

FOR-PROFIT HEALTH CARE IS AN OXYMORON


The U.S. Balanced Budget Act, 1997, created tough anti-fraud initiatives and closed loopholes in the regulations for the nursing home industry. The "legislative and regulatory assaults" came in the wake of the 1995 General Accounting Office (GAO) Report "Medicare: Tighter Rules Needed to Curtail Overcharges for Therapy in Nursing Homes".

How do you get "strong and profitable growth" from labour intensive long-term nursing care? Many non-profit nursing homes have decided, faced with cuts in government funding, they will run a deficit rather than jeopardize the well being of residents. Extencicare gets the same rate as not-for-profits and yet it boasts that: "our best performing U.S. facilities achieve returns on average in the mid-to-high teens". According to the *American Journal of Public Health* Sept. 2001, profit seeking diverts funds and focus from clinical care.

EXTENCICARE INC. ANNUAL REPORT 2000

Fellow Shareholders:

Since assuming the title of Chief Executive Officer in mid-2000, I've thought a lot about leadership – not only in relation to my own role but also for our Company. Leadership requires not only a plan for today but also a vision of tomorrow.



Mel Rhinelander
President and
Chief Executive Officer

I can tell you that the core values that have made our Company a respected leader in North American long-term care will not change. They have kept Extencicare viable through legislative and regulatory assaults. In my view, our core values reflect the character necessary for strong and profitable growth over the long term. They involve consistently providing quality care and service, irrespective of the complexity of the task. They require that we operate honestly, professionally and responsibly. And they entail doing our best to meet our obligations to all of our stakeholders. But they are not all that is required. Our conduct – not just our character – will determine our future. Can we anticipate the evolution of long-term care needs sufficiently to capitalize on the opportunities this provides? Do we have the proper resources and strategies in place to achieve our goals? The answers to these questions are crucial to Extencicare's long-term performance.

We have adopted three major approaches that are improving shareholder value. And we will continue to use them vigorously. The distorting impact of resident care liability costs – and positioning it for future growth.

- First, we will continue divesting non-strategic assets, reducing U.S. debt and lowering exposure to excessive resident care liability claims;
- Second, we will persist in implementing measures to improve near-term operating earnings;
- And third, we will remain vigilant in our pursuit of important growth initiatives.

We expect these approaches to have a positive effect on our bottom line.

One of Extencicare's greatest strengths is its high concentration of property ownership, which sets us apart from many providers. As the owner of 86 percent of the facilities we operate – with purchase options on another 10 percent – we have virtually eliminated lease costs as a risk for our Company. This gives us great flexibility for the future.

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Extencicare's withdrawal from Florida followed the largest nursing home abuse and neglect verdict in Florida history. The nursing home industry likes to locate in jurisdictions with a low risk of liability. Following the withdrawal from Florida and Texas thereby "lowering exposure to excessive resident care liability claims", Extencicare expanded in Ontario with 8 new facilities.

"For-profit health care is an oxymoron. The moment care is rendered for profit, it is emptied of genuine caring."
- Dr. Bernard Lown, Harvard School of Public Health

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