EXTENDICARE

Annual Meeting

Toronto Board of Trade, Toronto, Ontario

May 7, 2014

NOTES FOR REMARKS*

BY

TIM LUKENDA
President and Chief Executive Officer

...helping people
live better

*** check against delivery**

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Extendicare assesses and measures operating results and financial position based on performance measures referred to as "Adjusted EBITDA", "earnings (loss) before separately reported items", "Funds from Operations", and "Adjusted Funds from Operations". 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 to make cash distributions; or (ii) certain ongoing rights and obligations of Extendicare 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 continuing operations, net earnings (loss), cash flow, or other measures of financial performance and liquidity reported in accordance with GAAP. Detailed descriptions of these terms can be found in the disclosure documents filed by Extendicare with the securities regulatory authorities, available at www.sedar.com and on Extendicare's website at www.extendicare.com.

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Tim Lukenda
President and CEO

Thank you everyone for coming today and to all those listening in via the webcast.

Helping people live better--it's our motto, and it's also at the core of everything we do as demonstrated by our Mission, Vision and Values.

Over the course of more than four decades, Extendicare's mission has been to help people live better by delivering quality, affordable long-term care and short-term post-acute care services in a resident-directed environment. We do this by providing remarkable services through highly engaged and motivated team members, resulting in an appropriate return to investors.

We also do it by remaining true to our vision: to challenge the perceptions of our health care profession one customer at a time.

One Customer – A Demographic Imperative – Two Markets

We provide a vast array of services--including skilled nursing, rehabilitative therapy, retirement living, information technology, home health care and management services--in multiple markets throughout North America. But at the heart of everything we do is just one customer: the senior in need of care. And after 40 years, we have come to know them pretty well.

Our market is undergoing an unprecedented demographic shift that will see the number of seniors increase dramatically in the coming decades as the percentage of people aged 65 and over doubles by 2050. At the same time, the needs and expectations of seniors are increasing, and we need to evolve to meet the demands of this changing market.

Providing quality care for this important segment of our society is an imperative. As an established leader in the long-term care industry, we are well positioned to meet this need and, in the process, grow our business and create value for shareholders.

While we serve one core customer, we do it in two markets. Both markets present tremendous opportunities for experienced operators with established footprints. But they are two very different markets, with differing regulatory regimes, payor models and competitive landscapes. As such, they require different business models and different strategies for growth.

I'd now like to talk about how we plan to unlock our potential in each market.

Canadian Operations

Let me begin with Canada

We are the largest private-sector operator of long-term care centers in Canada. We currently operate 95 senior care centers—nursing centers, chronic care units, assisted living and retirement centers--in four provinces, with capacity for approximately 12,600 beds. In addition, through our 21 ParaMed branches, we are the largest home health care operator in Ontario, and this business is well aligned with the government's strategy on aging at home.

The Canadian long-term care environment is characterized by its relative stability. Historically, the supply of long-term care beds has been restricted. As a result, demand has outstripped supply. This results in high and stable occupancy rates--and you can see Extendicare's own metrics here--with occupancy rates steadily in the upper 90% range.

Similarly, because both funding and regulations for nursing centers and home health care services are administered by provincial governments, often in consultation with providers and industry associations, it reduces the risk of sudden changes that will negatively impact the reimbursement or regulatory environment. While this structure somewhat limits growth rates, it also creates strong, steady demand and reliable cash flows.

As the largest private-sector operator of long-term care centers in the country, we have critical mass that supports future growth. In addition, our established network of centers and resources gives us the operational flexibility to maximize efficiencies and generate economies of scale to drive profitability. We also have an established reputation. Extendicare is a brand people know and trust. These combined factors create a great platform for continued growth.

Our growth plan in Canada is multi-faceted, focusing on three key areas: long-term care, home health care and related vertical businesses. We are investing to upgrade our existing nursing centers and to expand the number of our centers. Since 2009, we have built five new next generation centers, including two long-term care centers in Ontario that opened last year--a 180-bed center in Timmins and a 256-bed center in Sault Ste. Marie. This has supported our organic growth, as evidenced by the nearly 30% increase in our revenue from senior care centers over the past five years.

We see significant opportunity to continue to provide our management and industry expertise under the Extendicare Assist banner to assist both for-profit and non-profit operators of senior care services. Since 2011, we have added 14 centers, bringing the total to 37 and increasing our revenue from these operations by almost 70%.

On the home health care front, we foresee a significant growth opportunity as well. We are seeing a growing preference among seniors to age at home. This trend is fueling a surge in demand for home health care services that will continue in the coming years. Last year, volume for ParaMed, our home health care business, rose 5.2%. Extendicare also stands to benefit as the Ontario government looks to expand home health care services through its new home health care model, which will award contracts for the provision of home health care services based on quality of care and value. As a recognized leader in Ontario in the area of quality and affordable home health care, we are well-positioned for future growth in this area.

Longer term, we see potential to grow our Canadian business through diversification within the senior care continuum. We intend to explore opportunities in the retirement living space. This type of center would allow us to offer services all along the continuum of care, from home health care through to assisted living and long-term care centers. We also foresee the opportunity to provide other related health care services, such as physiotherapy, to our customers. Our decades of experience as an owner and operator of nursing centers, along with our access to capital, positions us well to move forward in this area. With our critical mass, our reputation and our diversified, multi-faceted growth strategy, we think the future of Extendicare in the Canadian market is very bright.

Our success in Canada to date is also evident in our financial results across all of our key metrics. We have generated steady, incremental growth in revenue, primarily due to funding increases, contributions from new nursing centers and the growth of home health care. The flat Adjusted EBITDA in 2013 was mainly due to the start-up of our two new northern Ontario centers and our discontinuance of home health care operations in Alberta. While we are generally pleased with these results, we know we can do even better. To some extent, our progress in Canada has been limited by our focus on the short-term challenges in our U.S. business.

U.S. Operations

As I stated at the outset, the U.S. is a very different market.

It is obviously a much bigger opportunity, but it is also a longer-term opportunity, as the entire U.S. health care sector adjusts to the implications of the seismic changes resulting from the health care reform initiatives of the U.S. government.

Extendicare is the eighth largest skilled nursing center operator in the U.S., with approximately 15,200 beds in 156 skilled nursing and assisted living centers located in 11 states. We also operate 23 ProStep outpatient rehab clinics.

As in Canada, our experience and established platform in the U.S. positions us well to capitalize on the tremendous demographic opportunity before us. The U.S. senior care market is about eight times the size of the Canadian market, but the private-sector health care model in the U.S. creates a highly competitive operating environment.

Moreover, U.S. seniors are increasingly demanding alternative care settings with better amenities, programs and environments. As a result, opposite to Canada, the supply of senior care services exceeds demand in the U.S. In fact, occupancy rates at skilled nursing centers have been trending down industry-wide year over year for some time. Exacerbating this has been a weak U.S. economy that has constrained consumer health care spending. At the same time, the impact of the federal sequestration and budget cuts at the state level have reduced the funds available for seniors care as governments struggle to reign in health care costs. None of this, however, changes the undeniable demographic trend. Even within this environment, the skilled nursing center volume in the U.S. is predicted to grow by 1 million admissions annually by 2020.

But while the U.S. represents a long-term opportunity for us, it comes with unique challenges. To realize this U.S. opportunity, it is imperative that successful risk mitigation be a key part of our business strategy. We have taken steps to limit our exposure in litigious jurisdictions. We made the decision last year to lease 21 of our skilled nursing centers in Kentucky. This allows us to maintain cash flow from these centers while reducing our potential liability. We will continue to monitor our geographic exposure and act prudently in this regard. We are aggressively managing liability exposure and working to reduce overall claims by implementing customer service plans and acting quickly to address customer concerns as they arise. We are also investing significant resources to ensure ongoing compliance with the myriad of regulations that govern the industry. Ultimately, what underpins our risk management strategy is our commitment to maintaining a level of quality in our services and centers that far exceeds government standards. We do this through increased staffing levels and improved training, along with investments to improve and upgrade our centers and programs. I'll discuss this in more detail in a moment.

As I said, the senior care marketplace in the U.S. is characterized by intense competition. Therefore, our growth strategy in the U.S. is centered on strengthening our competitive position.

First, we have improved the physical environment for our customers. An example of this is our Active Life Transition Units, which offer patients access to hotel-style amenities, enhanced dining services, Internet access and private-room accommodations that meet the growing consumer demand for improved choice in senior care. We have completed 17 Active Life Transition Units since 2010, housing 492 beds, and there are an additional two ALT units currently in progress.

Second, we provide our customers with access to the latest clinical technologies and improved programs. Technology includes state-of-the-art physiotherapy equipment that provides more efficient healing and innovative new medical equipment designed to increase safety and comfort. Extendicare customers also benefit from innovations like an electronic care level tracking system located throughout the long-term care center that links to an electronic medical record system. This makes it easy for care providers to document resident observations and relay information instantly to all members of the health care team. Improved program offerings include initiatives like our Life Enhancement Series, which reduces hospitalization due to congestive heart failure and diabetes and helps patients cope with the challenges of Alzheimer's and dementia.

Because our centers are clustered in specific geographic areas, we are able to gain a deep understanding of the senior care needs in each specific community. By maximizing our knowledge of these markets, we are able to build strong relationships with local home health care, rehabilitation and long-term care patients and their doctors, who can influence the decision-making process when the time comes to choose a skilled nursing center. Clustering also allows us to focus our marketing efforts to position Extendicare as a valued partner within preferred provider networks. This targeted marketing approach has been vital to our success in the U.S., where 92% of our patients have come to us from an acute-care facility.

Providing care and services to meet the needs of premium payor customers, relative to the pool of each payor type in a given market is key to enhanced profitability. The premium payor mix is a measure of the level on non-Medicaid payor sources since Medicaid rates are the lowest of the payor types. Providing improved physical environments, the latest technologies and programming that consumers demand allows us to compete for more Medicare and Managed Care patients, whose care needs result in higher daily rates through health management organizations and commercial insurance payor sources. Our reputation for high quality and customer service results in a premium mix that is above the overall industry average.

Unlike a number of long-term care providers in the U.S., we own the vast majority of our centers, and this provides us with inherent value, as well as a solid foundation for growth. Ownership of these assets gives us access to U.S. Department of Housing and Urban Development, or HUD mortgages, which provide long-term, low-interest financing to continually upgrade our centers and invest in quality initiatives. Currently, we have US$542 million in long-term HUD mortgages with a weighted average fixed interest rate of 4.3% payable over a 30-year term.

Enhanced centers and programs lead to improved quality ratings and greater customer satisfaction, which, in turn, allows us to strengthen our payor mix and receive a higher daily rate per customer, based on a higher level of care and services provided, all of which enhances our cash flow. This allows us to make further investments in our business, creating a continuous improvement loop that drives growth and enhances value for both customers and shareholders.

In contrast to our Canadian operations, the challenging nature of the U.S. market—softness in census levels, funding pressures, a regulatory environment in transition and increased litigation-- has had an impact on our financial results in recent years. The past several years in the U.S. have largely been about weathering the storm in a challenging and evolving market. Still, the long-term opportunity that exists in the U.S. is undeniable, and we are well-positioned to capitalize on it. But again, it will take some time and significant resources to realize this future value if we are to pursue this opportunity on our own.

Consolidated Financial Review

Overall, in 2013, the impact of the aforementioned challenges in the U.S. operating environment had a dampening effect on our consolidated financial results for the year. While revenue, Adjusted EBITDA and AFFO were all down year over year, we did deliver dividends to our shareholders of over $52 million or $0.60 per share for a yield of over 7% for the year. We are focused on continuing to adapt and make the necessary changes to improve the overall financial picture of our company in the current year.

Quality is the Key to Growth

Earlier, I talked about the importance of quality in managing risk. But, much more than that, not only is quality just the right thing to do, it is good business. That mantra lies at the core of our ongoing company-wide quality initiatives, through which we are striving to set new standards of care across our organization. Our program achieves this by energizing our team members--by providing them with a safe, pleasant work environment and the resources they need to perform to the best of their ability; by giving them opportunities to develop their skills and advance in their careers; and by recognizing their efforts with employee discounts and regular performance awards.

Recently in the U.S., we took this to a new level with the launch of our Quest program. Quest helps improve quality through things like our Caring Partner program, which is designed to ease the often difficult transition to long-term care; and our 24-hour Caring Connections customer response line, which gives patients and their families the opportunity to report any concerns they may have or even commend employees who have provided them with exceptional customer service.

We know our ongoing commitment to improve the quality of our centers and services is generating results, because we have the awards to prove it. Extendicare centers in the U.S. earn national quality awards through the American Health Care Association based on their commitment to exemplary customer service, quality care and strong regulatory compliance. Since 2008, the number of our centers receiving at least a bronze quality rating rose from just two to 106. Since 2011, we have seen the number of centers receiving a silver quality rating rise from one to nine. Improving the national quality awards standard at each of our centers has become a top priority for both management and staff.

Further evidence of our success in quality improvement can be seen in the government's own quality ratings for our nursing centers. As you can see from the chart, Extendicare has achieved a close to 40 basis point reduction in the percentage of one-star rated centers since the program's inception in 2008. Meanwhile, over the same period, we have seen our number of four- and five-star rated centers increase by close to 300%.

Our success in promoting and improving quality is also evident in our Canadian operations.

Extendicare's Ontario homes currently meet or exceed the provincial average for two of the four publicly reported quality indicators. Our goal is to outperform the provincial average in all four indicators. Similarly, the standards set by Health Quality Ontario, or HQO, represent evidence based markers of excellence to which organizations can aspire. Meeting or exceeding HQO's aspirational goals on the key indicators puts these homes in the top 10% of homes across the province. In 2013, 50% of Extendicare's Ontario homes reached HQO's aspirational goals in at least one publicly reported quality indicator.

We are also proud to have been awarded the Ontario Long-Term Care Association's 2013 QI Innovation Award for our comprehensive project to improve data quality across all our Ontario homes.

All of our homes in Canada are accredited. Accreditation is an established marker of quality assurance and demonstrates our commitment to the communities we serve. It means our operations have been assessed by our peers and we have met or exceeded national standards of excellence. In 2013, our home health care operations earned the highest rating of "accreditation with exemplary standing".

Two Different Markets

As you've seen, we are one company, focused on the needs of one customer--but in two very different markets. This calls for two different business approaches, different growth strategies and the dedication of specific management teams. Most importantly, it results in two very different risk/reward profiles for investors. Addressing this reality was the impetus for the strategic review we undertook last year in order to unlock the current and future value inherent in each business.

One Goal

During this past year, we have worked diligently to complete a transaction that would separate our Canadian and U.S. businesses. Our preference is to do this by way of a sale of our U.S. business. As we announced last quarter, we are working with a prospective buyer and have had negotiations relating to a transaction involving the sale of the U.S. business in a tax-efficient manner.

However, these negotiations are dependent in part on the satisfactory resolution of the previously announced U.S. Department of Justice and Office of Inspector General investigations. The ultimate resolution of these matters is expected to include an agreement between Extendicare and the OIG involving certain monitoring and oversight responsibilities, some of which may pertain to any buyer of the U.S. business going forward. For this reason, knowing the outcome of the investigations has been a pre-condition in the negotiations.

If the investigations can be resolved in a manner acceptable to us and the prospective buyer, we expect that the separation of the businesses will be effected by way of a sale of the U.S. business. If not, we will nevertheless proceed to separate the Canadian and U.S. businesses by utilizing one of the several alternative techniques being considered and analyzed by the Strategic Committee. The status quo is not an option.

We know we have tested the patience of our shareholders and raised the anxiety of our employees with the uncertainty and duration of this strategic process. We are committed to reach an outcome as soon as possible to set a clear direction forward for our Company.

Through it all, we remain focused on delivering quality care to optimize the performance and value of Extendicare for our shareholders.

Thank you for your continuing support and your belief in us as we carry out this important mission. I would now be happy to address your questions.