Annual and Special Meeting

June 7, 2011

The Gallery, TMX Broadcast Centre
Toronto, Ontario

NOTES FOR REMARKS*

BY

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President and Chief Executive Officer

&

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...helping people
live better

Quality Service | Quality Experience | Quality People | Quality Properties | Quality Business

* check against delivery

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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.

I'll start with an overview of our performance and key events for 2010. 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.

Extendicare REIT achieved consistent, stable financial and operational performance in 2010, while building greater financial flexibility and strengthening the balance sheet. This was accomplished in an environment of continuing economic weakness in North America, the implementation of health care reform initiatives in the U.S. and growing regulatory oversight in both Canada and the United States.

In 2010, we held a leading market position in the long-term care sector by remaining true to our business strategy, our ongoing focus on cost control and our commitment to providing quality care and services to our residents.

I'll discuss our U.S. and Canadian operations and initiatives in a moment. But first, let me briefly review our business and corporate profile.

Extendicare is a leading provider of post-acute and long-term senior care services in North America. With $1.0 billion in market capitalization, Extendicare REIT is a major player in the Canadian REIT Sector. Since the beginning of 2009, the REIT has achieved a total return performance of 156%, exceeding the S&P/TSX Capped REIT index.

We are a health care operator structured as a taxable REIT whose units trade on the TSX. As we converted to a REIT after the change in tax legislation in November 2006, we were taxable beginning in 2007. Unlike some of Canadian REITs, our distributions to unitholders already incorporate the specific investment flow-through or "SIFT" tax, so the new tax laws that took effect in January don't affect our distributions.

Since 2006, we have paid out approximately $300 million in distributions, with approximately 70% of these being taxed preferentially as a return of capital for Canadian unitholders.

Extendicare operates 259 health care centers across Canada and the U.S., of which 98% are owned. We employ 37,600 individuals who are dedicated to helping people live better and we currently have capacity to care for approximately 28,200 residents on a daily basis.

In addition to our core business of health care centers, through ParaMed Home Health Care we operate one of the largest for-profit home care agencies in Canada. While our U.S. operations provide inpatient and outpatient rehabilitative therapy services through ProStep, and include a health care technology company, Virtual Care Provider, Inc., which offers technology solutions and related consulting services to a broad group of long-term care providers. In both Canada and the U.S., we provide management, consulting and purchasing services to other senior care operators.

The prospects for our business continue to be strong and gain momentum. As you know, we operate in the senior care sector of the health care space, which is a sector with highly favourable demographics. The number of people over the age of 65 is expected to double by 2040. Also, it is estimated that 2 out of every 5 people who live past the age of 65 years will require the services of a skilled nursing center in their lifetime. Given these projections, we believe seniors in North America are more likely to require the kinds of services in which we specialize.

With respect to nursing center beds, supply has not kept pace with the growth of the senior population. In the U.S., the number of nursing center beds has declined by just under half a percent per year over the past five years. In Canada, homes-for-the-aged beds have increased by less than 3%.

Despite the alternative senior services that have developed over the years, the growth of senior demographics will create greater demand for the services of skilled nursing centers. We are the lower-cost alternative for post-acute care including short-stay rehabilitative care and chronic disease management.

Let me now discuss our U.S. and Canadian businesses and operating environments.

In the U.S., our operations consist of 182 skilled nursing and rehabilitation centers strategically clustered in 12 states. Each state is unique in terms of the competitive dynamics and political and regulatory environment. Across the country, Extendicare has capacity to care for over 17,700 residents.

In the U.S., we are primarily a skilled nursing and rehabilitation operator. Within the health care continuum, skilled nursing centers offer cost-effective care to individuals with significant clinical and rehabilitation needs. We provide an essential service to those who need more care than can be provided safely in their home and yet, do not need to be in a higher-cost acute care setting.

Our strategic focus in the U.S. is on providing quality health care services and on accommodating higher acuity residents for whom we provide extensive nursing services, including specialized clinical care and intensive rehabilitation. Such services are typically funded through Medicare and Managed Care payor sources at higher *per diem* rates.

While these services also require higher staffing and service levels, they represent our highest margin opportunity. Patients requiring short-term rehabilitative services in our skilled nursing centers typically come from hospitals after surgery or other in-patient stay. Last year, this segment accounted for approximately 81% of our admissions into our U.S. centers.

Focusing now on our key operating metrics, our Skilled Mix of residents declined by 300 basis points to 21.8% in 2010 from 22.1% in the previous year.

Our total 2010 average daily census, or ADC, from same-facility operations decreased by 1.7%. Similar to previous years' experience, the declines in Medicare and total census appear to be consistent across most of the U.S. providers of health care, and is largely attributable to the continuing impact of the recession in the U.S.

However, in terms of our continuing operations performance, which includes newly built centers, our Skilled Mix of residents improved to 22.3% in 2010, up marginally from 22.1% in 2009, reflecting the success with our new centers.

As part of our ongoing efforts to further strengthen our U.S. census levels, Extendicare continues to develop the *Life Enhancement Series*.

Our *Life Enhancement* programs aim to complement the specialized medical programs offered by local hospitals and are designed to attract higher acuity patients in need of specialized services. These 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.

Our 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 well positioned to grow our market share as the economy recovers.

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.

In the past year, eight such projects were completed, involving 211 beds for an investment of US$7.1 million. Four additional projects that involve 176 beds at a cost of US$3.4 million are under way.

In addition, we continue to look for opportunities to add new centers to our portfolio. In July 2009, we opened a new 100-bed center in Okemos, Michigan, in November 2010 we opened a new 100-bed center in South Bend Indiana and lastly in January 2011 we opened a 120-bed center in Lansing, Michigan.

Our experience suggests that Extendicare's new and renovated centers achieve significantly higher Skilled Mix percentages due to the quality physical environment and positioning of the product and services in the local health care market. In Okemos, Michigan, for example, our new 100 bed center is 93% occupied with a Skilled Mix of 73%, versus our company average of 22%.

We continue to review our entire portfolio for additional renovation or construction opportunities. By continuously investing in our existing centers and the construction of new centers, we are able to ensure that we are always offering the best in quality comfort and quality care.

At Extendicare, we believe 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 is meant to assist 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.

Internally, we regularly evaluate our centers, and plans are developed, implemented and monitored on an ongoing basis to ensure that we continue to improve the care and services that we provide. As a result, we recorded steady improvement in each category in the last three years. Since the end of 2008, almost 50% of Extendicare's centers have increased their overall Five-Star rating.

Our efforts to provide quality care received, once again, independent recognition. After having received the Bronze 'Commitment to Quality' Award for 38 our U.S. skilled nursing centers in 2008 and 2009, the American Healthcare Association awarded a further 27 of our U.S. health care centres in 2010, giving Extendicare a total of 65 centers with this distinction. We are proud that our strong commitment to continuous quality care improvement is recognized and we are honoured to have received yet another prestigious honour.

Looking now at our U.S. payor rates, the economic downturn continued to place considerable pressure on state Medicaid budgets, resulting in Medicaid funding increases of less than 1% in 2010. With respect to Medicare rates, for the first three quarters of 2010, our Medicare rates were adversely impacted by the 1.1% funding reduction implemented in October 2009. However, Medicare rates significantly improved in the fourth quarter of 2010 due to changes that took effect October 1, with the implementation of a market-basket increase and the implementation of MDS 3.0 and RUG-IV.

This new reimbursement system involved the realignment of the Medicare Part A rates that affect the provision of therapy services in skilled nursing centers, as well as improving payments for higher acuity levels to more accurately reflect the higher costs of care for these residents. In addition, the government implemented changes to the delivery of concurrent therapy and the elimination of the hospital look-back period.

In order to meet the needs of the new reimbursement system, we increased our nursing and therapy staff and realigned our staffing practices to meet the incremental assessment requirements and therapy needs of our residents.

As a result of our effective response to the reimbursement changes and the effect of the realigned rates, our average Medicare Part A rate grew by 12% in the fourth quarter of 2010 over 2009. And our daily managed care rate improved by 5.9% over the same period. On an annual basis, Medicare Part A rates increased by 3.9% over 2009, while Managed Care rates increased by 1.6%. Approximately 47% of our Managed care contracts are RUG-based, so our contracts benefited from the MDS/RUGs changes. Our average daily rates continued to improve in the first quarter of 2011 due to improvements in the acuity mix of our patients.

Overall, the revenue and EBITDA improvements in 2010 reflect the fundamental strength of our business strategy, the efficiency of our operations and our ability to adapt to changes in the sector as they occur.

However, it appears that the recent benefits we have received in our Medicare Part A rates as a result of RUG-IV may be short lived.

The Centers for Medicare & Medicaid Services, or CMS, proposed a rule on April 28, 2011, that considers the possible implementation of a significant reduction of over 11% to Medicare Part A rates, as well as further changes to the delivery of therapy services.

In our opinion, the proposed changes do not adequately account for the increases in staffing and other costs incurred by the industry in adapting to RUG-IV, and we are encouraging CMS not to rush into making further changes without fully understanding the implications to the industry.

CMS is expected to issue a final rule in late July or early August after considering comments from the industry. Management is reviewing these proposals to assess their potential impact on our U.S. operations. We believe that efforts to explain the detrimental impact that such reductions will have on the industry will likely result in the final rule implementing a lesser reduction, which may be phased in over a period of time.

Through all of this, we are confident in our ability to continue to adapt and respond to changes in reimbursement systems and levels. We believe that Extendicare continues to have a convincing value proposition (high quality/low cost) for government and other payors as society wrestles with the realities of accommodating the health care needs of a growing segment of our population that is living longer.

Turning to our Canadian operations, I will begin with a brief discussion of our structure and operating environment in Canada.

We have operated in the Canadian senior care sector for more than 40 years. With 77 senior care centers in four provinces, we provide care to about 10,500 individuals and have enjoyed a consistent reputation for providing quality care. This reputation has fostered an outstanding working relationship with health care regulators and provincial governments, and continues to allow Extendicare to play a valuable role in shaping the future of the long-term care industry in Canada.

In Canada, the provinces fund the health care component of the operator's costs and control the number of licensed beds in operation at any given time. As a result of the growing demand for long-term care services relative to the restricted government supply of long-term care beds, Extendicare operates at close to full capacity in Canada. Our occupancy rates remained unchanged at solid 98% throughout 2010. Ontario accounts for 70% of our resident capacity in Canada and, with over 24,000 people on the waiting list, we are confident our centres will continue to run at close to full occupancy on an ongoing basis.

We were pleased with funding improvements received in 2010, particularly the higher revenue rate, which was up 2.7% from 2009 due to increases in funding from the provincial governments.

In Ontario, the new Long-Term Care Homes Act took effect last July. In addition to the annual increases in Ontario that normally occur before July 1st, we received a daily rate increase of $1.18 to assist the sector in implementing changes imposed by the Act. However, it remains uncertain whether this will be adequate reimbursement to meet the additional requirements.

During the year, the Ontario government announced that wage freezes are expected to be extended to the broader public sector, including government-funded private sector operators, such as Extendicare's Ontario operations. Extendicare has complied with these expectations. However, arbitrators have awarded union wage increases in the long-term care sector despite this mandate. As a result, the incremental cost of these arbitrated wage settlements will put pressure on operating margins for those of us in the industry.

In Alberta, a new activity-based funding system for continuing care centers commenced last year on April 1. The funding formulas and related quality indicators are still being finalized. However, the industry received a number of funding increases in the past year, which translated to additional annual revenue to us of approximately $4.0 million.

On the development front, in 2010, we completed two new centres in Alberta. Our Red Deer centre opened its 220 long-term care beds in September 2010 and the 60-unit assisted living wing opened for admissions in February 2011. In January 2011, we opened our first designated assisted living center in Lethbridge, Alberta. With the opening of this center, we closed an existing nursing center that we operated in the region.

In addition to these, construction of a third new centre is scheduled to be completed at the end of 2011 in Edmonton, Alberta.

In Ontario, Extendicare currently has 23 centres with approximately 3,600 beds that will require redevelopment under the government's mandate for the redevelopment of a total of 35,000 long-term care beds across the province over the next 10 to 15 years. As previously announced, two of our redevelopment projects, Timmins and Sault Ste. Marie, were approved under Phase One of this government program. We have broken ground on both projects this spring, with completion slated for the end of 2012.

The 256-bed center in Sault Ste. Marie and the 180-bed center in Timmins will replace existing centers in these communities, while increasing our licensed bed capacity by an additional 149 beds. These two projects will also act as prototypes for the remaining 21 centers that will require redevelopment under the Ontario government's mandate. They will demonstrate leadership in design by promoting efficiency from space and cost standpoints.

We are confident that our focus on features that promote efficiency and functionality in state-of-the-art homelike accommodations will also demonstrate our commitment to quality care.

Going forward, we will continue to prioritize future redevelopment opportunities. In order to enhance the level of quality care for our residents while effectively managing costs, the essential elements from these highly liveable centers will gradually be adopted into our other new and existing centers.

At Extendicare, 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.

At the same time, we also acknowledge the importance of our people and the challenge of identifying and retaining top-quality employees. As a result, we strive to create rewarding, nurturing and enjoyable work environments for our team, where employees are respected as professionals, are recognized for the quality of their work and have the opportunity to grow and thrive.

In summary, our focus in Canada is to maintain our solid operating performance through the delivery of quality care, to advocate for appropriate funding levels, to exercise disciplined cost containment and to pursue new revenue opportunities while beginning the process of redeveloping our Ontario centers.

I will now turn it over to Doug, who will review our 2010 financial results in more detail. Doug…

Doug Harris
Senior Vice President and CFO

Thank you Tim, and good afternoon.

For 2010, we completed the year with strong financial results, but more importantly, we strengthened our balance sheet in preparation for our 2011 refinancing. Upon drilling into our 2010 figures, we experienced a year-over-year improvement in both EBITDA and AFFO, after removing the negative impact of a weaker U.S. dollar, the charge to strengthen our self-insured liability reserves and the impact of the tax depreciation acceleration strategy. Over the past two years, we have improved our margins despite lower census, through improved *per diem* rates and by controlling our costs by driving efficiencies in our administrative processes.

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 $61 million, or 2.8%, in 2010 compared to 2009. Our new centres in Alberta, Indiana, Michigan and Wisconsin contributed $27 million to this improvement.

The remaining $34 million increase was due to a 1.6% growth in same-facility operations as a result of funding improvements, partially offset by lower U.S. census levels.

Consolidated EBITDA grew by $2 million, or 1%, in 2010, whereas, our 2010 EBITDA margin decreased slightly by 30 basis points to 12.0% from 12.3% in 2009. However, excluding a $12 million increase in prior years' reserves for self-insured liabilities recorded in 2010 relative to 2009, EBITDA improved by $14 million, and our 2010 margin improved to 12.7% from 12.5% in 2009. EBITDA from our U.S. operations improved by $12 million and $2 million was from our Canadian operations.

Turning now to our Adjusted Funds from Operations, or AFFO, we reported AFFO from continuing operations of $110 million in 2010, compared to $141 million in 2009. However, the comparison of AFFO between the two years was impacted by the stronger Canadian dollar and unusual items that distorted the underlying performance of the operations. Excluding the impact of the acceleration of tax depreciation of $20.0 million, the reserve adjustments of $12 million and the stronger Canadian dollar of $10 million, our AFFO improved by $11 million.

Turning now to our distributions, based upon our monthly distribution of 7 cents per unit, our 2010 payout ratio was 62% of AFFO from continuing operations as compared to 43% in 2009, or 59% after adjusting for unique favourable tax items. Our lower payout ratio enabled us to accumulate cash in preparation for the 2011 refinancing.

Let me now review our financial condition and update you on our U.S. debt refinancing plan.

At the end of 2010, we had $268 million in cash, compared with $134 million at the beginning of the year. Our cash doubled primarily due to the $82 million equity offering that we completed in February, along with cash from operations enhanced by a reduction in taxes. This strengthening of our balance sheet has positioned us well for the refinancing of half of our $1.2 billion of debt.

We are currently in the process of refinancing a significant portion of our U.S. debt that matures in 2011 and 2012 with mortgages that are insured by the U.S. Department of Housing and Urban Development, or HUD.

We currently plan to refinance approximately US$639 million of debt with 80 HUD-insured mortgages totalling US$563 million and cash on hand of US$76 million.

As of today, we have received 26 HUD loan commitments totalling US$229 million and have rate lock agreements in place securing a weighted average interest rate of 4.5%, inclusive of the mortgage insurance premium. In addition, we have a forward rate lock agreement of 4.6% on $51 million worth of centers awaiting their loan commitments. In total, we have interest rate lock agreements in place for 50% of our planned HUD loans. We anticipate that our reduced debt levels and interest rate will lower our annual borrowing costs by approximately US$14 million.

On June 1, 2011, we paid off our Sovereign Term Loan of US$45 million using borrowings under our line of credit, that we anticipate repaying in full when we close on the first phase of our HUD mortgages later this month. We anticipate that HUD will complete their review and issue loan commitments for the balance of the loan applications by August 2011. We plan to repay our commercial mortgage backed securitized, or CMBS debt, beginning in September 2011 with a final payment anticipated in December of this year.

Now let's turn to our Q1 2011 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 2011, we continued to improve our financial performance. For our first quarter, consolidated revenue increased by $12.3 million, or 2.3%, over 2010, excluding the effect of a stronger Canadian dollar. Consolidated EBITDA improved by $2.0 million, or 3.3% and, as a percentage of revenue was 11.5% in both quarters.

AFFO for Q1 2011 was $25.6 million or $0.31 per basic unit, compared to $24.7 million, or $0.32 per basic unit, in the first quarter of last year. Excluding the negative effect of the stronger Canadian dollar, AFFO improved by $2.1 million due to growth in EBITDA, a decline in current income taxes and lower facility maintenance capital expenditures.

I'll now turn the presentation back to Tim.

Tim Lukenda
President and CEO

Thank you, Doug.

Over the past three years, we have concentrated on our back-to-basics plan and we are pleased with the results this effort has produced. We have steadily grown our:

- Revenue;
- EBITDA and EBITDA margin;
- AFFO; and
- Unit price.

With the completion of the HUD refinancing on the near-term horizon, we can now turn our focus to the future.

As Mel indicated, the Board of Trustees of the REIT will continue to review practical restructuring, acquisition and divestiture strategies and alternatives with a view to value enhancement opportunities for the unitholders.

We intend to be more aggressive in pursuing both organic and external opportunities for growth in our core skilled nursing and rehab business. We will also explore 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 centres 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. Doing so also assists in managing our litigation regulatory and litigation risk to the degree possible.

We will also continue to explore opportunities to expand in related health care businesses, such as consulting and managed contracts for operators who find it difficult to cope in this changing environment.

Finally, once CMS has finalized the proposed funding changes for our U.S. health care centers for 2012, the Board of Trustees will revisit the REIT's cash flow position and projected payout ratio to consider the advisability of any adjustments to the REIT's current distribution policy in the context of other potential value-enhancing opportunities for the REIT's unitholders.

Extendicare has a history of success and a proven track record and, in spite of the lingering uncertainty in our business, we remain confident of the future. We have a robust, well-established business model, a strong balance sheet and an experienced management team with the skill and expertise that will enable us to navigate our course to continued future success. We are confident that Extendicare will remain a leading provider of post-acute and long-term senior care services in North America.

Our solid operational and financial results in 2010 are a testament to the efforts and dedication of the entire Extendicare team. I would like to express my appreciation and gratitude to our customers, our team members, our Board and our unitholders for your dedication, confidence and continued support in achieving our vision.

And along the way, we will continue to clearly demonstrate to all our stakeholders that "quality is our business."

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