

Example Tax Calculation for Canadian Resident Holders of Extendicare Inc. (EI) Subordinate Voting Shares (SV Shares) (see notes)

THE FOLLOWING EXAMPLE IS FOR ILLUSTRATIVE PURPOSES ONLY - REFER TO DISCLAIMER BELOW.

					<u>C\$ / Share</u>
Assumptions:					
Paid-up capital (PUC) of EI SV Share	(a)				4.82
Illustrative adjusted cost base (ACB) of EI SV Share (will differ for each shareholder)	(b)	Enter illustrative ACB			10.00
Fair Market Value (FMV) of ALC Class A Share	(c)	US\$	8.00	1.1307	C\$ 9.05
FMV of REIT Unit	(d)	C\$	15.18		15.18
Combined FMV of ALC Class A Share and REIT Unit					<u>24.23</u>
Summary of Amounts to be Reported for Canadian Tax Purposes:					
Deemed Taxable Dividend on Distribution of ALC Class A Share	(e)				<u>4.23</u>
Capital Gain (Loss) on EI SV Share (will differ for each shareholder)	(g)				(4.23)
Capital Gain (Loss) on EI Common Share (will differ for each shareholder) (note 2)	(i)				<u>14.23</u>
Net Capital Gain (Loss) on Conversion (will differ for each shareholder) (note 2)	(j)				<u>10.00</u>
Summary of Cost Basis Following Reorganization:					
ACB of ALC Class A Share (equal to FMV)	(c)				9.05
ACB of REIT Unit (equal to FMV)	(d)				<u>15.18</u>
Combined cost base					<u>24.23</u>
Step by Step Tax Calculation of Amounts Summarized Above:					
Deemed Taxable Dividend on Distribution of ALC Class A Share:					
FMV of ALC Class A Share	(c)				9.05
Less: PUC of EI SV Share	- (a)				(4.82)
Deemed Taxable Dividend	(e)	Report for tax purposes			<u>4.23</u>
Proceeds of Disposition of EI SV Share:					
Greater of: (i) ACB of EI SV Share (will differ for each shareholder)	(b)		10.00		10.00
(ii) FMV of ALC Class A Share	(c)		9.05		-
Less: Deemed Taxable Dividend	- (e)				(4.23)
Proceeds of Disposition of EI SV Share (will differ for each shareholder)	(f)				<u>5.77</u>
Capital Gain (Loss) on Exchange of EI SV Share:					
Proceeds of Disposition of EI SV Share (will differ for each shareholder)	(f)				5.77
Less: ACB of EI SV Share (will differ for each shareholder)	- (b)				(10.00)
Capital gain (loss) on Disposition of EI SV Share (will differ for each shareholder)	(g)	Report for tax purposes			<u>(4.23)</u>
ACB of EI Common Share received for EI SV Share:					
ACB of EI SV Share (will differ for each shareholder)	(b)				10.00
Less: FMV of ALC Class A Share	- (c)				(9.05)
ACB of EI Common Share (will differ for each shareholder)	(h)	nil, if less than zero			<u>0.95</u>
Capital Gain (Loss) on Exchange of EI Common Share for REIT Unit (note 2):					
FMV of REIT Unit	(d)				15.18
Less: ACB of EI Common Share (will differ for each shareholder)	- (h)				(0.95)
Capital gain (loss) on Disposition of EI Common Share	(i)	Report for tax purposes			<u>14.23</u>
Net Capital Gain (Loss) on Conversion (note 2):					
Capital gain (loss) on EI SV Share	(g)				(4.23)
Plus: Capital gain (loss) on EI Common Share	(i)				<u>14.23</u>
Net capital gain (loss)	(j)				<u>10.00</u>

Notes:

- Example assumes shareholder does not own any EI multiple voting shares. Example does not apply to shareholders who own multiple voting and subordinate voting shares.
- Not applicable to shareholders who elected to receive Class B limited partnership units of Extendicare Limited Partnership. Gain realized by such shareholders on EI Common Shares will depend on amount elected in federal tax election.

Disclaimer

This example is provided for illustrative purposes only, and does not describe all of the tax consequences applicable to a particular shareholder. This example is qualified in its entirety by the more detailed information relating to the principal Canadian and U.S. federal income tax considerations contained in the Management Proxy Circular dated September 13, 2006 available on our website. Extendicare makes no representations regarding the tax consequences to any particular shareholder under the Plan of Arrangement. Shareholders should consult their tax advisors regarding the calculations specific to their circumstances.

Example Tax Calculation for Canadian Resident Holders of Extendicare Inc. (EI) Multiple Voting Shares (MV Shares) (see notes)

THE FOLLOWING EXAMPLE IS FOR ILLUSTRATIVE PURPOSES ONLY - REFER TO DISCLAIMER BELOW.

					<u>C\$ / Share</u>
Assumptions:					
Paid-up capital (PUC) of EI MV Share	(a)				2.49
Illustrative adjusted cost base (ACB) of EI MV Share (will differ for each shareholder)	(b)	Enter illustrative ACB			10.00
Fair Market Value (FMV) of ALC Class A Share	(c)	US\$ 8.00	1.1307	C\$	9.05
FMV of REIT Unit	(d)	C\$ 15.18			15.18
FMV of ALC Class B Share (= FMV of ALC Class A Share x 1.075)	(e)	C\$ 9.05	1.075	C\$	9.72
FMV of EI Common Share (= FMV of REIT Unit x 1.075) (received per EI MV share)	(f)	C\$ 15.18	1.075		16.32
Combined FMV of ALC Class B Share and EI Common Share (received per EI MV share)					<u><u>26.04</u></u>
Summary of Amounts to be Reported for Canadian Tax Purposes:					
Deemed Taxable Dividend on Distribution of ALC Class B Share	(g)				<u>7.23</u>
Capital Gain (Loss) on EI MV Share (will differ for each shareholder)	(i)				<u>(7.23)</u>
Capital Gain (Loss) on 1.075 EI Common Shares (will differ for each shareholder) (note 2)	(k)				<u>16.04</u>
Net Capital Gain (Loss) on Conversion per one EI MV Share (will differ for each shareholder) (note 2)	(l)				<u><u>8.81</u></u>
Summary of Cost Basis Following Reorganization:					
ACB of ALC Class B Share (equal to FMV)	(e)				<u>9.72</u>
ACB of one REIT Unit (equal to FMV)	(d)				<u>15.18</u>
Combined cost base					<u><u>24.90</u></u>
Step by Step Tax Calculation of Amounts Summarized Above:					
Deemed Taxable Dividend on Distribution of ALC Class B Share:					
FMV of ALC Class B Share	(e)				9.72
Less: PUC of EI MV Share	- (a)				(2.49)
Deemed Taxable Dividend	(g)			Report for tax purposes	<u><u>7.23</u></u>
Proceeds of Disposition of EI MV Share:					
Greater of: (i) ACB of EI MV Share (will differ for each shareholder)	(b)		10.00		10.00
(ii) FMV of ALC Class B Share	(e)		9.72		-
Less: Deemed Taxable Dividend	- (g)				(7.23)
Proceeds of Disposition of EI MV Share (will differ for each shareholder)	(h)				<u>2.77</u>
Capital Gain (Loss) on Exchange of EI MV Share:					
Proceeds of Disposition of EI MV Share (will differ for each shareholder)	(h)				2.77
Less: ACB of EI MV Share (will differ for each shareholder)	- (b)				(10.00)
Capital gain (loss) on Disposition of EI MV Share (will differ for each shareholder)	(i)			Report for tax purposes	<u><u>(7.23)</u></u>
ACB of 1.075 EI Common Shares received for each EI MV Share:					
ACB of EI MV Share (will differ for each shareholder)	(b)				10.00
Less: FMV of ALC Class B Share	- (e)				(9.72)
ACB of 1.075 EI Common Shares (will differ for each shareholder)	(j)			nil, if less than zero	<u>0.28</u>
Capital Gain (Loss) on Exchange of 1.075 EI Common Shares for 1.075 REIT Units (Note 2):					
FMV of 1.075 REIT Units	(f)				16.32
Less: ACB of 1.075 EI Common Shares (will differ for each shareholder)	- (j)				(0.28)
Capital gain (loss) on Disposition of 1.075 EI Common Shares	(k)			Report for tax purposes	<u><u>16.04</u></u>
Net Capital Gain (Loss) on Conversion (note 2):					
Capital gain (loss) on EI MV Share	(i)				(7.23)
Plus: Capital gain (loss) on 1.075 EI Common Shares received for each EI MV Share	(k)				16.04
Net capital gain (loss) on conversion of each EI MV Share	(l)				<u><u>8.81</u></u>

Notes:

- 1) Example assumes shareholder does not own any EI subordinate voting shares. Example does not apply to shareholders who own multiple voting and subordinate voting shares.
- 2) Not applicable to shareholders who elected to receive Class B limited partnership units of Extendicare Limited Partnership. Gain realized by such shareholders on EI Common Shares will depend on amount elected in federal tax election.

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Example Tax Calculation for U.S. Resident Holders of Extendicare Inc. (EI) Subordinate Voting Shares (SV Shares) (see notes)

THE FOLLOWING EXAMPLE IS FOR ILLUSTRATIVE PURPOSES ONLY - REFER TO DISCLAIMER BELOW.

			<u>US\$ / Share</u>
Assumptions			
Illustrative U.S. tax basis of EI SV Share (will differ for each shareholder)	(a)	Enter illustrative tax basis	10.00
Additional distribution to US holder - on Newco Notes (C\$200m/70,205,003 / 1.1307)	(b)	Report for tax purposes (note 2)	2.52
Fair Market Value (FMV) of ALC Class A Shares - US\$	(c)	US\$ 8.00	\$ 8.00
FMV of REIT Unit (converted to US\$)	(d)	C\$ 15.18 1.1307	13.43
Combined FMV of ALC Class A Share and REIT Unit	(e) = c + d		<u>21.43</u>
Difference between FMV on conversion and U.S. tax basis	(f) = e - a		<u>11.43</u>
Summary of Amounts to be Reported for U.S. Tax Purposes:			
Distribution of ALC Class A Shares (equal to FMV)	(c)	Report for tax purposes	8.00
Additional distribution to US holder - on Newco Notes (C\$200m/70,205,003 / 1.1307)	(b)	Report for tax purposes (note 2)	2.52
Summary of what's reported for U.S. tax purposes on conversion (note 2)			<u>10.52</u>
Gain (loss) on REIT Unit (becomes part of tax basis, not taxable on conversion)	(g) = f - b - c	not reported until sell REIT Unit	<u>0.91</u>
Summary of Cost Basis Following Reorganization:			
ALC Class A Shares cost base going forward	(c)		<u>8.00</u>
Cost base of REIT Unit going forward			
U.S. tax basis of EI SV Share	(a)		10.00
Newco Notes - C\$200m/70,205,003 / 1.1307	(b)	(note 2)	2.52
REIT Unit cost base	(h)		<u>12.52</u>
Combined cost base	(i) = c + h		<u>20.52</u>

Notes:

- 1) Example assumes shareholder does not own any EI multiple voting shares. Example does not apply to shareholders who own multiple voting and subordinate voting shares.
- 2) The Distribution should be treated as a dividend to the extent of Extendicare's current and accumulated earnings and profits, as determined for U.S. federal income tax purposes. The amount by which the Distribution exceeds Extendicare's current and accumulated earnings and profits will be treated first as a non-taxable return of capital to the extent of a U.S. Holder's basis in its Extendicare Shares (resulting in a reduction of an equal amount in that tax basis) and thereafter as a taxable capital gain. Extendicare provides no assurances that it will provide information about its current and accumulated earnings and profits to U.S. Holders.
- 3) A U.S. shareholder will be subject to Canadian withholding tax on the amount of any taxable dividend deemed to be received as a result of the distribution of ALC Class A Shares. Shareholders should consult with their tax advisor to determine eligibility for a tax credit.

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