EXTENDICARE
REAL ESTATE INVESTMENT TRUST

Annual and Special Meeting

May 8, 2012

Toronto Board of Trade
Toronto, Ontario

Strength

Quality

Stability

NOTES FOR REMARKS*

BY

TIM LUKENDA
President and Chief Executive Officer

&

DOUG HARRIS
Senior Vice President and Chief Financial Officer

...helping people live better

* check against delivery

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Non-GAAP Measures

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

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Information provided by Extendicare REIT from time to time, including these remarks, contains or may contain forward-looking statements concerning anticipated financial events, results, circumstances, economic performance or expectations with respect to Extendicare REIT and its subsidiaries, including its business operations, business strategy, and financial condition. Forward-looking statements can be identified because they generally contain the words “expect”, “intend”, “anticipate”, “believe”, “estimate”, “project”, “plan” or “objective” or other similar expressions or the negative thereof. Forward-looking statements reflect management’s beliefs and assumptions and are based on information currently available, and Extendicare REIT assumes no obligation to update or revise any forward-looking statement, except as required by applicable securities laws. These statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements of Extendicare REIT to differ materially from those expressed or implied in the statements. Given these risks and uncertainties, readers are cautioned not to place undue reliance on Extendicare REIT’s forward-looking statements. Further information can be found in the disclosure documents filed by Extendicare REIT with the securities regulatory authorities, available at www.sedar.com and on Extendicare REIT’s website at www.extendicare.com.

Tim Lukenda
President and CEO

Good afternoon. It is my pleasure to welcome you to the Annual and Special Meeting of Unitholders of Extendicare Real Estate Investment Trust. We also welcome those listening via webcast.

Extendicare is a North American-wide provider of senior care services as the owner and operator of 84 senior care centers in Canada and 179 in the U.S. We are the eighth largest skilled nursing home operator in the U.S. and the second largest in Canada.

We are a major player in this growing sector and, as you will hear today, I believe that we are strong, stable and positioned for success. And, we are ready to enter the next chapter of our company's storied history.

I'll start with an overview of our performance and key events for 2011. Doug will review our financial results, after which I will discuss our outlook and growth strategy. We'll then be pleased to take your questions.

This past year has been a transitional year for Extendicare REIT. In spite of a persistent weakness in the U.S., economy, a challenging regulatory and funding environment for our industry and the need to further strengthen our reserves for self-insured liabilities, Extendicare has rode out the storm well. As a result of the steps we have taken, we are now well positioned to capitalize on our strengths and grow our market presence and profitability in the future.

In 2011 we took major strides to solidify those issues that were within our control, to position the company for the next chapter of its success. We actively managed our way through a significant reimbursement reduction in the U.S. by reducing our overhead costs, stabilizing and strengthening our operations along the way. We crystallized the value in a lesser known non-strategic asset by selling our purchasing division in the U.S. for US$56 million. And, we strengthened and solidified our balance sheet as a result of a massive refinancing of our long-term debt.

Since the end of 2010, we have reduced our long-term debt by over $100 million, our weighted average interest rate by 140 basis points, and we have lengthened our weighted average term to maturity to 18 years from four years. And, at the same time we continue to receive recognition for our efforts to improve quality care.

Looking ahead to 2012 and beyond, the prospects for our business continue to be strong and are getting stronger. As you know, the senior care sector is a growing segment of the population.

As a society, people are living longer with more chronic illnesses that require specialized care. There has been a growth in the number of alternative care settings, particularly in the U.S., in the form of assisted living units, seniors' apartments and even home health, that have absorbed some of this demand in the near term. As an industry, however, we continue to promote our value proposition to government and other health care payers, such as managed care organizations. That value proposition is this: We are the low-cost, high-quality provider within the health care continuum for those individuals who need skilled care or rehabilitation (even for short periods of time following an illness or operation), and don't require a continuing stay in a high-cost acute care hospital setting. In order for the government to continue to fulfill its obligation to our seniors despite its fiscal constraints, this value proposition **must** be realized.

In order for Extendicare to be positioned to benefit from this trend, we are developing sophisticated programs and service delivery models to enhance our attractiveness to customers and health care partners. And, of course, we are endeavoring to demonstrate our commitment to quality at every opportunity.

Turning now to our key operating metrics, our total 2011 average daily census, or ADC, from same-facility operations decreased by 1.4%. The declines in Medicare and total census appear to be consistent across most of the U.S. providers of health care, and this is largely attributable to the continuing impact of the economic recession in the U.S. and the reduced disposable income and access to health care coverage.

However, in terms of the performance of our total operations, which includes newly built centers, our Skilled Mix of residents improved by 70 basis points to 22.8% in 2011 from 22.1% in 2010, reflecting the success with our new centers.

Our ongoing marketing initiatives in the U.S. focus on establishing strategic alliances and specific programs to mirror the objectives of our key hospital and other referral sources, who will become even more important partners under health care reform. Our marketing materials are also being designed to more fully inform our referral sources of our programs and Extendicare's quality of care agenda and record. We believe this tactical approach will ensure that we are in a leading position to grow our market presence as the economy recovers.

As part of our ongoing efforts to further strengthen our U.S. census levels, we have developed our *Life Enhancement Series*.

These programs, which target conditions such as congestive heart failure, diabetes, Alzheimer's & dementia, mental health & behaviour, and short-term rehabilitation, aim to complement the specialized medical programs offered by local hospitals and are designed to attract higher acuity patients in need of specialized services. The programs will help position Extendicare favourably in a health care reform environment in the U.S., and demonstrate our value proposition to stakeholders within the health care system.

In order to maximize our efforts, the centers in which the *Life Enhancement* programs are being offered are chosen after a thorough analysis of the local market and the needs of the community.

We have also targeted our capital expenditures consistent with this strategic plan to meet the program and service needs of each community in which we operate.

For patients requiring intensive short-term rehabilitation, we have established rehabilitation suites in select locations called *Active Life Transition* units that offer a variety of hotel-style amenities, quality of life programs and predominately private-room accommodations.

Since 2010, 13 such projects were completed, involving 399 beds for an investment of US$11 million.

In addition, we continue to look for opportunities to add new centers to our portfolio. Since2008, we have opened a new 100-bed center in Okemos, Michigan; a new 100-bed center in South Bend, Indiana, and most recently a 120-bed center in Lansing, Michigan.

At Extendicare, quality is the key to good business. Our U.S. centers are evaluated through the Five-Star Quality Rating System designed by the federal government. This system helps consumers in selecting a health care center to meet their needs through a rating system that summarizes information taken from health inspections, quality measures and staffing levels. Since its inception in 2008, over 50% of our centers have improved their five-star rating.

In 2011, our efforts to deliver quality care to our customers received significant independent recognition. In August, Extendicare's Sheboygan Progressive Care Center in Sheboygan Wisconsin won the American Health Care Association's Silver Quality Award in recognition of its outstanding performance in the health care profession. This was one of only 31 centers in the country to be recognized with this prestigious award.

In addition, 24 Extendicare centers received the Bronze 'Commitment to Quality' Award in 2011, bringing the total to 88 Extendicare centers so recognized since the program's inception.

We are proud that our strong commitment to continuous quality care improvement is recognized and we are honored to have received yet another prestigious honor award.

Now turning to Canada, our business is strong and a leader in both the nursing home and home health sectors.

This business at times gets over-shadowed due to the size and complexity of our U.S. operations, but it is a major player with strong fundamentals and consistent returns. In 2011, our revenue grew by 5% to $698 million, with a healthy and stable operating margin.

With 84 senior care centers in four provinces, we provide care to about 10,800 individuals and have enjoyed a consistent reputation for providing quality care.

We continually invest in both the renovation of our existing centers and in the design of new health and rehabilitation centers. We are also creating more private suites and homelike environments that provide a warm, inviting feel and have greater amenities.

In Alberta, we have completed three new centers in 2010 and 2011, including our Red Deer center with 220 long-term care beds and a 60-unit assisted living wing, our first designated assisted living center in Lethbridge, and a new 180-bed nursing center in Edmonton

In Ontario, we expect to complete our 180-bed Timmins and 256-bed Sault Ste. Marie projects that were awarded under Phase 1 of the province's redevelopment program in the first half of 2013.

Through ParaMed, we are one of the largest private-sector home health care operators in Canada. With $165 million of revenue, this division represents about 24% of our Canadian operations. The majority of our home health care business is from government contracts. And with the government's continued focus on providing programs to care for people in their homes, we are well positioned for long-term growth.

I will now turn it over to Doug, who will review our 2011 financial results in more detail.

Doug Harris
Senior Vice President and CFO

Thank you Tim, and good afternoon.

For 2011, we delivered solid financial results, despite the persisting weakness of the economy and the challenging regulatory environment in the U.S. And, we significantly strengthened our balance sheet.

As Tim mentioned, we were successful in refinancing a significant portion of our U.S. long-term debt totalling US$636 million, now in the final stages of completion. Once finalized, our U.S. operations will have refinanced approximately 70 individual mortgages issued by the U.S. Department of Housing and Urban Development totaling US$512 million and reduced our debt levels using cash in hand of US$124 million.

Collectively the HUD loans have a weighted average all-in interest rate of 4.3% and have an average term to maturity of 33 years. As a result, we expect to realize savings of US$20 million in interest costs annually and have approximately 50 unencumbered centers valued at an estimated US$250 million.

In addition, the REIT's Canadian operations refinanced $72 million in mortgages on 20 centers insured by the Canadian Mortgage and Housing Corporation. The estimated annualized interest savings from this refinancing is $5 million.

A second significant event which affected our 2011 financial results was the adjustments we made to strengthen our reserves for self-insured liabilities by US$43 million based upon the reports from our third-party actuary.

The strengthening of our reserves in Q3 and Q4 of 2011 was in part due to an increase in claims, but largely a reflection of our internal efforts to proactively assess and settle historical claims for years prior to 2009, thereby shortening the life cycle of our claims. Barring any significant adverse new developments, we do not anticipate having to make further material adjustments to our reserves. And we intend to pursue aggressive strategies to mitigate liability claims with a view to reducing our exposure in the future.

As the majority of our operations are based in the United States, the stronger Canadian dollar resulted in an unfavourable variance in the comparison of our results with the prior year. Therefore, in my analysis, I will exclude the negative effects of the stronger Canadian dollar.

Consolidated revenue grew by $54 million, or 2.6%, in 2011 compared to 2010. Revenue from non same-facility operations improved by $6 million whereas growth from same-facility operations of 2.4% benefited from the 2010 funding improvements, partially offset by the negative effect of the 2011 CMS Final Rule, lower U.S. census levels and prior period revenue.

Consolidated EBITDA declined by $6 million, or 2.3%, excluding the impact of the increase in prior years' reserves for self-insured liabilities. And our 2011 EBITDA margin of 11.6%, was down 60 basis points from 12.2% in 2010.

Turning now to our AFFO or Adjusted Funds from Operations, we reported AFFO of $70 million in 2011, compared to $111 million in 2010. However, after excluding the impact of the stronger Canadian dollar and the $31 million increase in our reserve for self-insured liabilities, AFFO declined by $8 million this year, primarily due to a decline in EBITDA resulting from the 2011 CMS Final Rule, an increase in current income taxes and maintenance capital expenditures.

Turning now to our distributions, our AFFO for 2011 covered our monthly distribution of 7 cents per unit. However, excluding the impact of the strengthening of our self-insured liabilities, out 2011 payout ratio would have been 62%.

Now let's turn to our Q1 2012 results, which we announced this afternoon. The news release is posted on our website and we have copies available for you here today.

In Q1 2012, we reported AFFO from continuing operations of $27 million or 32 cents per basic unit as compared to $24 million or 29 cents in Q1 2011. Excluding the impact of foreign exchange, revenue declined by $5 million to $517 million; and EBITDA declined $9 million to $49 million. The improvement in AFFO was primarily the results of reductions in interest costs and current income taxes.

The conversion itself will have no impact on the funds available for distribution by the company. The Board will continue to evaluate the appropriateness of distributions on a go forward basis giving consideration to a number of factors.

A full review of our Q1 2012 results will be discussed in our conference call scheduled for 10 a.m. tomorrow morning.

With that, I will now turn the presentation back to Tim.

Tim Lukenda
President and CEO

Thank you, Doug.

As you have heard today, Extendicare has come out of a period of challenge and adjustment with a winning combination of strength, quality and stability that has positioned us well for the future. Today, we have the financial **strength** and flexibility to adjust to changing financial conditions, we have the ability to deliver **quality** levels of service to all of our customers, and we have the **stability** to drive our future growth and profitability for our stakeholders.

We will pursue opportunities for growth in our core skilled nursing and rehab business, as well as, horizontal integration opportunities in businesses like home health and hospice, where we feel our platform brings a strategic advantage.

We will continue to invest in our properties and develop new quality centers where a satisfactory return on investment is achievable. These new and renovated centers, combined with our strategic marketing efforts, are expected to accelerate our performance coming out of the recession.

And most importantly, because we believe quality is the key to our success, we will continue to enhance the quality of programs and services we provide to our customers.

We have a proven track record and history of success, a sound business model and an experienced and committed management team with the determination and skills to succeed.

At Extendicare, we are confident of our future and our ability to chart our course to continued future success so that we remain a leading provider of post-acute and long-term senior care services in North America.

Our strong performance in 2011 was very much a "team effort" from the entire Extendicare team. I can't say enough about the way our team has adapted and responded to the many changes that have come our way, all the while keeping the focus on taking care of our customers and being confident that if we are doing that, we will continue to thrive as a business. I would also like to express my appreciation and gratitude to our customers for putting your trust in us, our Board for their unwavering support, and our unitholders for your confidence and continued support in achieving our vision.

Upon completion of the conversion to a corporation, under the name Extendicare Inc., our business model and keys to success will remain the same.

That concludes our presentation, and we will now be happy to take your questions.