

# EXTENDICARE

## CLASS II PREFERRED SHARES, SERIES 1

**TO: Each holder of record of Class II Preferred Shares, Series 1 as of the 6<sup>th</sup> day of September, 2006**

A Notice of Redemption (the "Notice") of the Class II Preferred Shares, Series 1 (the "Series 1 Preferred Shares") of Extendicare Inc. (the "Corporation") was previously mailed by the Corporation to each holder of record of the Series 1 Preferred Shares as of 6<sup>th</sup> day of September, 2006.

Set out below is a summary of certain Canadian federal income tax considerations associated with the redemption by the Corporation of the Series 1 Preferred Shares which should be considered carefully by holders of Series 1 Preferred Shares.

### SUMMARY OF CERTAIN CANADIAN INCOME TAX CONSIDERATIONS

The following is a summary of certain Canadian federal income tax considerations associated with the redemption by the Corporation of Series 1 Preferred Shares held by a shareholder resident in Canada who is not a "specified financial institution" or "restricted financial institution" for the purposes of the *Income Tax Act* (Canada) (the "Tax Act"), who deals at arm's length with and is not affiliated with the Corporation for purposes of the Tax Act, and who holds such shares as capital property. The following summary is not exhaustive of all the tax considerations associated with the redemption of Series 1 Preferred Shares. Shareholders should consult their tax advisors regarding the tax consequences associated with the redemption of Series 1 Preferred Shares in their particular circumstances.

Upon the redemption by the Corporation of the Series 1 Preferred Shares on October 13, 2006 (the "Redemption Date"), a holder will generally be deemed to have received a taxable dividend on each Series 1 Preferred Share equal to the amount by which the redemption price of \$25.243 per share (the "Redemption Price") exceeds the paid-up capital per share. The Corporation estimates that the paid-up capital of each Series 1 Preferred Share is \$16.50. A shareholder that is a corporation resident in Canada may, in some circumstances, be required to treat all or a portion of the amount that would otherwise be deemed to be a dividend as proceeds of disposition and not as a dividend.

A shareholder whose Series 1 Preferred Shares are redeemed will be considered to have disposed of such shares for proceeds of disposition equal to the Redemption Price less the amount of any deemed dividend, and will realize a capital gain (loss) to the extent the proceeds of disposition, net of reasonable costs of disposition, exceed (or are less than) such shareholder's adjusted cost base of the shares redeemed. Any such loss realized by a shareholder that is a corporation (or certain trusts of which a corporation is a beneficiary) will be reduced by the amount of dividends or deemed dividends (including any deemed dividend arising on the redemption) received on the shareholder's Series 1 Preferred Shares, to the extent and in the circumstances provided for under the Tax Act. One-half of any such capital gain will be included in such shareholder's income as a taxable capital gain, while one-half of any capital loss will constitute an allowable capital loss. Allowable capital losses may be deducted only against taxable capital gains in the manner provided for under the Tax Act.

IN VIEW OF THE DEEMED DIVIDEND TREATMENT DESCRIBED ABOVE ON A REDEMPTION OF THE SERIES 1 PREFERRED SHARES, AS OPPOSED TO CAPITAL GAIN (OR CAPITAL LOSS) TREATMENT THAT WOULD GENERALLY APPLY TO A SALE OF SERIES 1 PREFERRED SHARES IN THE MARKET, CANADIAN RESIDENT SHAREHOLDERS THAT ARE NOT GENERALLY EXEMPT FROM CANADIAN FEDERAL INCOME TAX SHOULD CONSULT THEIR TAX ADVISORS REGARDING SELLING THEIR SERIES 1 PREFERRED SHARES IN THE MARKET PRIOR TO THE REDEMPTION DATE AS AN ALTERNATIVE TO HAVING THEIR SERIES 1 PREFERRED SHARES REDEEMED BY THE CORPORATION.

Shareholders who are not residents of Canada and whose Series 1 Preferred Shares are redeemed by the Corporation will be subject to Canadian withholding tax on any dividend they are deemed to receive on the redemption, determined as described above. The rate of withholding is generally 25% of the gross amount of the deemed dividend, subject to reduction under any applicable income tax treaty. A non-resident shareholder should generally only be subject to Canadian tax on any capital gain (determined as described above) realized on the redemption of the Series 1 Preferred Shares if the shares so redeemed constitute "taxable Canadian property" to the shareholder or are used or held by the shareholder in connection with carrying on a business in Canada (subject to any exemption under any applicable income tax treaty).

IN VIEW OF THE DEEMED DIVIDEND TREATMENT DESCRIBED ABOVE ON A REDEMPTION OF SERIES 1 PREFERRED SHARES AND THE RESULTING CANADIAN WITHHOLDING TAX, SHAREHOLDERS THAT ARE NOT RESIDENT IN CANADA SHOULD CONSULT THEIR ADVISORS REGARDING SELLING THEIR SERIES 1 PREFERRED SHARES IN THE MARKET PRIOR TO THE REDEMPTION DATE AS AN ALTERNATIVE TO HAVING THEIR SERIES 1 PREFERRED SHARES REDEEMED BY THE CORPORATION.

A Letter of Transmittal, under which holders of the Series 1 Preferred Shares may transmit to Computershare Trust Company of Canada ("Computershare") certificate(s) representing the Series 1 Preferred Shares to be redeemed, accompanied the Notice.

Any questions relating to the redemption of the Series 1 Preferred Shares should be directed to Computershare at 1-800-564-6253 or by e-mail to [corporateactions@computershare.com](mailto:corporateactions@computershare.com).

Dated this 26<sup>th</sup> day of September, 2006.

**EXTENDICARE INC.**



Jillian E. Fountain  
Corporate Secretary