted on at the Meeting, other than the election of Trustees.

## **APPOINTMENT OF AUDITORS**

With the recommendation of the Audit Committee, it is intended that the Units represented by proxies in favour of the persons named in the enclosed forms of proxy will be voted in favour of the re-appointment of KPMG LLP, the present auditors, as auditors of the REIT to hold office until the next annual meeting of Unitholders to be held in 2011, unless authority is withheld on the form of proxy.

## **ELECTION OF TRUSTEES**

The amended and restated deed of trust of the REIT dated October 28, 2006 (the “REIT Deed of Trust”) provides that the REIT will have a minimum of three Trustees and a maximum of twenty Trustees, with the number of Trustees from time to time within such range being fixed by resolution of the Trustees. At the present time, the Board of Trustees consists of nine Trustees. Pursuant to a resolution of the Trustees, the number of Trustees to be elected at the Meeting has been fixed at 10.

Unless otherwise directed, the persons named in the accompanying forms of proxy intend to vote in favour of the election, as Trustees, of the 10 nominees whose names are set forth below. Mr. Frederick B. Ladly is retiring from the Board of Trustees and the Board of Directors at the upcoming Meeting. With the exception of Messrs. Dean and Hutzel, all nominees are presently Trustees of the REIT. Each Trustee will hold office for a term expiring at the close of the next annual meeting of Unitholders, unless his office is vacated earlier due to death, removal, resignation or ceasing to be duly qualified. The Trustees do not contemplate that any of the nominees will be unable to serve as a Trustee. If, for any reason, any of the nominees is unable to serve as a Trustee, the persons named in the enclosed form of proxy reserve the right to vote for another nominee at their sole discretion.

The Board of Trustees met seven times during 2009, at which attendance averaged 98%. The board of directors of Extendicare (the “Board of Directors”) met eight times during 2009, at which attendance averaged 96%.

The following table sets forth information for each of the 10 nominees proposed for election as Trustees of the REIT, and includes the following: name; province or state and country of residence; principal occupation during the past five years; the number of Trust Units, Special Voting Units and Exchangeable LP Units beneficially owned or over which control or direction, directly or indirectly, is exercised by the nominee; the value of such units based on the TSX closing price of the Trust Units at March 5, 2010 of \$10.25; the date they became a director of Extencicare; and their attendance record at Board meetings of the REIT and Extencicare during 2009.

If elected to the Board of Trustees, the individuals set forth below, other than Mr. Lukenda, will be independent Trustees. Each of the individuals set forth below will also be nominated for election, or appointed, as directors of Extencicare.

The information set out below relating to the nominees for election as Trustees of the REIT is based partly on the REIT's records and partly on information received by the REIT from such nominees.

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**Trustees nominated to serve until the next Annual Meeting of Unitholders in 2010:**

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**MEL RHINELANDER** <sup>(2) (3)</sup>  
 Ontario, Canada  
 Chairman of the Board of Trustees  
**Director since:** May 2, 2000  
**Trust Units:** 47,850; \$490,463  
**Board meetings attended:**  
**REIT:** 7/7; **Extencicare:** 8/8

Mr. Rhineland was appointed Chairman of the REIT and Extencicare effective December 17, 2008, prior to which he served as Vice Chairman of the REIT and Extencicare from November 10, 2006. Mr. Rhineland is also Vice Chairman of Assisted Living Concepts, Inc. (a public company), and is a director of Empire Company Limited (a public food retailing and related real estate company). Mr. Rhineland served the Extencicare group of companies in a number of senior management positions from 1977 until his retirement in 2006.

**JOHN F. ANGUS** <sup>(1)</sup>  
 Quebec, Canada  
**Director since:** Dec. 14, 2006  
**Trust Units:** 10,000; \$102,500  
**Board meetings attended:**  
**REIT:** 7/7; **Extencicare:** 8/8

Mr. Angus is Senior Partner of PerformaCorp Inc., a private consulting firm specializing in business turnaround solutions, which services were previously conducted under Stonehenge Corporation until June 2008, with Mr. Angus serving as President. Mr. Angus is Chairman of Sheltered Oaks Resources Corp. (a public Canadian-based junior mining and exploration company), a director of the Institute for Public Affairs of Montreal and a number of other private companies, and is a member of the Turnaround Management Association.

**GOVERNOR HOWARD DEAN, MD**  
 Vermont, United States  
**Director since:** n/a  
**Trust Units:** nil  
**Board meetings attended:** n/a

Governor Dean, former Democratic National Committee Chairman (2005 – 2009), 2004 presidential candidate, six-term Vermont Governor (1991 – 2003) and physician, currently serves as a Senior Strategic Advisor and Independent Consultant to the government affairs practice at McKenna Long & Aldridge LLP (2009 to present) focusing on health care and energy issues. Governor Dean also serves as a CNBC contributor and as a consultant for Democracy for America, an organization he founded in 2004.

**GEORGE A. FIERHELLER** <sup>(1)</sup>  
 Ontario, Canada  
**Director since:** April 21, 1981  
**Trust Units:** 42,670; \$437,368  
**Board meetings attended:**  
**REIT:** 6/7; **Extencicare:** 7/8

Mr. Fierheller is President of Four Halls Inc., a private investment and consulting firm, and Chair Emeritus of The Greater Toronto Marketing Alliance. In addition, Mr. Fierheller is a Member of the Order of Canada and Past President of the Toronto Board of Trade.

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**Trustees nominated to serve until the next Annual Meeting of Unitholders in 2010:**

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**DR. SETH B. GOLDSMITH** <sup>(4)</sup>  
Florida, United States  
**Director since:** February 23, 1995  
**Trust Units:** 45,000; \$461,250  
**Board meetings attended:**  
**REIT:** 7/7; **Extencicare:** 7/8

Dr. Goldsmith is an attorney and Professor Emeritus at the University of Massachusetts at Amherst. Dr. Goldsmith is a former Chief Executive Officer of the Miami Jewish Home & Hospital for the Aged, and has served as a consultant to numerous organizations including the World Health Organization, Geneva, Switzerland, and the U.S. Army.

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**BENJAMIN J. HUTZEL**  
Ontario, Canada  
**Director since:** n/a  
**Trust Units:** 500,000; \$5,125,000  
**Board meetings attended:** n/a

Mr. Hutzel is a retired partner at Bennett Jones LLP where he had an extensive national and international legal practice specializing in financings, acquisitions and divestitures and joint venture structuring (1994 – 2009). Mr. Hutzel is a director of MI Developments Inc. (a public real estate operating company) and a director of the Woodbine Entertainment Group (a not-for-profit organization).

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**MICHAEL J.L. KIRBY** <sup>(3) (4)</sup>  
Ontario, Canada  
**Director since:** March 11, 1987  
**Trust Units:** 12,000; \$123,000  
**Board meetings attended:**  
**REIT:** 7/7; **Extencicare:** 8/8

Mr. Kirby is Chairman of the Mental Health Commission of Canada and a retired member of The Senate of Canada (1984 – 2006). Mr. Kirby is an Officer of the Order of Canada and serves as a director of several boards, including the following public companies: The Bank of Nova Scotia; Indigo Books & Music Inc.; Energy Savings Income Fund; and MDC Partners Inc.

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**ALVIN G. LIBIN** <sup>(1) (2)</sup>  
Alberta, Canada  
**Director since:** January 20, 1984  
**Trust Units:** 880,000; \$9,020,000  
**Board meetings attended:**  
**REIT:** 7/7; **Extencicare:** 8/8

Mr. Libin is President and Chief Executive officer of Balmon Investments Ltd., a private management services and investment company. Mr. Libin is a director and one of the owners of the Calgary Flames of the National Hockey League, and serves as a director of several private corporate and community boards. Mr. Libin is also an Officer of the Order of Canada, a member of the Alberta Order of Excellence, and past Chairman of the Alberta Ingenuity Fund.

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**TIMOTHY L. LUKENDA**  
Wisconsin, United States  
**Director since:** May 8, 2008  
**Trust Units:** 105,000; \$1,076,250  
**Board meetings attended:**  
**REIT:** 7/7; **Extencicare:** 8/8

Mr. Lukenda was appointed President and Chief Executive Officer of the REIT and Extencicare effective April 7, 2008. Mr. Lukenda is the former President and Chief Operating Officer of Tendercare, a private operator of skilled nursing facilities that was acquired by EHSI in October 2007. Prior to joining Tendercare in 1996, Mr. Lukenda was Vice President, Investment Banking with RBC Dominion Securities Inc.

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**J. THOMAS MACQUARRIE, Q.C.** <sup>(1) (2) (4)</sup>  
Nova Scotia, Canada  
**Director since:** October 8, 1980  
**Trust Units:** 97,724; \$1,001,671  
**Board meetings attended:**  
**REIT:** 7/7; **Extencicare:** 8/8

Mr. MacQuarrie, Q.C., is a senior partner in the Atlantic Canada law firm of Stewart McKelvey. Mr. MacQuarrie serves as a director of High Liner Foods Incorporated and Aquarius Coatings Inc., both public companies, as well as of a number of private corporations.

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Notes:

- (1) Member of the Audit Committee  
(2) Member of the Buyback Committee

- (3) Member of the Executive Committee  
(4) Member of the Human Resources, Governance and Nominating Committee

### ***Corporate Orders and Bankruptcies***

To the knowledge of the REIT, with the exception of Mr. Angus as described below in connection with a small private company, none of the proposed nominees for election as a trustee of the REIT had, as at the date of this Circular or in the last 10 years, been (a) a director, chief executive officer or chief financial officer of a company that was the subject of a cease trade or similar order or an order that denied the company access to any exemption under securities legislation, for a period of more than 30 consecutive days, or (b) a director or executive officer of a company that made a proposal under legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors.

In March 2009, for a technical reason, a small private company, of which Mr. J. Angus was a shareholder, director and officer, was placed in voluntary receivership and made an assignment in bankruptcy. All creditors of the company were paid in full except for Mr. Angus.

## **COMPENSATION DISCUSSION AND ANALYSIS**

### **Composition of the Human Resources, Governance and Nominating Committee**

The joint Human Resources, Governance and Nominating Committee of the Board of Trustees of the REIT and Board of Directors of Extencicare (the "HR/GN Committee") performs the functions of a compensation committee. A description of the roles and responsibilities of the HR/GN Committee is set out under the heading "Statement of Governance Practices – Compensation". On issues related to executive compensation, the HR/GN Committee, as part of its mandate, evaluates annually the performance of the Chief Executive Officer (CEO) and other senior executives of the REIT and its subsidiaries and recommends the compensation to be given to the CEO and such other senior executives. To aid the HR/GN Committee in making its determinations, the CEO provides recommendations annually to the HR/GN Committee regarding the compensation of all senior executives, other than himself. Each named senior executive, in turn, participates in an annual performance review with the CEO to provide input about his or her contributions during the year. The HR/GN Committee reviews the design and competitiveness of the executive compensation package with a view to ensuring that the REIT and its subsidiaries are able to attract and retain high calibre executive officers, and to motivate executive officers performance in furtherance of the strategic objectives of the REIT and its subsidiaries.

The HR/GN Committee is currently comprised of three members who are independent Trustees of the REIT and independent directors of Extencicare. No member of the HR/GN Committee is an officer, employee or former officer or employee of the REIT or any of its subsidiaries. The members of the HR/GN Committee are Michael J.L. Kirby (Chair), Dr. Seth B. Goldsmith, and J. Thomas MacQuarrie, Q.C.

### **Overview of Executive Compensation Programs**

The compensation philosophy of the REIT is intended to be competitive with service sector and other health care companies of comparable size and complexity in North America in order to attract, retain and motivate a highly qualified workforce and provide career opportunities within the REIT and its subsidiaries. Since approximately 70% of Extencicare's operations are situated in the United States (based on revenue generated), and the majority of the Named Executive Officers operate out of the U.S., the HR/GN Committee takes into consideration U.S. market data as an indicator for salary comparison for the CEO and other senior executives of the REIT and its subsidiaries. The compensation practices for executives are built around reward systems that recognize financial results, quality of services and individual performance. The total compensation package is designed to provide a strong and direct link between performance and compensation, using a combination of base salary, short-term incentives achieved through annual incentive or bonus payments, and long-term incentives achieved through the REIT's unit appreciation rights plan. The HR/GN Committee believes the total compensation package of the CEO and other senior executives of the REIT and its subsidiaries is competitive with the service sector and other health care companies of comparable size and complexity in North America.

**Base Salary:** Base salaries are established by salary ranges developed with the assistance of external consultants. The ranges are intended to be competitive in the markets applicable to the business units of Extencicare and are intended to allow the organization to recruit and retain qualified employees. In addition to considering the competitive market place and inflation in establishing base salaries, the HR/GN Committee also takes into consideration the executive's individual performance, such as the executive's success in developing and executing strategic plans of the business units of Extencicare, addressing the significant challenges affecting the health care industry, developing key employees and demonstrating leadership.

**Short-term Incentives:** An annual incentive program is provided for executive officers and other key employees of the REIT and its subsidiaries that is formula-based and is measured against pre-determined performance targets. Awards are granted on the basis of profit center results, consolidated results, quality of services and individual performance as measured against pre-established objectives, such as census levels, clinical outcomes, and regulatory compliance. Incentive potential or levels for each executive are established based on the individual's ability to contribute to the overall goals and performance of the REIT and its subsidiaries. Maximum bonuses for 2009 for the Named Executive Officers, other than the CEO, ranged from 37.45% to 42.80% of their base salaries. The incentive payments are at the discretion of the HR/GN Committee and may be awarded notwithstanding that the applicable pre-determined performance targets are not met (subject to Board approval). In addition, the HR/GN Committee may recommend to the Board for approval a decrease in the amount of incentive payment otherwise earned as a result of material unforeseen events or circumstances, including any restatement of financial results.

With respect to the CEO's short-term incentive awards, there is no pre-set basis or weighting for the amount of the short-term incentive that the CEO is eligible to earn. The assessment of the CEO's annual contribution is based upon the HR/GN Committee's subjective evaluation of the CEO's skills, performance and leadership. In addition to the overall financial results of the REIT, the HR/GN Committee considers factors such as strategic positioning, quality of service, human resources planning and the overall public image of the operations.

**Long-term Incentives:** A principal component of longer-term incentive compensation of Extencicare had been its stock option plan, which was terminated in 2006 in connection with the Plan of Arrangement. In August 2009, the REIT established a unit appreciation rights plan (UARP), a long-term incentive plan for the Trustees and the employees, officers and directors of Extencicare and its subsidiaries. The UARP was established with a view to enhancing the performance of the REIT and to align the interests of the participants with the interests of Unitholders, as well as to encourage participants in the plan to remain employees of the REIT and its subsidiaries and to attract new employees. The principal objectives of the UARP are to advance the interests of Extencicare REIT and its subsidiaries by: (a) focusing participants on, and rewarding participants for, achieving the business and financial goals of the REIT and its subsidiaries; and (b) providing an effective medium to long-term incentive for participants and associating a portion of the participants' compensation with the performance of the REIT and its subsidiaries. Unit appreciation rights (UARs) are granted at the discretion of the Board of Trustees, upon recommendation by the HR/GN Committee.

Awards under the UARP vest after three years, subject to conditions as described below, and permit the participant to receive, at the election of the Board of Trustees, either a payment in cash or equivalent value of Trust Units acquired on the Toronto Stock Exchange (TSX) (or any other stock exchange on which the Trust Units listed and traded), by a broker designated by the participant. Vesting of UARs is subject to continued employment of the participant, with pro-rating provisions in the event of the participant's death, retirement or termination of employment as described below, a minimum Trust Unit price, and may also be subject to achieving operating performance measures, as determined by the Trustees at the date of grant. Consideration for vested UARs is equal to the appreciation in the Fair Market Value of a Trust Unit from the date of grant of the UAR, plus Accrued Distributions. "Fair Market Value" of a Trust Unit, on any particular date, means the volume weighted average trading price of the Trust Unit on the TSX for the 10 trading days immediately preceding such date. "Accrued Distributions" means, the aggregate amount of cash distributions per REIT Unit declared payable to holders of record during the term of the UAR.

The UARP contains provisions providing for adjustments in the event of a corporate reorganization, including an amalgamation or merger of the REIT with or into another entity, or in the event of a change in control (as defined in the UARP). Upon termination of employment (for cause) of a participant, all of his or her UARs shall be cancelled and terminated without payment. In the event of the death, retirement, or termination of employment (other than for cause) of a participant, that occurs on or after the first anniversary date of the date of grant of particular UARs, the number of UARs available to vest for the remaining term of such grant is pro rated based on the elapsed time since the date of grant. The balance of the number of UARs under such grant shall be cancelled and terminated without payment. If the date of any such event occurs prior to the first anniversary date of the date of grant of a particular UAR, then such UAR is cancelled and terminated without payment.

**Defined Benefit Plans:** In Canada, Extencicare and Extencicare (Canada) Inc. (ECI) provide an executive defined benefit pension plan and a supplemental executive retirement plan (SERP). Both plans were closed to new entrants in 2000. The defined benefit pension plan is a registered plan. The SERP is a non-registered unfunded plan and all benefits will be paid from cash from operations. The benefit obligations under the SERP are secured by letters of credit. Coverage under these plans provides for a benefit of 4% of the best three consecutive years of basic salary for each year of service to a maximum of 15 years and 1% per year thereafter. These arrangements provide a maximum benefit guarantee of 50% of base salary after 10 years of service, 60% after 15 years of service, and 70% after 25 years of service. Normal retirement age is 60 years or age 55 with company consent. Retirement benefits under these plans are

not subject to any deduction for social security or Canada Pension Plan, and are payable as an annuity over the lifetime of the plan participant with a portion continuing to be paid to his or her spouse after the death of the plan participant, depending on the form of pension elected by the participant at retirement.

***Non-Qualified Defined Contribution and Deferred Compensation Plans:*** In the U.S., EHSI maintains three separate non-qualified defined contribution and deferred compensation plans; the Executive Retirement Plan (ERP), the Deferred Salary Plan (DSP) and the Deferred Compensation Plan (DCP).

The ERP is offered to the CEO and EHSI's vice presidents, under which EHSI contributes an amount equal to 10% of the employee's salary on a monthly basis into an account to be invested in certain mutual funds at the participant's discretion. Employees are not allowed to make contributions to the ERP. As well, participants in the ERP are not eligible to participate in the DCP, with the exception of Messrs. Harris and Beal, who were "grandfathered" into the DCP. Amounts contributed by EHSI to the ERP, including amounts earned thereon, vest based on years of employment as follows: 20% after two years; 40% after three years; 70% after four years; and 100% after five years.

The DSP is offered to the CEO and EHSI's vice presidents who are participating in the ERP, with the exception of those that were "grandfathered" into the DCP. Under the DSP, an employee may defer up to 10% of his or her annual base salary. Amounts contributed by an employee to the DSP are 100% vested and earn interest at the prime rate.

The DCP is offered to highly compensated U.S. employees as prescribed by the Internal Revenue Service (IRS). Under the DCP, an employee may defer up to 10% of his or her annual base salary, excluding any bonus. EHSI matches up to 50% of the amount deferred, with the combined amounts earning interest at the prime rate. Employees who participate in the ERP are not eligible to participate in the DCP, with the exception of Messrs. Harris and Beal who were "grandfathered" into the DCP. Amounts contributed by EHSI to the DCP, including interest thereon, vest to the employee based on the number of years of employment as follows: 20% after two years; 40% after three years; 70% after four years; and 100% after five years. Amounts contributed by the employee to the DCP are 100% vested and earn interest at the prime rate.

Any funds that EHSI invests or assets that are acquired pursuant to the above deferred compensation plans continue to be funds or assets of EHSI. No party, other than EHSI, has any interest in such funds or assets. To the extent that any participant acquires a right to receive payment of amounts from EHSI under the deferred compensation plans, such right shall be no greater than the right of any unsecured general creditor of EHSI. EHSI expenses the amounts funded into the deferred compensation plans on a monthly basis. Amounts deferred and vested matching amounts of the plans are payable upon the death, disability or termination of the employee. Amounts held or deferred within these plans are not guaranteed, are "at risk" and are subject to EHSI's ability to make the scheduled payments. EHSI's deferred compensation liabilities owing to participants in these deferred compensation plans are unfunded and unsecured.

***Registered Defined Contribution Plans:*** In the United States, EHSI provides a 401(k) plan to which it contributes on a matching basis 25% of an employee's contributions up to the first 6% of the employee's pre-tax contributions. For highly compensated employees (as defined by the IRS), the employee's contribution is limited to 4% of annual earnings, subject to the legal limits of the plan. EHSI's matching contributions vest according to the number of years of employment as follows: 20% after two years; 40% after three years; 70% after four years; and 100% after five years.

In Canada, Extencicare and Extencicare (Canada) Inc. (ECI) provide a group registered retirement savings plan (RRSP) to executives, under which the employer contributes 10% of the employee's base salary, subject to the legal limits of the plan. The employer contributions vest immediately. Participants of the defined benefit plan are not eligible to participate in the group RRSP.

#### **Advisory Vote on Executive Compensation**

During 2009, the HR/GN Committee discussed having a non-binding advisory Unitholder vote relating to executive compensation. The HR/GN Committee agrees in principle with the "say on pay" philosophy adopted by the Canadian Coalition for Good Governance, and is in the process of developing both a policy and related resolution which it intends to add to its 2011 annual meeting agenda.

## Compensation for 2009

### Base Salary

The 2009 base salary increases for the senior executives of the REIT and its subsidiaries averaged 2%, reflecting the economic downturn and decline in inflation. Given the continued economic conditions and added uncertainty surrounding potential health care reform in the United States and its impact on the REIT, salaries of the senior executives have been frozen for 2010.

Changes in the base salaries of the Named Executive Officers for 2009 and 2010 are illustrated in the table below, and include changes in the individual's responsibilities, as indicated in the relevant footnote.

| Named Executive   | Salary                    |                           | % Increase |      |
|---|---------------------------|---------------------------|------------|------|
|   | 2008                      | 2009/2010                 | 2009       | 2010 |
| <b>T.L. Lukenda</b> <sup>(1)</sup><br>President and Chief Executive Officer of the REIT | US\$551,442<br>C\$587,837 | US\$765,000<br>C\$873,630 | 2%         | Nil  |
| <b>D.J. Harris</b><br>Senior Vice President and Chief Financial Officer of the REIT     | US\$280,200<br>C\$298,693 | US\$285,800<br>C\$326,384 | 2%         | Nil  |
| <b>P. Tuttle</b><br>President of Canadian Operations of Extencicare                     | C\$214,250                | C\$218,535                | 2%         | Nil  |
| <b>M. Beal</b><br>Senior Vice President of Operations of EHSI                           | US\$350,000<br>C\$373,100 | US\$357,000<br>C\$407,694 | 2%         | Nil  |
| <b>L. Claypool</b><br>Chief Information Officer of EHSI                                 | US\$280,100<br>C\$298,587 | US\$285,700<br>C\$326,269 | 2%         | Nil  |
| US/Canadian dollar exchange rate <sup>(2)</sup>   | 1.0660                    | 1.1420                    |            |      |

#### Notes:

- (1) Mr. Lukenda was appointed President and Chief Executive Officer of the REIT and Extencicare effective April 7, 2008. Mr. Lukenda's 2008 base salary of US\$551,442 represents his base salary earned from April 7, 2008 to December 31, 2008. The 2009 increase in base salary of 2% is based on his 2008 annualized salary of US\$750,000.
- (2) The base salaries for the Named Executive Officers, other than Mr. Tuttle, have been reported in United States dollars and translated to Canadian dollars using the average US/Canadian dollar exchange rate used in preparing the REIT's audited consolidated financial statements for the respective fiscal years.

### Short-term Incentives for 2009

During 2009, all of the Named Executive Officers participated in our annual incentive program.

References to "Net Earnings", in the following discussion, are to consolidated net earnings of Extencicare REIT before the following items on an after tax basis: (i) discontinued operations; (ii) loss (gain) on derivative financial instruments and foreign exchange; and (iii) loss (gain) from asset impairment, disposals and other items.

References to "EBIT", in the following discussion, are to earnings from continuing operations before interest, taxes, loss (gain) on derivative financial instruments and foreign exchange, and loss (gain) from asset impairment, disposals and other items.

References to "EBITDA", in the following discussion, are to earnings from operations 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.

References to "NOI", in the following discussion, are to net operating income, which is revenue less direct operating expenses.

References to "Adjusted Budgeted Net Earnings", in the following discussion, are to the budgeted Net Earnings and EBITDA recalculated using the same average US/Canadian dollar exchange rate that was used for financial reporting purposes in preparing the REIT's consolidated financial statements for the applicable period.

References to “AFFO”, in the following discussion, are to adjusted funds from operations (AFFO) as defined by the REIT Deed of Trust as consolidated net earnings (loss) of the REIT, as determined in accordance with GAAP, adjusted for non-cash items and other items not representative of the REIT’s operating performance as set out in the REIT Deed of Trust, and including a deduction for facility maintenance (non-growth) capital expenditures.

Extencicare REIT assess and measures operating results on these performance measures which are not recognized under Canadian generally accepted account principals (GAAP) and do not have standardized meanings prescribed by Canadian GAAP. Such non-GAAP measures may differ from similar computations as reported by other issuers. Detailed descriptions of “EBITDA”, “NOI” and “AFFO” can be found in the REIT’s management’s discussion and analysis for its financial year ended December 31, 2009, contained in the REIT’s 2009 Annual Report.

**Mr. Lukenda, President and CEO of the REIT:** In accordance with Mr. Lukenda’s employment contract, he is entitled to an annual cash bonus of a maximum of US\$500,000, with such amount to be determined by the HR/GN Committee in its discretion (subject to Board approval) and shall take into account, among other factors deemed by the HR/GN Committee to be reasonable, the operating results of Extencicare REIT, including AFFO, EBITDA margin, as well as certain occupancy and quality measures. For example, the HR/GN Committee is using the Five-Star Quality Rating System as a quality measure for the CEO’s performance. The Five-Star Quality Rating System was established in 2008 by the United States Centers for Medicare & Medicaid Services, and assigns a numerical rating between one (the lowest) and five (the highest) to all long-term care centers in an attempt to provide customers with an impression of how health care centers are performing on a relative basis.

**Mr. Harris, Senior Vice President and Chief Financial Officer:** In accordance with Mr. Harris’ employment contract, he is entitled to receive an annual bonus of up to 40% of his base salary, of which 70% is determined based on the performance of Extencicare REIT and 30% is based on his individual performance. The individual performance objectives are to be agreed upon at the beginning of each fiscal year, and are to be weighted equally, unless otherwise stated. Mr. Harris’ annual bonus can be further enhanced by 2.80% to up to 42.80% of his base salary if the REIT’s performance attains 105% of budget. The corporate component has been set at 70% because the HR/GN Committee believes that as Senior Vice President and Chief Financial Officer, a significant portion of Mr. Harris’ annual incentive should be based on the overall performance of the REIT.

Mr. Harris’ eligibility for an award under the incentive program is conditional upon the REIT achieving a minimum of 90% of its Adjusted Budgeted Net Earnings. Notwithstanding the foregoing, if the operations of the REIT and its subsidiaries have serious deficiencies in care or services provided, all or part of Mr. Harris’ annual bonus may be forfeited.

The following is a description of Mr. Harris’ 2008 annual incentive objectives:

*Corporate Performance (70% of total incentive potential):* Mr. Harris’ award for the performance of the REIT is determined based on Extencicare REIT achieving a minimum of 90% to a maximum of 105% of Adjusted Budgeted Net Earnings. The eligible award under this incentive accumulates at the same percentage rate of budget actually achieved for levels up to 105%, and at levels at or in excess of 105% the eligible award is determined using 110%.

*Individual Performance (30% of total incentive potential):* Mr. Harris’ individual objectives for 2009 included: (i) the refinancing of loan portfolios; (ii) asset divestitures and cost reduction initiatives; and (iii) achievement of accounts receivable reduction targets in the U.S. operations.

**Mr. Tuttle, President of Canadian Operations of the REIT:** In accordance with Mr. Tuttle’s employment contract, he is eligible to receive an annual bonus of up to 50% of his base salary, of which 50% is determined based on the performance of ECI, 30% is determined based on the performance of Extencicare REIT, and 20% is determined based on his individual performance. The individual performance objectives are to be agreed upon at the beginning of each fiscal year, and are to be weighted equally, unless otherwise stated. The combined components of ECI and Extencicare REIT were set at 80% because the HR/GN Committee believes that as President of Canadian Operations of the REIT, a significant component of Mr. Tuttle’s annual bonus should be based on corporate performance.

Mr. Tuttle’s eligibility for an award under the incentive program is conditional upon ECI achieving a minimum of 96% of its budgeted EBIT from its health care operations. Notwithstanding the foregoing, if the health care operations of ECI have serious deficiencies in care or services provided, or if ECI’s corporate office functions have serious deficiencies in service delivery or customer service, all or part of Mr. Tuttle’s annual bonus may be forfeited.

The following is a description of Mr. Tuttle's 2009 annual incentive objectives:

*Corporate Performance (80% of total incentive potential):* 50% of Mr. Tuttle's annual bonus potential is determined based on ECI achieving a minimum of 96% of budgeted EBIT from its health care operations, and 30% of his annual bonus potential is determined based on Extendicare REIT achieving a minimum of 96% of Adjusted Budgeted Net Earnings. With respect to each of these awards, upon achieving the minimum 96% of budget Mr. Tuttle is eligible to receive 5% and 3% of his bonus potential, respectively, and the awards accumulate at such rates for each additional 1% of budget to a maximum of 105% of budget.

*Individual Performance (20% of total incentive potential):* Mr. Tuttle's individual objectives for 2009 included: (i) the growth of ECI's management and consulting business; (ii) the development of a strategic plan for an operating division; and (iii) the minimizing of ECI's nursing home annual review findings at or below industry average. Nursing homes are subject to annual reviews by provincial inspectors to ensure compliance with provincial legislation, regulations and standards criteria.

**Mr. Beal, Senior Vice President of Operations of EHSI:** In accordance with Mr. Beal's employment contract, he is entitled to receive an annual bonus of up to 40% of his base salary, of which 70% is determined based on the performance of EHSI's skilled nursing and assisted living operations, and 30% is based on his individual performance. The individual performance objectives are to be agreed upon at the beginning of each fiscal year, and are to be weighted equally, unless otherwise stated. Mr. Beal's annual bonus can be further enhanced by 2.80% to up to 42.80% of his base salary if the corporate performance attains 110% of budget. The corporate component was set at 70% because the HR/GN Committee believes that as Senior Vice President of Operations of EHSI, a significant portion of Mr. Beal's annual incentive should be based on the performance of EHSI.

Mr. Beal's eligibility for an award under the incentive program is conditional upon EHSI achieving a minimum of 90% of its budgeted EBITDA. Notwithstanding the foregoing, if the operations of EHSI have serious deficiencies in care or services provided, all or part of Mr. Beal's annual bonus may be forfeited.

The following is a description of Mr. Beal's 2009 annual incentive objectives:

*Corporate Performance (70% of total incentive potential):* Mr. Beal's award for corporate performance is determined based on EHSI's NOI from its skilled nursing and assisted living operations achieving a minimum of 90% to a maximum of 110% of budget. At 90% of budget, Mr. Beal is eligible for 80% of the award under this incentive, and the award accumulates at the rate of 2% for each additional 1% of budget to a maximum of 110%.

*Individual Performance (30% of total incentive potential):* Mr. Beal's individual objectives for 2009 were based on performance relative to a number of key operational metrics including: (i) overall financial performance of EHSI; (ii) achieving cost controls in labour and other expenses, including provision for bad debts; and (iii) achievement of certain quality and compliance standards.

**Mr. Claypool, Chief Information Officer of EHSI:** In accordance with Mr. Claypool's employment contract, he is entitled to an annual bonus of up to 35% of his base salary, of which 35% of his target bonus is determined based on the performance of EHSI, 35% is based on the performance of Virtual Care Provider, Inc. (VCPI), and 30% is based on his individual performance with respect to EHSI and VCPI. The individual performance objectives are to be agreed upon at the beginning of each fiscal year, and are to be weighted equally, unless otherwise stated. Mr. Claypool's annual bonus can be further enhanced by 2.45% to up to 37.45% of his base salary if the corporate performance attains 110% of budget. The combined corporate component was set at 70% because the HR/GN Committee believes that as Chief Information Officer of EHSI and VCPI, a significant portion of Mr. Claypool's annual incentive should be based on the corporate performance of these companies.

The EHSI and VCPI awards are determined separately, and eligibility for the EHSI and VCPI components of the award is conditional on achieving the respective financial components and upon achieving a threshold of 80% of the respective individual performance objectives. Notwithstanding the foregoing, if the operations of EHSI or VCPI have serious deficiencies in care or services provided, all or part of Mr. Claypool's annual bonus may be forfeited.

The following is a description of Mr. Claypool's 2009 annual incentive objectives:

*Corporate Performance (70% of total incentive potential):* 35% of Mr. Claypool's target bonus potential is determined based on EHSI achieving a minimum of 90% to a maximum of 110% of budgeted EBITDA, and 35% of his target bonus is determined based on VCPI achieving a minimum of 90% to a maximum of 110% of budgeted NOI, excluding internal charges with EHSI. With respect to each of these incentives, Mr. Claypool is eligible for 80% of the award upon achieving the minimum 90% of budget, and the award accumulates at the rate of 2% for each additional 1% over budget to a maximum of 110%.

*Individual Performance (30% of total incentive potential):* Mr. Claypool's individual objectives provide for a threshold of 80% to a maximum of 100% of the award, and with respect to EHSI for 2009 included: (i) creating a multi-year EHSI information technology plan; (ii) executing several EHSI technology implementations; and (iii) participating in several EHSI business project reviews. With respect to VCPI, Mr. Claypool's individual objectives for 2009 included: (i) delivering VCPI 3.0 business model and culture of innovation; (ii) creating new products/services to promote to third-party customers; and (iii) complete multi-year investment projections and infrastructure cost reduction strategy.

**2009 Incentives Awarded:** The HR/GN Committee did not exercise its discretion to award the Named Executive Officers short-term incentives in amounts greater than what they were otherwise entitled to receive under their respective incentive programs.

With respect to Mr. Lukenda, the HR/GN Committee set the following 2009 performance measures, of which three out of four were achieved. Based on this outcome, the HR/GN Committee recommended, and the Board approved a bonus for Mr. Lukenda of US\$375,000, representing 75% of the maximum US\$500,000.

| <b>CEO 2009 Performance Measures</b>                                     | <b>Target</b> | <b>Actual</b> |
|--|---------------|---------------|
| REIT – AFFO as a % of distributions                                      | > 110%        | 238%          |
| REIT – EBITDA margin   | > 12%         | 12.3%         |
| EHSI – Medicare census as a % of total census from continuing operations | > 18%         | 16.5%         |
| EHSI – Five-Star ranking of facilities – % of ones and twos              | ≤ 65%         | 65%           |

With respect to the other Named Executive Officers, the 2009 financial results that their bonuses were based on, all exceeded their respective budgeted target thresholds as follows:

| <b>NEO 2009 Performance Measures</b>                             | <b>% of Target</b> |
|--|--------------------|
| REIT – Adjusted Budgeted Net Earnings                            | 106.2%             |
| ECI – EBIT of its health care operations                         | 113.5%             |
| EHSI – EBITDA  | 103.0%             |
| EHSI – NOI of its skilled nursing and assisted living operations | 103.2%             |
| VCPI – NOI, excluding internal charges with EHSI                 | 105.0%             |

As well, with respect to their personal objectives, they achieved the following: Mr. Harris – 100%; Mr. Tuttle – 66%; Mr. Beal – 83%; and Mr. Claypool – 90%. As a result, Messrs. Harris, Tuttle, Beal, and Claypool received bonuses as outlined in the table below.

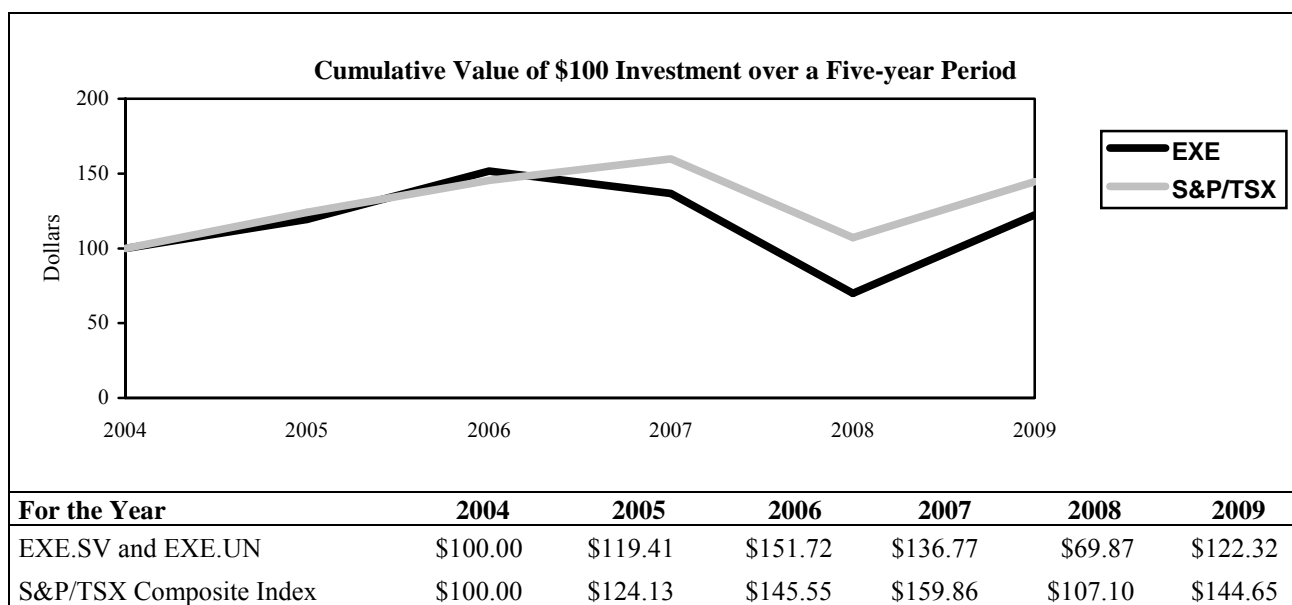
**2009 Annual Incentive Table**

The corporate performance measures and weightings set by the HR/GN Committee for 2009 under the annual incentive program, as well as the individual's achievement of each goal, along with the amount of the annual incentive that was awarded, are set out in the table below. The amounts for each of the Named Executive Officers, other than Mr. Tuttle, have been reported in the table below in United States dollars and translated to Canadian dollars using the average US/Canadian dollar exchange rate used in preparing the REIT's audited consolidated financial statements for the 2009 year of 1.1420.

| <b>Named Executive</b> | <b>2009 Annual Incentive Opportunity<br/>(as a % of base salary)</b> |               |             | <b>2009 Annual Incentive Bonus Awarded</b> |                      |                     |
|------------------------|--|---------------|-------------|--|----------------------|---------------------|
|                        | <b>Minimum</b>   | <b>Target</b> | <b>High</b> | <b>% of base salary</b>                    | <b>Amount (US\$)</b> | <b>Amount (C\$)</b> |
| <b>T.L. Lukenda</b>    | 65.35%   | 65.35%        | 65.35%      | 49.02%                                     | 375,000              | 428,250             |
| <b>D.J. Harris</b>     | 37.20%   | 40.00%        | 42.80%      | 42.80%                                     | 122,322              | 139,692             |
| <b>P. Tuttle</b>       | 14.00%   | 30.00%        | 50.00%      | 46.60%                                     | –                    | 101,838             |
| <b>M. Beal</b>         | 32.00%   | 40.00%        | 42.80%      | 39.79%                                     | 142,057              | 162,229             |
| <b>L. Claypool</b>     | 28.00%   | 35.00%        | 37.45%      | 35.91%                                     | 102,591              | 117,159             |

## Performance Graph

The following graph compares the yearly change in the cumulative value of the Trust Units (and prior to November 10, 2006, being the effective date of the Plan of Arrangement, the change in the cumulative value of the Subordinate Voting Shares of Extencicare) assuming a \$100 investment was made in Subordinate Voting Shares on December 31, 2004, with the cumulative total return of the Standard & Poor's/TSX Composite Index. The graph assumes the reinvestment of dividends and distributions paid by Extencicare and Extencicare REIT, respectively, as well as the reinvestment of the distribution of C\$9.05 per Subordinate Voting Share, representing the value per share in Canadian dollars of the Class A Shares of ALC that were distributed to the holders of Subordinate Voting Shares on November 10, 2006 pursuant to the Plan of Arrangement (such value being based on the volume weighted average trading price of the Class A Shares on the New York Stock Exchange on November 10, 2006).



Compensation levels of the CEO, CFO, and other Named Executive Officers over the period 2004 to 2008 have generally followed a similar trend to the total return of Extencicare's Subordinate Voting Shares and Extencicare REIT's Trust Units in the performance graph. During 2008, the REIT's total return declined 51.1% and the S&P/TSX Composite Index declined 67.0%. This decline was reflected in the 2008 total compensation levels of the Named Executive Officers (other than Mr. Lukenda). The total returns of the REIT and the S&P/TSX Composite Index increased in 2009, and likewise the 2009 compensation levels of the Named Executive Officers improved due primarily to the performance based short-term incentive awards.

## SUMMARY COMPENSATION TABLE OF NAMED EXECUTIVE OFFICERS

The following Summary Compensation Table sets forth all annual and long-term compensation for services in all capacities to the REIT and its subsidiaries for the individuals who were, at December 31, 2009, the Chief Executive Officer, the Chief Financial Officer and the next three most highly compensated executive officers (collectively, the “Named Executive Officers”) of the REIT and its subsidiaries.

| Name and Principal Position  | Year | Salary <sup>(3)</sup><br>(C\$) | Trust Unit<br>Based<br>Awards <sup>(4)</sup><br>(C\$) | Annual Non-  | Pension<br>Value <sup>(3)</sup><br>(C\$) | All Other<br>Compensation <sup>(3)(5)</sup><br>(C\$) | Total<br>Compensation<br>(C\$) |
|--|------|--------------------------------|---|--|--|--|--------------------------------|
|  |      |                                |   | equity<br>Incentive<br>Plans <sup>(3)</sup><br>(C\$) |  |  |                                |
| <b>T.L. Lukenda</b> <sup>(1)</sup><br>President and Chief Executive<br>Officer of the REIT and Extencicare               | 2009 | 873,630                        | 78,000  | 428,250  | 87,363                                   | 17,581   | 1,484,824                      |
|  | 2008 | 587,837                        | –   | 399,750  | 59,447                                   | 41,127   | 1,088,161                      |
| <b>D.J. Harris</b> <sup>(2)</sup><br>Senior Vice President and Chief<br>Financial Officer of the REIT and<br>Extencicare | 2009 | 326,384                        | 46,800  | 139,692  | 48,969                                   | 23,804   | 585,649                        |
|  | 2008 | 298,693                        | –   | 58,630   | 47,401                                   | 18,679   | 423,403                        |
| <b>P. Tuttle</b><br>President of Canadian Operations of<br>Extencicare, and President of ECI                             | 2009 | 218,535                        | 39,000  | 101,838  | –  | 52,636   | 412,009                        |
|  | 2008 | 214,250                        | –   | 129,988  | –  | 51,939   | 396,177                        |
| <b>M. Beal</b><br>Senior Vice President of<br>Operations of EHSI   | 2009 | 407,694                        | 46,800  | 162,229  | 40,769                                   | 26,195   | 683,687                        |
|  | 2008 | 373,100                        | –   | 58,630   | 40,419                                   | 31,366   | 503,515                        |
| <b>L. Claypool</b><br>Chief Information Officer of EHSI  | 2009 | 326,269                        | 28,080  | 117,159  | 32,627                                   | 21,313   | 525,448                        |
|  | 2008 | 298,587                        | –   | 107,224  | 29,859                                   | 21,081   | 456,751                        |

### Notes:

- (1) Mr. Lukenda was appointed President and Chief Executive Officer of the REIT and Extencicare effective April 7, 2008, and therefore, his compensation for 2008 represents the amount earned from April 7, 2008 to December 31, 2008.
- (2) Mr. Harris was appointed Senior Vice President and Chief Financial Officer of the REIT and Extencicare effective February 21, 2008, and had been serving as interim Chief Financial Officer since July 31, 2007, prior to which he was the Vice President and Controller of EHSI.
- (3) Other than amounts for Trust Unit based awards, compensation of the Named Executive Officers, with the exception of Mr. Tuttle, is earned in United States dollars and has been translated to Canadian dollars using the average US/Canadian dollar exchange rates of 1.0660 and 1.1420 that were used in preparing the REIT’s audited consolidated financial statements for the years ended 2008 and 2009, respectively. The pension value amounts have been translated to Canadian dollars using the period end US/Canadian dollar exchange rates of 1.2180 and 1.0510 as at December 31, 2008 and 2009, respectively.
- (4) The value of the Trust Unit based awards represents the value of UARs granted on August 20, 2009 carrying a base value of \$6.64, calculated using a modified binomial (Cox-Ross-Rubenstein) option pricing model, which determined a fair value of \$1.56 per UAR at the date of grant based on the following assumptions: risk-free interest rate of 1.75%; distribution yield of 10.97%; distribution equivalents of \$2.52 during the term of the UAR; a term of three years with no cancellations and terminations; and expected volatility of 37.05%.  
Since the UARs are settled in cash, the UAR compensation costs recorded under Canadian Generally Accepted Accounting Principles are accounted for on a “mark to market” basis as required by Section 3870 of the Canadian Institute of Chartered Accountants (CICA) Handbook. Under this method, the accounting value at the time of grant is zero and over time the value increases or decreases with changes in the Fair Market Value of the Trust Units and the amount of notionally accrued cash distributions per Trust Unit. The accounting value of the August 2009 UARs as at December 31, 2009, was \$158,000, or \$0.28 per UAR, based on prorating \$2.33 per UAR over 36 months.
- (5) All other compensation, in the case of Messrs. Lukenda, Harris, Tuttle, Beal and Claypool, includes employer contributions to qualified 401(k) or RRSP programs, auto allowances, life insurance premiums, long-term disability (LTD) premiums, group accidental death and dismemberment (ADD) premiums and health benefits. In addition, Mr. Beal, received travel allowance as compensation for commuting to EHSI’s corporate office, as did Mr. Lukenda in 2008.

The components of the “all other” compensation are as follows:

| Named Executive     | Year | Employer Contribution to Qualified 401(k) | Employer Contribution to Group RRSP | Travel Allowance | Auto Allowance | Life/LTD/ADD/Health | Total (US\$) | Total (C\$) |
|---------------------|------|---|-------------------------------------|------------------|----------------|---------------------|--------------|-------------|
| <b>T.L. Lukenda</b> | 2009 | –   | –                                   | –                | US\$12,000     | US\$3,395           | US\$15,395   | C\$17,581   |
|                     | 2008 | –   | –                                   | US\$24,131       | US\$9,000      | US\$5,450           | US\$38,581   | C\$41,127   |
| <b>D.J. Harris</b>  | 2009 | US\$2,450                                 | –                                   | –                | US\$9,600      | US\$8,794           | US\$20,844   | C\$23,804   |
|                     | 2008 | US\$2,300                                 | –                                   | –                | US\$9,600      | US\$5,622           | US\$17,522   | C\$18,679   |
| <b>P. Tuttle</b>    | 2009 | –   | C\$21,000                           | –                | C\$14,400      | C\$17,236           | –            | C\$52,636   |
|                     | 2008 | –   | C\$20,000                           | –                | C\$14,400      | C\$17,539           | –            | C\$51,939   |
| <b>M. Beal</b>      | 2009 | US\$2,450                                 | –                                   | US\$4,811        | US\$11,400     | US\$4,276           | US\$22,937   | C\$26,195   |
|                     | 2008 | US\$2,300                                 | –                                   | US\$11,172       | US\$11,400     | US\$4,551           | US\$29,423   | C\$31,366   |
| <b>L. Claypool</b>  | 2009 | US\$2,450                                 | –                                   | –                | US\$7,800      | US\$8,413           | US\$18,663   | C\$21,313   |
|                     | 2008 | US\$2,300                                 | –                                   | –                | US\$7,800      | US\$9,676           | US\$19,776   | C\$21,081   |

## INCENTIVE PLAN AWARDS

The following table sets forth the UARs issued during 2009 and outstanding at the end of December 31, 2009. The payout value of the UARs at December 31, 2009 of \$2.33 per UAR, is based on the appreciation in value of a Trust Unit from the base value of \$6.64 to the 10 day volume-weighted average trading price of \$8.62 at December 31, 2009, plus Accrued Distributions of \$0.35 per UAR. The August 20, 2009 UARs vest on August 20, 2012, and are subject to a minimum Trust Unit price condition of \$6.64 only, with no performance criteria. For a description of the UAR, refer to the discussion above in the Compensation Discussion and Analysis under the heading “Long-term Incentives”.

| Named Executive     | UAR Grant Date  | Number of UARs (#) | UAR Base Value and Minimum Trust Unit Price Condition (\$) | UAR Expiration Date | Payout Value of UARs that have not Vested (\$) |
|---------------------|-----------------|--------------------|--|---------------------|--|
| <b>T.L. Lukenda</b> | August 20, 2009 | 50,000             | \$6.64   | August 20, 2012     | 116,500  |
| <b>D.J. Harris</b>  | August 20, 2009 | 30,000             | \$6.64   | August 20, 2012     | 69,900   |
| <b>P. Tuttle</b>    | August 20, 2009 | 25,000             | \$6.64   | August 20, 2012     | 58,250   |
| <b>M. Beal</b>      | August 20, 2009 | 30,000             | \$6.64   | August 20, 2012     | 69,900   |
| <b>L. Claypool</b>  | August 20, 2009 | 18,000             | \$6.64   | August 20, 2012     | 41,940   |

## PENSION PLAN BENEFITS

### Defined Benefit Plans Table

None of the Named Executives are participants in Extencicare’s and ECI’s defined benefit pension plan and Mr. Harris is the only Named Executive Officer participating in the SERP, which is discussed above in the Compensation Discussion and Analysis under the heading “Defined Benefit Plans”. The SERP allows for normal retirement at the age of 60, and Mr. Harris is currently 53. Prior to his relocation to the REIT’s U.S. operations, Mr. Harris’ benefit upon retirement was fixed at \$76,566 per annum, based on having achieved 18.4 years of credited service at that time.

The following table provides information with respect to ECI’s obligations to Mr. Harris under the SERP, using the same assumptions and methods used for financial reporting purposes in preparing the REIT’s audited consolidated financial statements for the year ended December 31, 2009, as provided in note 18 thereto.

| Named Executive    | Number of Years Credited Service (#) | Annual Benefits Payable (\$) |           | Accrued Obligation at Start of Year (\$) | Compensatory Change (\$) | Non-compensatory Change (\$) | Accrued Obligation at Year End (\$) |
|--------------------|--------------------------------------|------------------------------|-----------|--|--------------------------|------------------------------|-------------------------------------|
|                    |                                      | At Year End                  | At Age 65 |  |                          |                              |                                     |
| <b>D.J. Harris</b> | 18.4                                 | 76,566                       | 76,566    | 667,009                                  | –                        | 96,703                       | 763,712                             |

## Non-Qualified Defined Contribution and Deferred Compensation Plans Table

The following table provides information regarding the three non-qualified plans provided by EHSI to the Named Executive Officers. These plans are described above in the Compensation Discussion and Analysis under “*Overview of Executive Compensation Programs – Non-Qualified Defined Contribution and Deferred Compensation Plans*”.

| Named Executive                                 | Plan               | Accumulated Value at Start of Year | Compensatory     | Non-compensatory   | Accumulated Value at Year End |
|---|--------------------|------------------------------------|------------------|--------------------|-------------------------------|
| <b>T.L. Lukenda</b>                             | ERP                | US\$55,971                         | US\$76,500       | US\$(1,371)        | US\$131,100                   |
|   | DSP                | US\$25,347                         | –                | US\$51,732         | US\$77,079                    |
|   | Total – US\$       | US\$81,318                         | US\$76,500       | US\$50,361         | US\$208,179                   |
|   | <b>Total – C\$</b> | <b>C\$99,046</b>                   | <b>C\$87,363</b> | <b>C\$32,387</b>   | <b>C\$218,796</b>             |
| <b>D.J. Harris</b>                              | ERP                | US\$137,928                        | US\$28,590       | US\$40,373         | US\$206,891                   |
|   | DCP                | US\$333,577                        | US\$14,290       | US\$40,884         | US\$388,751                   |
|   | Total – US\$       | US\$471,505                        | US\$42,880       | US\$81,257         | US\$595,642                   |
|   | <b>Total – C\$</b> | <b>C\$574,293</b>                  | <b>C\$48,969</b> | <b>C\$2,757</b>    | <b>C\$626,019</b>             |
| <b>M. Beal</b>                                  | ERP                | US\$38,230                         | US\$35,700       | US\$79             | US\$74,009                    |
|   | DCP                | US\$162,150                        | –                | US\$41,539         | US\$203,689                   |
|   | Total – US\$       | US\$200,380                        | US\$35,700       | US\$41,618         | US\$277,698                   |
|   | <b>Total – C\$</b> | <b>C\$244,063</b>                  | <b>C\$40,769</b> | <b>C\$7,029</b>    | <b>C\$291,861</b>             |
| <b>L. Claypool</b>                              | ERP                | US\$135,522                        | US\$28,570       | US\$1,098          | US\$165,190                   |
|   | <b>Total – C\$</b> | <b>C\$165,065</b>                  | <b>C\$32,627</b> | <b>C\$(24,078)</b> | <b>C\$173,614</b>             |
| US/Canadian dollar exchange rate <sup>(1)</sup> |                    | 1.2180                             | 1.1420           |                    | 1.0510                        |

### Note:

- (1) The U.S./Canadian dollar exchange rates are those that were used by the REIT in preparing its audited consolidated financial statements. The opening and closing pension value amounts have been translated to Canadian dollars using the period end US/Canadian dollar exchange rates of 1.2180 and 1.0510 as at December 31, 2008 and 2009, respectively. The compensatory amounts received during 2009 have been translated to Canadian dollars using the average US/Canadian dollar exchange rate of 1.1420. The net change in the exchange rates from the beginning of the year to the end of the year is reflected in the non-compensatory column.

## TERMINATION AND CHANGE OF CONTROL BENEFITS

### Employment Agreements

*Mr. Lukenda’s employment agreement* provides for (i) the payment of a base salary, (ii) incentive compensation and other plans at a level consistent with his position, and (iii) the provision of certain other benefits and an automobile allowance.

In the event of Mr. Lukenda’s termination of employment due to death or voluntary termination, he is entitled to his full base salary and other accrued benefits earned up to the date of termination, and all vested deferred compensation.

In the event of Mr. Lukenda’s termination for cause, he is entitled to his full base salary and other accrued benefits earned up to the date of termination, a pro rata share of his bonus to be received to the date of termination, and all vested deferred compensation. If a bonus has not been determined at the time of termination, the preceding bonus paid shall be utilized to calculate the bonus payable.

The agreement provides that Mr. Lukenda’s employment shall automatically terminate upon there being a material diminution of his assigned duties or functions that is made without his written consent, and provided it is not cured within 10 days of Mr. Lukenda’s giving notice to Extencicare REIT that the amendments to the conditions of his employment are not acceptable.

In the event of Mr. Lukenda's termination without cause, or due to automatic termination of employment as described above, Mr. Lukenda is entitled to a lump sum cash payment equivalent to 12 months base salary, a maximum bonus of US\$500,000, an automobile allowance, club dues and the amount credited as contributions to any of the ERP, DCP or 401(k) programs, during the first year of employment. For each year of service thereafter, Mr. Lukenda's severance compensation increases an additional two months to a maximum of 24 months. The bonus is to be based on the most recently paid annual bonus (which for 2009 was US\$375,000). In the event of a change of control, such lump sum cash payment shall automatically become equivalent to 24 months compensation, unless Mr. Lukenda chooses to continue his employment following such change in control.

**Messrs. Harris, Tuttle, Beal and Claypool**, each have employment agreements that provide for (i) the payment of a base salary, (ii) incentive compensation and other plans at a level consistent with the employee's position, and (iii) the provision of certain other benefits and an automobile allowance to such employees.

In the event of the employee's termination of employment due to death or voluntary termination by the employee, the employee is entitled to his or her full base salary and other accrued benefits earned up to the date of termination, and all vested deferred compensation.

If the employee's employment is terminated for cause, the employee is entitled to his or her full base salary through the date of termination and all vested deferred compensation.

The agreements provide that the employee's employment shall automatically terminate upon (i) the provision of written notice to the employee that his or her work location is being shifted to a location more than a specified distance from the current work location, or (ii) there being a material diminution of the employee's assigned duties and responsibilities, and (iii) the employee advises, in writing within a specified period, that the amendments to the conditions of employment in (i) and/or (ii) above are not acceptable.

If the employee is terminated without cause or his or her employment automatically terminates as a result of the occurrence of either of the events described in the preceding paragraph, the employee is entitled to his or her full base salary owed to the date of termination, severance pay in the amount as described below, a payment in lieu of bonus in an amount equal to a specified percentage of base salary as described below, a bonus on a pro rata basis for the portion of the year in which he or she was employed as described below, an automobile allowance for a period of time as described below, and the amount credited as contributions over a period of time as described below beginning immediately after the date of termination to any of the ERP, DCP, 401(k) or RRSP programs in which the employee was a participant. The employee is also entitled to all vested deferred compensation.

**Mr. Harris' employment agreement** provides for a lump sum severance payment in the amount of two years of base salary plus US\$15,000, payment of a pro rata bonus in the year of termination as based on 40% of base salary, payment in lieu of bonus of 40% of base salary over the severance period, and payment of other benefits as described above, calculated on the basis of 24 months.

**Mr. Tuttle's employment agreement** provides for severance pay in the amount of two years of base salary, payment of a pro rata bonus in the year of termination as determined using the financial results for the most recently completed four quarters for the corporate performance and 100% of the specific individual objectives, payment in lieu of bonus at the percent of base salary determined in calculating the pro rata bonus payment in the year of termination (which for 2009 was 46.6% of base salary), and payment of other benefits as described above, calculated on the basis of 24 months. The severance payments would be made semi-monthly over the severance period. In addition, Mr. Tuttle would continue to receive life insurance coverage, health and dental benefits over the severance period.

**Mr. Beal's employment agreement** provides for a lump sum severance payment in the amount of one year of base salary plus US\$15,000, payment of a pro rata bonus in the year of termination based on 35% of base salary, payment in lieu of bonus is 35% of base salary over the severance period, and payment of other benefits as described above, calculated on the basis of 12 months.

**Mr. Claypool's employment agreement** provides for a lump sum severance payment in the amount of one year of base salary plus US\$15,000, payment of a pro rata bonus in the year of termination based on 35% of base salary, payment in lieu of bonus is 35% of base salary over the severance period, and payment of other benefits as described above, calculated on the basis of 12 months.

## Quantification of Potential Payments upon Termination or Change of Control

The table below reflects estimates of the amounts of compensation that would be paid to the Named Executive Officers in the event of their termination, assuming such termination was effective as of December 31, 2009. No amounts of compensation would be paid in the event of death or voluntary termination or termination for cause. Only Mr. Lukenda is eligible to receive compensation in the event of a change of control. The actual amounts to be paid can only be determined at the time of the individual's separation from us.

| Named Executive / Type of Termination <sup>(1)</sup> | Salary        | Payment in Lieu of Bonus | Employer Contribution to |                      |            | Total (US\$)  | Total (C\$) <sup>(3)</sup> |
|--|---------------|--------------------------|--------------------------|----------------------|------------|---------------|----------------------------|
|  |               |                          | ERP/DCP/401(k)/RRSP      | Other <sup>(2)</sup> |            |               |                            |
| <b>T.L. Lukenda</b>                                  |               |                          |                          |                      |            |               |                            |
| Termination without cause or automatic termination   | US\$892,500   | US\$375,000              | ERP                      | US\$89,250           | US\$14,000 | US\$1,370,750 | C\$1,440,658               |
| Change of control                                    | US\$1,530,000 | US\$750,000              | ERP                      | US\$153,000          | US\$24,000 | US\$2,457,000 | C\$2,582,307               |
| <b>D.J. Harris</b>                                   |               |                          |                          |                      |            |               |                            |
| Termination without cause or automatic termination   | US\$586,600   | US\$228,640              | ERP                      | US\$57,160           | US\$19,200 | US\$925,080   | C\$972,259                 |
|  |               |                          | DCP                      | US\$28,580           |            |               |                            |
|  |               |                          | 401(k)                   | US\$4,900            |            |               |                            |
| <b>P. Tuttle</b>                                     |               |                          |                          |                      |            |               |                            |
| Termination without cause or automatic termination   | C\$437,070    | C\$203,675               | RRSP                     | C\$42,000            | C\$46,066  | –             | C\$728,811                 |
| <b>M. Beal</b>                                       |               |                          |                          |                      |            |               |                            |
| Termination without cause or automatic termination   | US\$372,000   | US\$124,950              | ERP                      | US\$35,000           | US\$11,400 | US\$545,800   | C\$573,636                 |
|  |               |                          | 401(k)                   | US\$2,450            |            |               |                            |
| <b>L. Claypool</b>                                   |               |                          |                          |                      |            |               |                            |
| Termination without cause or automatic termination   | US\$300,700   | US\$99,995               | ERP                      | US\$28,010           | US\$7,800  | US\$438,955   | C\$461,342                 |
|  |               |                          | 401(k)                   | US\$2,450            |            |               |                            |

### Notes:

- (1) Refer to the discussion under the heading "Employment Agreements" for a description of what constitutes automatic termination.
- (2) These amounts represent auto allowance, except in the case of Mr. Tuttle. Mr. Tuttle's amount of \$46,066 represents auto allowance of \$28,800 and the REIT's cost of \$17,266 to provide life insurance for a 24-month period based on his coverage as of December 31, 2009.
- (3) Compensation paid in United States dollars is reported in U.S. dollars and then translated to Canadian dollars using the period end US/Canadian dollar exchange rate of 1.0510 as at December 31, 2009, that was used in preparing the REIT's audited consolidated financial statements for 2009.

## INDEBTEDNESS OF TRUSTEES, DIRECTORS AND EXECUTIVE OFFICERS

None of the Trustees, directors or executive officers of the REIT or any of its subsidiaries is indebted to the REIT or any of its subsidiaries.

## COMPENSATION OF TRUSTEES OF THE REIT AND DIRECTORS OF EXTENDICARE

The Trustees of the REIT and directors of Extendicare who are employees of Extendicare or any of its subsidiaries are not compensated for their services as trustees, directors or members of committees. No additional compensation is paid to directors of Extendicare who are also Trustees of the REIT. Trustees of the REIT are expected to acquire within three years of their appointment to the Board, and hold, a minimum of 10,000 Trust Units. All of the Trustees have met this minimum requirement.

## Trustee Compensation Table

The following Trustee Compensation Table sets forth all amounts of compensation provided to the Trustees of the REIT for the year ended December 31, 2009, which totalled \$727,175.

| Name                         | Committee Memberships during 2009 | Retainer and Meeting Fees Earned <sup>(1)</sup> (\$) | Travel Allowance <sup>(2)</sup> (\$) | All Other Compensation <sup>(3)</sup> (\$) | Total (\$) | Minimum Unit Ownership Attained |
|------------------------------|-----------------------------------|--|--------------------------------------|--|------------|---------------------------------|
| <b>M.A. Rhineland</b>        | Chairman, Executive               | 156,250  | 6,125                                | 100  | 162,475    | Yes                             |
| <b>J.T. MacQuarrie, Q.C.</b> | Chair of Audit, HR/CG             | 108,750  | 16,625                               | 100  | 125,475    | Yes                             |
| <b>M.J.L. Kirby</b>          | Chair of HR/CG, Executive         | 66,500   | 10,500                               | 100  | 77,100     | Yes                             |
| <b>F.B. Ladly</b>            | Chair of Executive                | 56,000   | 10,500                               | 100  | 66,600     | Yes                             |
| <b>J.F. Angus</b>            | Audit                             | 66,500   | 11,375                               | 100  | 77,975     | Yes                             |
| <b>G.A. Fierheller</b>       | Audit                             | 63,875   | 1,750                                | 100  | 65,725     | Yes                             |
| <b>S.B. Goldsmith</b>        | HR/CG                             | 62,375   | 14,000                               | 100  | 76,475     | Yes                             |
| <b>A.G. Libin</b>            | Audit                             | 64,750   | 10,500                               | 100  | 75,350     | Yes                             |

### Notes:

- (1) The retainer and meeting fees earned during 2009 by the Trustees of the REIT consisted of the following:
  - Chairman of the Board's retainer (does not receive any other annual fees): \$100,000;
  - annual board retainer: \$30,000;
  - additional annual retainer for Audit Committee members: \$5,000;
  - Committee Chair retainer: \$5,000;
  - additional retainer for Audit Committee Chair: \$20,000
  - Board and Committee meeting fee: \$1,750 or \$3,500 per meeting depending on length of the meeting (i.e. half day versus full day); and
  - telephone conference meeting fee: 50% of the meeting fee.
- (2) The Trustees of the REIT are entitled to a travel allowance with respect to meetings held outside of their vicinity of residence equal to 50% of a meeting fee, plus a further 50% for each required overnight stay. In addition, they are entitled to reimbursement of meeting related travel and out-of-pocket expenses, which is not considered compensation.
- (3) All other compensation represents payments for accidental death and dismemberment coverage.

## TRUSTEES', DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

The REIT and its subsidiaries carry claims-made insurance coverage with an aggregate policy limit of US\$40.0 million subject to a deductible of US\$750,000. Under this insurance coverage, each entity has reimbursement coverage to the extent that it has indemnified any such trustees, directors and officers. The policy includes securities claims coverage, insuring against any legal obligation to pay on account of any securities claims brought against the REIT, or any of its subsidiaries and their respective trustees, directors and officers. The total liability is shared among the REIT and its respective subsidiaries, and their respective trustees, directors and officers so that the limit of liability will not be exclusive to any one of the entities or their respective trustees, directors and officers.

The annual premium for the trustees', directors' and officers' liability policy that expired on January 31, 2010, was US\$655,000. The annual premium for the trustees', directors' and officers' liability policy that expires on January 31, 2011 is US\$546,000.

## **AUDIT COMMITTEE INFORMATION**

### **Audit Committee Charter**

The REIT and Extendicare maintain a joint audit committee (the “Audit Committee”) that operates within a written mandate, approved by the Board of Trustees of the REIT and the Board of Directors of Extendicare. The full text of the Audit Committee Charter, which describes the Audit Committee’s objectives and responsibilities, is attached as Appendix A to this Circular. The Audit Committee reports annually on the fulfillment of its responsibilities, which report can be found under the section heading “Report of the Audit Committee”.

### **Composition of the Audit Committee**

The Audit Committee is currently composed of the following four Trustees and directors of Extendicare:

|                                    |                      |
|------------------------------------|----------------------|
| J. Thomas MacQuarrie, Q.C. (Chair) | George A. Fierheller |
| John F. Angus                      | Alvin G. Libin       |

The Board of Trustees and Board of Directors have determined each member of the Audit Committee to be “independent” and “financially literate” under Multilateral Instrument 52-110 – Audit Committees of the Canadian Securities Administrators. In addition, one member of the Audit Committee, Mr. MacQuarrie, is considered by the Board of Trustees and Board of Directors to qualify as an “audit committee financial expert”, as defined by the United States *Sarbanes-Oxley Act of 2002* and related rules and regulations of the U.S. Securities and Exchange Commission. The Board of Trustees and Board of Directors have made these determinations based on the education and experience of each member of the Audit Committee.

### **Relevant Education and Experience**

The following is a description of the education and experience of each member of the Audit Committee that is relevant to the performance of his responsibilities as a member of the Audit Committee:

Mr. MacQuarrie is a senior partner in the Atlantic Canada law firm of Stewart McKelvey, with Bachelor degrees in law and commerce from Dalhousie University. In addition, as an International Legal Studies Fellow, he did postgraduate work in law and labour relations at the University of Pennsylvania Law School and at the Wharton School of Business. Mr. MacQuarrie has gained extensive experience with financial statement preparation and analysis through his diversified practice in corporate and commercial transactions, including formations, financings, securities issues and reorganizations. Throughout his career, he has served on the boards of several other public companies, including a life insurance company, two real estate development companies, two mining companies and one oil exploration company in addition to several private companies. He was also a member of the audit committees of some of these public companies. Mr. MacQuarrie has been a director and a member of the Audit Committee and its Chair since 1980.

Mr. Angus is a senior partner of PerformaCorp Inc., a private consulting firm specializing in business turnaround solutions. Mr. Angus has specialized in turnaround management consulting for over twenty-five years and possesses a wide and varied business experience. He has held senior management positions in multinational and private companies, and has been involved in start-ups, business turnarounds and in running not for profit companies and organizations. Mr. Angus is a former Chair of the audit committee of UBS Bank Canada (from 1997 to 2007), and he has been on the boards of a number of companies both private and public, including two trusts, a bank and various financial, environmental and scientific companies. Mr. Angus is currently Chairman of Sheltered Oaks Resources Corp. (a public Canadian-based junior mining and exploration company), a director of the Institute for Public Affairs of Montreal and a member of the Turnaround Management Association. Mr. Angus was appointed to the Board of Trustees, and as a member of the Audit Committee, on December 14, 2006.

Mr. Fierheller is President of Four Halls Inc., a private investment and consulting firm and Chair Emeritus of The Greater Toronto Marketing Alliance. Mr. Fierheller graduated from the University of Toronto with a Bachelor (Honours) degree in Political Science and Economics and also holds an Honorary Doctor of Laws from Concordia University. Mr. Fierheller founded Systems Dimensions Limited in 1968, a public company that grew to become a large international remote-access service bureau, until it merged with Datacrown. In 1983, Mr. Fierheller founded and served as President and CEO of Cantel Inc., a public company that became the largest cellular company in the country. Mr. Fierheller is also a former Vice-Chairman of Rogers Cablesystems. He has served as a director and audit committee member for a number of public companies. Mr. Fierheller has been a member of the Audit Committee since 1995.

Mr. Libin is President and Chief Executive Officer of Balmon Investments Ltd., a private management services and investment company and is also a director and one of the owners of the Calgary Flames Hockey Club. Mr. Libin received an Honorary Doctor of Laws degree from the University of Calgary in 1994. Mr. Libin was formerly President and Director of Villacentres Limited, a Canadian public nursing home company. He is a former Chairman of the Alberta Ingenuity Fund, and of the Board of the Calgary Foothills Hospital where he played a key role in the hospital's financial revitalization. Mr. Libin serves as a director of numerous corporate and community boards, including companies in the hospitality industry. Mr. Libin has been a member of the Audit Committee since 1984.

### External Auditor Service Fees

Fees payable to the independent external auditor of the REIT and Extencicare, KPMG LLP, during fiscal 2009 and 2008 are detailed in the following table, and their nature is described below.

| <b>Fee Category</b> | <b>Year ended 2009 (C\$)</b> | <b>Year ended 2008 (C\$)</b> |
|---------------------|------------------------------|------------------------------|
| Audit               | 1,253,000                    | 1,625,000                    |
| Audit related       | 83,000                       | 82,000                       |
| Tax planning        | 87,000                       | 466,000                      |
| All other fees      | –                            | 31,000                       |
| <b>Total</b>        | <b>1,423,000</b>             | <b>2,204,000</b>             |

**Audit fees** were for professional services rendered by KPMG LLP for the audit of the annual consolidated financial statements and review of the quarterly consolidated financial statements of the REIT, including separate audits and reviews of its wholly owned subsidiaries, EHSI and Tendercare (Michigan) Inc., and its captive insurance companies. In addition, services during both years were provided in respect of other regulatory-required auditor attest functions associated with government audit reports for the nursing homes and home health care operations, registration statements, periodic reports and other documents filed with securities regulatory bodies or other documents issued in connection with securities offerings.

**Audit-related fees** consisted of an audit opinion on controls at wholly owned subsidiary, VCPI, in order that it may provide third-party assurance for services to its clients, consultations concerning accounting and financial reporting standards and the audit of statement of revenue and expenses relating to a division of the REIT.

**Tax planning fees** were for services outside of the audit scope and represented consultations for tax planning and advisory services common forms of domestic and international taxation as well as assistance with various tax audit matters.

**All other fees** consisted of services in 2008 related to the review of the implementation of enterprise resources planning software.

### Pre-approval Policies and Procedures

The Audit Committee has adopted policies and procedures for the pre-approval of services performed by its external auditors, with the objective of maintaining the independence of the external auditors. The policy requires that the Audit Committee pre-approve all audit, audit-related, tax and other permissible non-audit services to be performed by the external auditors, including all engagements of the external auditors with respect to the REIT's subsidiaries. The Audit Committee pre-approved all such fees and services in 2009 in accordance with the policy. The policy sets out the details of the permissible non-audit services consistent with the independence requirements of the Canadian independence standards for auditors. The procedures require the Chief Financial Officer to present the details of any proposed assignments of the external auditor for consideration by the Audit Committee. The procedures do not allow delegation of the Audit Committee's responsibilities to management.

## **REPORT OF THE AUDIT COMMITTEE**

The Audit Committee continues to monitor, and adopt as appropriate, new regulatory requirements and emerging best practices. The Chief Executive Officer and the Chief Financial Officer of the REIT certify the information set forth in the consolidated financial statements and related disclosure materials of the REIT as required by Canadian securities laws.

In 2009 the Audit Committee met on five occasions to review key financial disclosure reports, receive assurance of the adequacy of financial disclosure controls, and review the work of the internal auditor of the REIT and that of the external independent auditors, KPMG LLP, including the overall scope and plan for the 2009 audit. The internal auditor and the external independent auditors were in attendance at all of the Audit Committee meetings.

Throughout the year the Audit Committee reviewed with management, the internal auditor, and the external independent auditors the appropriateness of the accounting and financial reporting, the impact of the adoption of new accounting pronouncements, the accounting treatment of significant risks and uncertainties, the key estimates and judgements of management that were material to the financial reporting, and the disclosure of critical accounting policies.

The Audit Committee reviewed and recommended to the Board of Trustees of the REIT for its approval, where appropriate, all public disclosure documents (including news releases) containing audited or unaudited financial information before release to the public. These public disclosure documents included the audited consolidated financial statements, annual management's discussion and analysis (MD&A), annual report, annual information form, and the quarterly financial results (including the quarterly MD&A and unaudited quarterly consolidated financial statements). Prior to the release of such documents to the public, the Audit Committee met with management and, where appropriate, the external independent auditors, to review the documents and receive assurance that they were complete, fairly presented, and in accordance with established principles consistently applied.

Prior to the issuance of the annual financial statements, the Audit Committee met with management, the internal auditor, and the external independent auditors. The Audit Committee was assured that management had fulfilled its responsibilities for financial reporting and internal controls and that the external independent auditors had carried out their audit in accordance with their audit plan as approved by the Audit Committee.

The Audit Committee met with management and the external independent auditors to discuss the qualitative aspects of the financial statement reporting, which included the appropriateness of the significant accounting policies, management judgements and accounting estimates and other matters arising from the audit. The Audit Committee met with the external independent auditors, without management, and was advised that there were no unresolved issues with respect to the audit.

In addition, the Audit Committee discussed with KPMG LLP its independence. The Audit Committee reviewed in detail the audit and non-audit related fees paid to KPMG LLP during 2009 and considered the compatibility of the non-audit services with the auditors' independence and concluded that such services did not compromise the independence of the auditors. The Audit Committee has adopted a policy requiring Audit Committee pre-approval of the engagement of KPMG LLP regarding permissible non-audit related matters.

The Audit Committee is satisfied that it has appropriately fulfilled its mandate to the best of its ability for the year ended December 31, 2009.

Report submitted by the Audit Committee:

J. Thomas MacQuarrie, Q.C. (Chair)  
John F. Angus

George A. Fierheller  
Alvin G. Libin

## **ADMINISTRATION AGREEMENT**

The REIT is administered by the Trustees and by Extencicare pursuant to the administration agreement entered into by the REIT, Extencicare Trust and Extencicare Holding General Partner Inc. (Holding GP) with Extencicare on November 10, 2006 (the "Administration Agreement").

Pursuant to the Administration Agreement, Extencicare is responsible for overseeing and managing all general and administrative affairs of the REIT and its subsidiaries. Extencicare's duties with respect to the administration of the REIT under the Administration Agreement include: (i) ensuring compliance by the REIT, its affiliates and subsidiaries with all continuous disclosure obligations under applicable securities legislation, including the preparation of financial statements; (ii) providing investor relations services; (iii) providing or causing to be provided to Unitholders all

information which Unitholders are entitled to receive under the REIT Deed of Trust, including relevant information with respect to income taxes; (iv) convening meetings of Unitholders and distributing required materials, including notices of meetings and information circulars, in respect of all such meetings; (v) providing for the computation and making of distributions to Unitholders; (vi) attending to all administrative other matters relating to the REIT's unitholders rights plan; (vii) providing assistance in negotiating the terms of any offering of Trust Units or other securities of the REIT; (viii) notifying the Trustees of any event that might reasonably be expected to have a material adverse effect on the affairs of the REIT; and (ix) generally providing all other services as may be necessary, or as requested by the Trustees, for the administration of the REIT and which are not otherwise expressly delegated to Extencicare under the terms of the REIT Deed of Trust.

The Administration Agreement has an initial term of 10 years, and will be extended for additional five-year periods at the option of the REIT, Extencicare Trust, Holding GP and Extencicare. The Administration Agreement may be terminated by a party in the event of the insolvency or receivership of another party, or in the case of default by another party in the performance of a material obligation under the Administration Agreement, with certain exceptions, which is not remedied within 30 days after written notice has been delivered.

## **GOVERNANCE DISCLOSURE**

National Instrument 58-101 – Disclosure of Corporate Governance Practices (NI 58-101) of the Canadian Securities Administrators requires the REIT to disclose, on an annual basis, its approach to governance with reference to the guidelines provided in NI 58-101. The disclosure of the REIT in this regard is set out in Appendix B to this Circular.

## **OTHER BUSINESS**

The Trustees do not currently intend to present, and do not have any reason to believe that others will present, at the Meeting, any item of business other than those set forth in this Circular. However, if any other business is properly presented at the Meeting and may properly be considered and acted upon, proxies will be voted by those named in the form of proxy in their discretion. Proxies may also be voted in the discretion of those named with respect to any amendments or variations to the matters identified in the Notice.

## **ADDITIONAL INFORMATION**

**Additional information relating to the REIT may be found on the SEDAR website at [www.sedar.com](http://www.sedar.com) and on the REIT's website at [www.extencicare.com](http://www.extencicare.com). Additional financial information is provided in the REIT's comparative financial statements and management's discussion and analysis for its year ended December 31, 2009, as contained in the 2009 Annual Report. A copy of this document and other public documents of the REIT are available upon request to:**

Extencicare Real Estate Investment Trust  
Attention: Secretary of the REIT  
3000 Steeles Avenue East, Suite 700  
Markham, Ontario L3R 9W2  
Phone: 905-470-5534  
Fax: 905-470-4003

## **APPROVAL OF TRUSTEES**

The contents and the sending of the Circular have been approved by the Trustees of the REIT.

**DATED** at Markham, Ontario on March 5, 2010.

By:/s/ Timothy L. Lukenda

**Timothy L. Lukenda**  
President and  
Chief Executive Officer

By:/s/ Douglas J. Harris

**Douglas J. Harris**  
Senior Vice President and  
Chief Financial Officer

**EXTENDICARE REAL ESTATE INVESTMENT TRUST AND EXTENDICARE INC.  
JOINT AUDIT COMMITTEE CHARTER**

**1. Purpose**

The Audit Committee is a joint committee of the board of trustees of Extendicare Real Estate Investment Trust (the “REIT”) and the board of directors of Extendicare Inc. (Extendicare). The primary function of the Audit Committee shall be to assist the board of trustees of the REIT (the “Board of Trustees”) and the board of directors of Extendicare (the “Board of Directors”; the Board of Trustees and the Board of Directors, collectively the “Boards”) in fulfilling its responsibilities for oversight of (1) the quality and integrity of the REIT’s consolidated financial statements, (2) the REIT’s compliance with legal and regulatory requirements, (3) the external auditors’ qualifications and independence, (4) the performance of the REIT’s external auditors and internal audit function, and (5) the accounting and financial reporting processes of the REIT and its internal controls over financial reporting. The Audit Committee is also responsible for preparing any reports required to be prepared by it under the rules and regulations of applicable regulatory authorities.

The Audit Committee is directly responsible for the (1) recommendation for appointment of the external auditors by the REIT’s unitholders, (2) compensation and oversight of the external auditors, and (3) resolution of disagreements between management and the external auditors regarding financial reporting. The external auditors are ultimately accountable to (and shall directly report to) the Audit Committee, as representatives of the unitholders.

The Audit Committee has final authority and responsibility for the appointment, and assignment of duties of the internal audit department. The Audit Committee shall direct that the internal audit department be authorized to have full, free and unrestricted access to all of the functions, records, property and personnel of the REIT in order to carry out the duties prescribed by the Audit Committee.

The activities enumerated in Section 4 of this Charter are designed to promote the Audit Committee’s fulfillment of its functions, as well as to facilitate communications between the Boards, management, the internal auditors and external auditors on significant accounting judgements, estimates, principles, practices and policies. Notwithstanding the Audit Committee’s role in oversight of the REIT’s consolidated financial reporting process and financial statements, it is acknowledged that the REIT’s management ultimately has responsibility for that process and the REIT’s consolidated financial statements.

**2. Composition**

- (a) The Audit Committee shall be comprised of not fewer than three (3) nor more than six (6) members who are both trustees of the REIT and directors of Extendicare. The members of the Audit Committee shall be appointed annually. Unless a Chair is elected by the Board of Trustees and the Board of Directors, the members of the Audit Committee may designate a Chair by majority vote of the full Audit Committee.
- (b) Each member shall satisfy the independence and experience requirements of applicable regulatory authorities. The Board of Trustees and Board of Directors will exercise their business judgement to determine an individual’s eligibility to be a member of the Audit Committee including a determination regarding his or her independence and experience.
- (c) The Audit Committee shall consist of at least one member who shall have “Accounting or Related Financial Experience”. The designation of such a member shall not impose any duties, obligations or liabilities on such member greater than the regular duties, obligations and liabilities as a member of the Audit Committee.
- (d) The Chair of the Audit Committee and the other members of the Audit Committee shall:
  - (i) be “Financially Literate”, as this qualification is interpreted by the Board of Trustees and Board of Directors in their business judgement, or must become “Financially Literate” within a reasonable period of time after appointment to the Audit Committee;
  - (ii) be “Independent” and no member shall have a material relationship with the REIT or Extendicare which could, in the view of the Board of Trustees and Board of Directors, be reasonably expected to interfere with the exercise of a member’s independent judgement.
  - (iii) not be an officer or employee of the REIT, nor a compensated officer or employee of a subsidiary of the REIT, including Extendicare, nor have been such within the three-year period preceding his or her appointment as a member of the Audit Committee; and

- (iv) not receive, either directly or indirectly, compensation from the REIT or any subsidiary of the REIT, including Extencicare, other than in the member's capacity as a member of the Board and any Board committee.

### 3. Meetings and Procedures

- (a) The Audit Committee shall meet as often as it deems appropriate to discharge its responsibilities and in any event at least four (4) times per year. A majority of the members of the Audit Committee shall constitute a quorum for the transaction of business. The meetings will be scheduled so as to permit timely review and consideration of the interim and annual financial statements as well as allowing sufficient time to consider and review the audit plan with management and the external auditors. Additional meetings may be held as deemed necessary by the Chair of the Audit Committee or as requested by any member of the Audit Committee or the external auditors.
- (b) As part of its job to foster communication, the Audit Committee shall meet periodically in separate executive sessions with management, and the independent auditors to discuss any matter that the Audit Committee believes should be discussed privately.
- (c) The minutes of all meetings of the Audit Committee shall be provided to the Board of Trustees and/or the Board of Directors, as appropriate in the circumstances. Oral reports by the Chair of the Audit Committee on matters that have not been recorded in the minutes of the Audit Committee shall be provided to the Board of Trustees or the Board of Directors at the next meeting of such Board following the meeting of the Audit Committee and as otherwise requested by such Board.
- (d) The Audit Committee, as it deems necessary in the exercise of its business judgement, may conduct or authorize investigations into any matters within the Audit Committee's scope of responsibilities. The Audit Committee is authorized to retain and determine funding for independent professionals to assist in the conduct of any investigation.

### 4. Responsibilities and Duties

The following are activities of the Audit Committee designed to promote the fulfillment of its functions as described in this Charter (these functions are set forth as a guide with the understanding that the Audit Committee may diverge from this guide as appropriate given the circumstances).

#### (a) Financial Reporting Process and Documents Review

Review and report to the Board of Trustees and the Board of Directors before release to the public, where appropriate, all public disclosure documents (including related news releases) containing audited or unaudited financial information, including any prospectus, interim and annual financial statements, management's discussion and analysis, the annual report, the annual information form and any certification, report, opinion, or review rendered by the external auditor. Such review shall include discussions with management and where appropriate the external auditors, and shall specifically include:

- (i) all critical accounting estimates and judgements including how policies were chosen among alternatives, the methodology of applying those estimates and policies, and the assumptions made, and the impact of changes in those estimates and policies, both qualitatively and quantitatively;
- (ii) any material off-balance sheet transactions, arrangements, obligations (including contingent obligations) and other relationships of the REIT with unconsolidated entities or other persons, that may have a material current or future effect on the REIT's consolidated financial statements, financial condition, changes in financial condition, results of operations, liquidity, capital resources, capital reserves or significant components of revenues or expenses;
- (iii) all material related-party transactions;
- (iv) obtaining an explanation from management of all significant variances between comparative reporting periods and an explanation for items which vary from expected or budgeted amounts;
- (v) internal control procedures, programs and policies, and assessment of the adequacy and effectiveness of internal controls over the accounting and financial reporting systems and other identified business risks;
- (vi) all post-audit or management letters, containing the recommendations of the external auditor, and management's response and subsequent follow-up to any identified weaknesses or significant comments;

- (vii) all issues of operational risk management, including insurance coverages maintained by the REIT or any subsidiary of the REIT, legal exposure, including legal claims or other contingencies as well as tax assessments that could have a material effect upon the consolidated financial position or operating results of the REIT, management compliance with regulatory requirements, conflicts of interest, and other related matters, in the exercise of its business judgement that it considers as having or tending to have a material impact on the financial position of the REIT; and
  - (viii) any allegations of fraud, or other impropriety, whether or not material, that involves management or other employees who have a significant role in internal controls.
- (b) **Independent External Auditors and Approval of Audit and Non-audit Services**  
 Possess the ultimate authority and responsibility to (1) recommend annually or more frequently as required the appointment or reappointment of the independent external auditors by the REIT's unitholders, (2) evaluate, and where appropriate, replace the external auditors, and (3) determine the appropriate compensation to the external auditors. Such responsibility shall include:
- (i) reviewing and approving the terms of the external auditors' engagement, the appropriateness and reasonableness of the proposed audit plan, audit fees and any unpaid fees;
  - (ii) establishing and maintaining procedures for pre-approval by the Audit Committee of all proposed non-audit services to be provided by the external auditors or its affiliates, together with estimated fees, and considering the impact of these on the independence of the external auditors;
  - (iii) the authority to delegate to one or more members the authority to grant the approvals required by the preceding paragraph; with a report of any such approvals to be presented to the full Audit Committee at its next regularly scheduled meeting;
  - (iv) reviewing and evaluating the performance of the external auditors annually or more frequently as required, including any problems experienced by the external auditors in performing their duties, any restrictions imposed by management, or significant accounting issues with which there was a disagreement with management;
  - (v) reviewing the evaluation of internal controls by the external auditors, together with management's response;
  - (vi) obtaining from the external auditors on a periodic basis, a formal written statement delineating all relationships between the external auditor and the REIT, actively engaging in a dialogue with the external auditor with respect to any disclosed relationships or services that may impact the objectivity and independence of the external auditors, and for recommending that the Board of Trustees take appropriate action in response to the external auditors' report to satisfy itself of the external auditors' independence; and
  - (vii) reviewing all issues related to any change of external auditors, including the information to be included in the notice of change of auditor and the planned steps for an orderly transition.
- (c) **Internal Audit Function**  
 Possess the ultimate authority and responsibility to review and report to the Board of Trustees and Board of Directors on the appointment, replacement, reassignment or dismissal of the internal auditor; and the functions of the internal audit department. Such responsibility shall include:
- (i) reviewing and approving management's decisions related to the need for internal auditing;
  - (ii) reviewing the mandate, budget, plan, changes in plan, activities, organizational structure, and qualifications of the internal audit department, as needed;
  - (iii) reviewing the appointment, performance, and replacement of the senior internal audit executive; and
  - (iv) reviewing significant reports prepared by the internal audit department together with management's response and follow-up to these reports.

**(d) Reports of the Audit Committee**

Prepare an annual Audit Committee report or other proxy statement disclosure about the activities of the Audit Committee in accordance with rules and regulations of applicable regulatory authorities.

**(e) Other Duties**

- (i) review the appointment of the chief financial officer and of any key financial executive involved in the financial reporting process or any changes in any of these positions, with a policy that the REIT or any of its subsidiaries will not hire employees and former employees of the external auditors if their status as employees would cause the external auditors to cease being independent;
- (ii) establish procedures for (a) the receipt, retention and treatment of complaints received by the REIT or any subsidiary of the REIT regarding accounting, internal accounting controls or auditing matters; and (b) the confidential, anonymous submission by employees of the REIT or any of its subsidiaries of concerns regarding questionable accounting or auditing matters;
- (iii) annually, review and reassess the adequacy of the Audit Committee Charter and report thereon to the Board of Trustees and Board of Directors; and
- (iv) annually, review and evaluate the performance of the Audit Committee's duties.

**5. General Provisions**

While the Audit Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Audit Committee to plan or conduct audits or to determine that the REIT's consolidated financial statements are complete and accurate. This is the responsibility of management and the external auditors. Nor is it the duty of the Audit Committee to conduct investigations, or to assure compliance with laws and regulations.

The Audit Committee is by this Charter delegated the powers of the Board of Trustees and Board of Directors necessary to carry out its purposes, responsibilities and duties provided in this Charter or reasonably related to those purposes, responsibilities and duties.

The Audit Committee may form and delegate authority to subcommittees of one or more members when appropriate. Any subcommittee shall be subject to this Charter. The decisions of any subcommittees to which authority is delegated under this paragraph shall be presented to the full Audit Committee at its next regularly scheduled meeting.

This Charter amends in its entirety and replaces the charter of the Audit Committee as heretofore in effect.

**6. Definitions**

"Accounting or Related Financial Expertise" means the ability to analyze and interpret a full set of financial statements, including the notes attached thereto, in accordance with applicable generally accepted accounting principles.

"Financially Literate" means the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the REIT's consolidated financial statements.

"Independent" means a member who meets the independence criteria as set out by the Canadian Securities Administrators in section 1.4 of Multilateral Instrument 52-110.

**EXTENDICARE REAL ESTATE INVESTMENT TRUST  
STATEMENT OF GOVERNANCE PRACTICES**

The board of trustees (the “Board of Trustees”) of Extendicare Real Estate Investment Trust (the “REIT”) has overall responsibility and full power and authority to supervise the activities and manage the investments and affairs of the REIT and to manage the assets of the REIT. The Board of Trustees has delegated responsibility for the management and general administration of the REIT to Extendicare Inc. (Extendicare) pursuant to an agreement made as of November 10, 2006, (the “Administration Agreement”) between the REIT, Extendicare Trust, Extendicare Holding General Partner Inc. and Extendicare.

The board of directors of Extendicare (the “Board of Directors”) is responsible for the stewardship of the business and affairs of Extendicare.

The members of the Board of Trustees and the Board of Directors operate under Charters that clearly define their roles and responsibilities.

**Independence of Trustees and Directors:** Independence of the Board of Trustees is essential to fulfilling its role in overseeing the investments and affairs of the REIT. Pursuant to a resolution of the Board of Trustees, the number of trustees of the REIT to be elected at the May 6, 2010 Meeting has been fixed at 10. Information relating to each of the 10 nominees proposed for election as trustees of the REIT and directors of Extendicare is set out in the “Election of Trustees” section of the Management Information and Proxy Circular. The Board of Trustees and the Board of Directors have determined that nine of these 10 individuals, including Mr. Rhineland, are “independent”, as determined in accordance with National Instrument 58-101 of the Canadian Securities Administrators (NI 58-101). With respect to Mr. Rhineland, who retired from the role of President and Chief Executive Officer of Extendicare over three years ago, it is the view of the Board of Trustees and the Board of Directors that a sufficient amount of time has elapsed for Mr. Rhineland to have distanced himself from the operations of the REIT and its subsidiaries and that Mr. Rhineland does not have any other interests or relationships with the REIT or any of its subsidiaries, that could reasonably be expected to interfere with the exercise by Mr. Rhineland of independent judgement. By virtue of Mr. Lukenda’s current role as President and Chief Executive Officer, he is a non-independent trustee and director of the REIT and Extendicare, respectively.

Details of other reporting issuers on which the REIT’s trustees and Extendicare’s directors also sit as board members are disclosed under the heading “Election of Trustees” in the Management Information and Proxy Circular.

The roles of the REIT’s and Extendicare’s Chief Executive Officer (CEO) and Board Chairman are separate. Each board meeting excludes the CEO and management from a portion of the meeting to enable open and frank discussion.

The “Election of Trustees” section of the Management Information and Proxy Circular includes the attendance record of the members of the Board of Trustees and Board of Directors at board meetings held by the REIT and Extendicare, as applicable, during 2009. The Board of Trustees met seven times during 2009, at which attendance averaged 98% and the Board of Directors met eight times during 2009, at which attendance averaged 96%.

**Board Mandate:** The mandates of the Board of Trustees and Board of Directors are attached as Appendix C and Appendix D, respectively.

**Position Descriptions:** Each of the Board of Trustees and the Board of Directors has developed a written position description for its Chairman. The Board of Trustees has not developed such descriptions for the chair of any of its committees. The chair of each committee is expected to supervise the activities of such committee and to ensure that the committee is taking all steps necessary to fulfil its mandate.

The Board of Directors has developed a written position description for the Chief Executive Officer that outlines the basic functions and responsibilities of the CEO. The CEO’s responsibilities include, among other things: directing the business with the objective of providing quality care and service excellence to clients and customers; providing maximum profit and return on invested capital; establishing current and long-range objectives, plans and policies; representing Extendicare with its major clients, and the public, and providing leadership to the management team.

**Orientation and Continuing Education:** A handbook has been developed that contains Board of Trustees, Board of Directors and committee mandates, codes of conduct, policies and other relevant information. Materials are updated annually, or more frequently as necessary. To ensure that the members of the Boards remain fully informed about Extendicare’s operations on a continuing basis, management reports on Extendicare’s and its subsidiaries’ activities and on various aspects relevant to the business on an on-going basis, during regularly scheduled Board meetings and through monthly mailings. Management from the main operating divisions are invited to Board of Trustees and Board of Directors meetings to provide the trustees and directors with an overview of the current issues and business strategies. In addition,

meetings are periodically combined with tours of the facilities of Extendicare so that the trustees and directors can gain greater insight into the business operations.

**Ethical Business Conduct:** The REIT and Extendicare maintain an approved Business Conduct Policy for their trustees, directors, officers and employees, for which no waivers have currently been sought or granted. The Business Conduct Policy addresses conflicts of interest, confidentiality, protection of the assets, fair dealing, and compliance with laws, rules and regulations, and it encourages reporting of any illegal or unethical business practices. Anyone may obtain a copy of the Business Conduct Policy through SEDAR at [www.sedar.com](http://www.sedar.com) or through the REIT's website at [www.extendicare.com/investors/governance](http://www.extendicare.com/investors/governance).

In circumstances in which the Board of Trustees or the Board of Directors must consider transactions and agreements in respect of which a trustee, director or executive officer has a material interest, the nature of such interest is declared, and the affected individual does not participate in the vote on the matter.

**Nomination of Trustees:** The REIT and Extendicare have a joint Human Resources, Governance and Nominating Committee, which is composed of three members who are all independent trustees of the REIT and independent directors of Extendicare. On issues relating to the nomination of trustees and directors to the boards, this Committee makes recommendations as to the size and composition of the boards; reviews qualifications of potential candidates for election to the boards; recommends for the approval of the Board of Trustees the nominees for the Board of Trustees for presentation to the annual unitholders' meeting; and makes recommendations with respect to the membership of committees. This Committee assesses the effectiveness of the boards, the committees and the contributions of individual trustees and directors. These assessments include the use of formal surveys. The Committee identifies individuals who it believes bring the attributes necessary to ensure the boards consist of individuals with strengths in a number of different areas required to meet the REIT's and Extendicare's needs.

This Committee also oversees issues of governance as they apply to the REIT and Extendicare and recommends amendments to governance procedures where appropriate. In addition, any trustee or director who wishes to engage outside advisors with respect to the affairs of the REIT or Extendicare, at the expense of the REIT or Extendicare, may do so by submitting a request through this Committee.

**Compensation:** On the issues related to compensation, the Human Resources, Governance and Nominating Committee reviews the compensation of senior management with a view to ensuring that the level of compensation reflects performance. The Committee recommends to the Board of Directors for its approval the compensation to be given to the CEO and other senior executives of Extendicare and its subsidiaries. The Committee is responsible for planning succession to the position of the CEO and for reviewing the performance of the CEO on an annual basis, and for monitoring the development of senior management. Further information on how the Committee determines the compensation of the CEO and senior officers can be found under the heading "Compensation Discussion and Analysis".

The Committee is also responsible for determining and recommending to the Board of Trustees for its approval the compensation of the trustees. In arriving at its recommendations the Committee reviews external surveys to compare the compensation paid by the REIT with compensation paid to trustees in other organizations.

**Other Board Committees:** In addition to the Human Resources, Governance and Nominating Committee described above, the REIT and Extendicare currently have a joint Audit Committee and a joint Executive Committee. As well, the REIT has a Buyback Committee. Copies of each of the committee's mandates may be found on the REIT's website at [www.extendicare.com/investors/governance](http://www.extendicare.com/investors/governance).

Information on the Audit Committee may be found under the heading "Audit Committee Information" in the Management Information and Proxy Circular.

**Executive Committee:** During the intervals between meetings of the Board of Trustees of the REIT, the Executive Committee will exercise the powers of the Board of Trustees over the assets and affairs of the REIT as set out in the REIT Deed of Trust with respect to matters that have already been approved in principle by the Board of Trustees and shall provide advice to Extendicare relating to the administration and management by Extendicare of all general and administrative affairs of the REIT pursuant to and in accordance with the terms and conditions of the Administration Agreement. The Executive Committee shall also be responsible for such other duties and matters as may be assigned to it from time to time by the Board of Trustees and the Board of Directors.

**Buyback Committee:** The primary purpose of the Buyback Committee is to consider the advisability of the REIT implementing normal course issuer bids for its securities and to execute purchases on behalf of the REIT of such securities pursuant to a normal course issuer bid which has been authorized by the Board of Trustees of the REIT, subject to any limitations and any other parameters or restrictions imposed by the Board of Trustees.

**EXTENDICARE REAL ESTATE INVESTMENT TRUST  
MANDATE OF THE BOARD OF TRUSTEES**

Extendicare Real Estate Investment Trust (the “REIT”) is an unincorporated, open-ended trust established under and governed by the laws of Ontario and created pursuant to a deed of trust dated September 11, 2006, as amended and restated on October 28, 2006 (as so amended and restated, the “Deed of Trust”).

The board of trustees of the REIT (the “Board”) has overall responsibility and full power and authority to supervise the activities and manage the investments and affairs of the REIT and to manage the assets of the REIT. The Board has delegated responsibility for the management and general administration of the REIT to Extendicare Inc. (Extendicare) pursuant to an agreement (the “Administration Agreement”) made as of November 10, 2006 between the REIT, Extendicare Trust, Extendicare Holding General Partner Inc. and Extendicare.

The following points outline the key principles or guidelines governing how the Board will operate to carry out its overall stewardship responsibility. The responsibilities of the Board described herein are pursuant to, and subject to, the Deed of Trust and do not impose any additional responsibilities or liabilities on the trustees of the REIT (the “Trustees”) at law or otherwise.

**Number of Trustees:** The REIT will have a minimum of three Trustees and a maximum of twenty Trustees, with the number of Trustees from time to time with such range being fixed by resolution of the Trustees. A majority of the Trustees shall be Residents (as defined in the Deed of Trust).

The joint human resources, governance and nominating committee of the Board and the board of directors of Extendicare (the “Human Resources, Governance and Nominating Committee”) will review the size of the Board annually and make a recommendation to the Board if it believes a change in the size of the Board would be in the best interests of the REIT. The Board should have an appropriate mix of skills, knowledge and experience in the business and an understanding of the industry in which the REIT has investments. Trustees are required to commit the requisite time for all of the business of the Board and to demonstrate integrity, accountability and informed judgement. At least a majority of the Board will be comprised of Trustees who are determined to be “independent”, as defined in applicable securities laws and the rules or guidelines of any stock exchange upon which the units or other securities of the REIT are listed for trading.

**Trustee Nomination:** The Human Resources, Governance and Nominating Committee shall be responsible for recommending to the Board suitable candidates for nominees for election as Trustees.

**Election and Term:** Trustees shall be elected by the unitholders at each annual meeting of unitholders to hold office for a term expiring at the close of the next annual meeting. The Trustees may, between annual meetings of unitholders, appoint one or more additional Trustees for a term to expire (subject to further appointment) at the close of the next annual meeting of unitholders, but the number of additional Trustees so appointed shall not at any time exceed one-third of the number of Trustees who held office immediately after the expiration of the immediately preceding annual meeting of unitholders.

**Vacancy:** No vacancy among the Trustees shall operate to annul the Deed of Trust or affect the continuity of the REIT. Until vacancies are filled, the remaining Trustees (even if less than a quorum) may exercise the powers of the Trustees under the Deed of Trust. A quorum of Trustees may fill a vacancy among the Trustees, except a vacancy resulting from an increase in the number of Trustees or from a failure to elect the minimum number of Trustees fixed by or pursuant to the Deed of Trust. If there is not a quorum of Trustees, or if there has been a failure to elect the minimum number of Trustees required by or pursuant to the Deed of Trust, the Trustees then in office shall forthwith call a special meeting of unitholders to fill the vacancy and, if they fail to call a meeting or if there are no Trustees then in office, the meeting may be called by any unitholder. A Trustee appointed to fill a vacancy shall hold office, subject to the Deed of Trust, until the close of the next annual meeting of the unitholders.

**Removal of Trustees:** The unitholders may remove any Trustee or Trustees from office, by resolution approved by a majority of the votes cast at a meeting of unitholders called for that purpose or by the written consent of the unitholders holding in the aggregate not less than a majority of the outstanding units entitled to vote thereon. Any Trustee or Trustees may be removed from office for cause by resolution passed by not less than two-thirds of the remaining Trustees. Any removal of a Trustee shall take effect immediately following the aforesaid vote or resolution, and any Trustee so removed shall be notified by the chair or another officer of the REIT forthwith following such removal.

**Review of Independence of Outside Trustees:** The Human Resources, Governance and Nominating Committee will review on an annual basis any relationship between outside Trustees and the REIT which might be construed in any way to compromise the designation of any Trustee as being independent or unrelated to the REIT. The objective of such review

will be to determine the existence of any relationships, to ensure that the composition of the Board remains such that at least a majority of the Trustees are independent and unrelated and that where relationships exist, the Trustee is acting appropriately. A Trustee should bring to the attention of the Chair and the Human Resources, Governance and Nominating Committee any potential conflicts of interest as they arise.

Trustees shall disclose all actual or potential conflicts of interest and refrain from voting on matters in which the Trustee has a conflict of interest. In addition, a Trustee should excuse himself or herself from any discussion or decision on any matter in which the Trustee is precluded from voting as a result of a conflict of interest or which otherwise affects his or her personal, business or professional interests.

**Board Meetings:** Meetings of the Trustees shall be called and held at such time and at such place in Canada as the Trustees, the chairman of the Trustees or any two Trustees may determine, and any one Trustee or officer of the REIT may give notice of meetings when directed or authorized by such persons. Notice of each meeting of the Trustees shall be given to each Trustee not less than 24 hours before the time when the meeting is to be held, provided that if a quorum of Trustees is present, the Trustees may, without notice, hold a meeting immediately following an annual meeting of unitholders. A Trustee may waive notice and the presence of a Trustee at a meeting shall be deemed to be a waiver of the notice requirement by that Trustee except where the Trustee attends a meeting for the express purpose of objecting to the transaction of any business on the grounds that the meeting has not been lawfully called or convened. Notice of a meeting of the Trustees may be given verbally, in writing or by telephone, fax, email or other means of communication. A notice of a meeting of Trustees need not specify the purpose of or the business to be transacted at the meeting.

A Trustee may participate in a meeting of the Trustees or of a committee of the Trustees by means of telephone or other communication facilities that permit all persons participating in the meeting to hear each other. A Trustee participating in such a meeting in such manner shall be considered present at the meeting and at the place of the meeting.

The quorum for the transaction of business at any meeting of the Trustees shall consist of a majority of Trustees and, notwithstanding any vacancy among the number of Trustees, a quorum of Trustees may exercise all of the powers of the Trustees, provided that the Trustees shall not transact business at a meeting of Trustees unless a majority of the Trustees present are Residents.

The Board may invite any of the REIT's or Extendicare's officers, employees, advisors or consultants or any other person to attend meetings of the Board to assist in the discussion and examination of the matters under consideration by the Board. Attendees will be excused for any agenda items that are reserved for discussion among Trustees only.

**Committees:** The Trustees may appoint from their number one or more committees of Trustees and may grant or delegate to the committees such authority and such powers as the Trustees may in their sole discretion deem necessary or desirable to effect the administration of duties of the Trustees under the Deed of Trust, without regard to whether such authority is normally granted or delegated by Trustees, provided that a majority of the Trustees comprising any such committee shall be Residents. Unless otherwise determined by the Trustees, a quorum for meetings of any committee shall be a majority of its members and each committee shall have the power to appoint its chairman. Each member of a committee shall serve during the pleasure of the Trustees and, in any event, only so long as he or she shall be a Trustee.

The Board shall appoint from among the Trustees a joint audit committee of the Board and the board of directors of Extendicare (the "Audit Committee") to consist of not less than three members. The composition of the Audit Committee shall comply with applicable securities laws, including Multilateral Instrument 52-110 – Audit Committees.

**Board and Committee Meeting Agendas and Information:** The Chair and the Chief Executive Officer (CEO), in consultation with the Secretary, will develop the agenda for each Board and committee meeting. Agendas will be distributed to the Board or committee members before each meeting, and all members shall be free to suggest additions to the agenda in advance of the meeting.

Whenever practicable, information and reports that are important to the Board's or committee's understanding of meeting agenda items will be circulated to the Trustees and committee members in advance of the meeting. Reports may be presented during the meeting by members of the Board, management and/or staff, or by invited outside advisors. It is recognized that under some circumstances, due to the confidential nature of matters to be discussed at a meeting, it may not be prudent or appropriate to distribute written materials in advance.

**External Advisors:** Each Trustee shall have the authority to retain outside counsel and any other external advisors as appropriate with the approval of the Human Resources, Governance and Nominating Committee.

As well, the Board or any of its committees may conduct or authorize investigations into any matters within their respective scope or responsibilities. As such, the Board or any of its committees are authorized to retain and determine funding for independent professionals to assist in the conduct of any such investigation.

**Contacts with Senior Management:** All of the Trustees shall have open access to senior management of the REIT and Extencicare. It is expected that Trustees will exercise judgement to ensure that such contact is not disruptive to the operations of Extencicare. Written communications from Trustees to members of management shall be copied to the Chair and CEO of the REIT.

**Board/Committee Assessment:** The Board, through the Human Resources, Governance and Nominating Committee, shall establish and conduct orientation and education programs for new Trustees through which the performance expectations for members of the Board shall be communicated. This Committee shall implement a process for assessing the effectiveness of the Board as a whole, the committees and the contributions of individual Trustees, which may include the use of periodic formal surveys.

**Senior Management Succession Planning:** The Board shall have responsibility for the appointment and evaluation of the performance of the CEO and senior officers of the REIT and its subsidiaries and shall require the Human Resources, Governance and Nominating Committee to make recommendations with respect to such matters. This Committee shall monitor, review and provide guidance in respect of executive management training, development and succession planning.

**Trustees' and Senior Management Compensation:** The Human Resources, Governance and Nominating Committee shall be responsible for making recommendations to the Board concerning the compensation of Trustees, the CEO and senior officers of the REIT and its subsidiaries, including the adequacy and form of compensation, including the use of incentive programs and awards made pursuant thereto. The Committee shall review senior management's performance against the objective of maximizing unitholder value, measuring their contribution to that objective, and overseeing compensation policies.

**Oversight Responsibilities:** The Board shall monitor the corporate performance of Extencicare, including overseeing the operating results of Extencicare on a regular basis to evaluate whether Extencicare is being properly managed.

**Communications Policy:** The Board shall approve the REIT's core public disclosure documents disseminated to unitholders and the investing public, including the annual report, management information and proxy circular, annual information form, interim quarterly reports and any prospectuses. The Audit Committee shall review and recommend for approval to the Board the quarterly and annual financial statements, including the related management's discussion and analysis, press releases relating to financial matters and any other financial information contained in core public disclosure documents. The Board requires that Extencicare, as administrator of the REIT, make accurate, timely and effective communication to unitholders and the investment community.

The Board shall have responsibility for reviewing the REIT's policies and practices with respect to disclosure of financial and other information, including insider reporting and trading. The Board shall approve and monitor the disclosure policies designed to assist the REIT in meeting its objective of providing timely, consistent and credible dissemination of information, consistent with disclosure requirements under applicable securities law. The Board shall review the REIT's policies relating to communication and disclosure on an annual basis.

Generally, communications from unitholders and the investment community will be directed to either of the Chief Executive Officer, Chief Financial Officer, Director of Investor Relations, or Corporate Secretary of Extencicare to provide an appropriate response depending on the nature of the communication. It is expected that, if communications from stakeholders are made to the Chair or to other individual Trustees, management will be informed and consulted to determine any appropriate response.

**Internal Control and Management Information Systems:** The Board shall review the reports of management of Extencicare and the Audit Committee concerning the integrity of the REIT's and Extencicare's internal control and management information systems. Where appropriate, the Board shall require management of Extencicare and the Audit Committee to implement changes to such systems with a view to ensuring integrity of such systems.

**Governance Policy:** The REIT shall make full and complete disclosure of its system of governance on an annual basis in its annual unitholder documents and/or securities commission filings where required, and on its website. The Board, through the Human Resources, Governance and Nominating Committee, shall have the responsibility for developing the REIT's approach to governance issues, including the responsibility for this disclosure.

**EXTENDICARE INC.  
MANDATE OF THE BOARD**

The Board of Directors (the “Board”) of Extendicare Inc. (the “Company”) is responsible for the stewardship of the business and affairs of the Company, including the strategic planning process, approval of the strategic plan, the identification of principal risks and implementation of systems to manage these risks.

The Board has the responsibility to oversee the conduct of the business of the Company and to supervise management which is responsible for the day-to-day conduct of the business. The Board’s fundamental objectives are to ensure that the Company meets its obligations on an ongoing basis and to ensure that the Company operates in a reliable and safe manner. In performing its functions, the Board should consider the legitimate interests its stakeholders such as employees, customers and communities may have in the Company. In supervising the conduct of the business, the Board, through the Chief Executive Officer of the Company (CEO), shall set the standards of conduct for the enterprise.

The following points outline the key principles or guidelines governing how the Board will operate to carry out its overall stewardship responsibility:

**Size of the Board**

The articles of the Company provide that the Board may have a minimum of one director and a maximum of twenty directors. The ideal size of the Board will provide a diversity of expertise and opinion, as well as efficient operation and decision-making.

**Election and Term**

The joint human resources, governance and nominating committee of the Board and the board of trustees of the REIT (the “Human Resources, Governance and Nominating Committee”) will recommend to the Board of Trustees of the REIT the candidates for election as directors of the Company. This process shall include a determination of the competencies, skills and personal quality required of new directors in light of opportunities and risks facing the Company. The Board of Trustees will cause its final choice of candidates to be elected or appointed as directors of the Company to hold office until the next annual meeting of the unitholders of the REIT or until their successors are elected or appointed.

**Review of Independence of Outside Directors**

The Human Resources, Governance and Nominating Committee will review on an annual basis any relationship between outside directors and the Company which might be construed in any way to compromise the designation of any director as being independent or unrelated to the Company. The objective of such review will be to determine the existence of any relationships, to ensure that the composition of the Board remains such that at least a majority of the directors are independent and unrelated and that where relationships exist, the director is acting appropriately. A director should bring to the attention of the Chair and the Human Resources, Governance and Nominating Committee any potential conflicts of interest as they arise. Directors shall disclose all actual or potential conflicts of interest and refrain from voting on matters in which the director has a conflict of interest. In addition, a director should excuse himself or herself from any discussion or decision on any matter in which the director is precluded from voting as a result of a conflict of interest or which otherwise affects his or her personal, business or professional interests.

**Board Meetings**

The Board shall hold regular meetings at least once in each fiscal quarter, with additional meetings held as and when necessary. Notice of the time and place of each meeting of the Board shall be given to each director. Notices sent by delivery or electronic means shall be sent no later than 24 hours before the time of the meeting. The Board shall meet periodically without management present to ensure that the Board functions independently of management.

A director may, if all the directors consent either by specific or general consent, participate in a meeting by means of telephone, electronic or other communication facilities that permit all persons participating in the meeting to hear each other.

The Board appreciates having certain members of senior management attend each Board meeting to provide information and opinion to assist the directors in their deliberations. Management attendees will be excused for any agenda items that are reserved for discussion among directors only.

### **Committees**

The Board may elect or appoint committees composed of directors and/or other persons, which may exercise such powers as the Board may delegate to them and shall have such other functions as the Board may determine. Subject to any restrictions imposed by the Board, each committee shall have the power to fix its quorum, to elect its chairman and to regulate its procedure.

### **Board and Committee Meeting Agendas and Information**

The Chair and the Chief Executive Officer, in consultation with the Corporate Secretary, will develop the agenda for each Board and committee meeting. Agendas will be distributed to the Board or committee members before each meeting, and all members shall be free to suggest additions to the agenda in advance of the meeting.

Whenever practicable, information and reports that are important to the Board's or committee's understanding of meeting agenda items will be circulated to the directors and committee members in advance of the meeting. Reports may be presented during the meeting by members of the Board, management and/or staff, or by invited outside advisors. It is recognized that under some circumstances, due to the confidential nature of matters to be discussed at a meeting, it may not be prudent or appropriate to distribute written materials in advance.

### **External Advisors**

The Board or any of its committees may conduct or authorize investigations into any matters within their respective scope or responsibilities. As such, the Board or any of its committees are authorized to retain and determine funding for independent professionals to assist in the conduct of any such investigation.

### **Contacts with Senior Management**

All of the directors shall have open access to the Company's senior management. It is expected that directors will exercise judgement to ensure that such contact does not distract management from the Company's business operations. Written communications from directors to members of management will be copied to the CEO.

### **Board/Committee Assessment**

The Human Resources, Governance and Nominating Committee shall establish and conduct orientation and education programs for new recruits to the Board, through which the performance expectations for Board members shall be communicated. This Committee shall implement a process for assessing the effectiveness of the Board as a whole, the committees and the contributions of individual directors, which may include the use of periodic formal surveys.

### **Strategic Planning**

Management is responsible for the development of long-term corporate strategy, while the role of the Board is to review, question and validate, and ultimately to approve the strategies proposed by management.

### **Managing Risk**

The Board shall have overall responsibility for assessing the principal risks facing the Company, ensuring the implementation of the appropriate strategies and systems to manage such risks, and reviewing any material legal matters relating to the Company as a whole or its investment in any major operating Company.

### **Administration Agreement**

The Board of Directors is responsible for reviewing the performance of the Company under the Administration Agreement entered into by the REIT, Extencicare Trust, Extencicare Holding General Partner and the Company dated November 10, 2006, pursuant to which the Company has agreed to oversee and manage all general and administrative affairs of each of the REIT, Extencicare Trust and Extencicare Limited Partnership in accordance with the provisions thereof.

### **Corporate Governance Policy**

The Company shall make full and complete disclosure of its system of corporate governance on an annual basis in the annual unitholder documents and/or securities commission filings of the REIT where required, and on the REIT's website.

**EXTENDICARE**  
REAL ESTATE INVESTMENT TRUST