EXTENDICARE

Annual Meeting

May 9, 2013

The Gallery, TMX Broadcast Centre
Toronto, Ontario

NOTES FOR REMARKS*

BY

TIM LUKENDA
President and Chief Executive Officer

&

DOUG HARRIS
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...helping people
live better

* check against delivery

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Non-GAAP Measures

Extendicare assesses and measures operating results and financial position based on performance measures referred to as "EBITDA", "earnings (loss) from continuing operations before separately reported gains/losses and distributions on Exchangeable LP Units", "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. Reconciliations of these non-GAAP measures from net earnings and/or from cash provided by operations, where applicable, are provided in this press release. 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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EXTENDICARE

Tim Lukenda
President and CEO

Good afternoon. I would like to welcome you all to Extendicare's 2013 Annual Meeting of Shareholders. We also welcome those listening via webcast.

Industry in Transition

Extendicare is operating in an industry in transition. In the U.S., while the demographic trends remain very favourable and growing, the challenges faced by all health care providers are significant. As a leading post-acute provider in the U.S. health care space, we are facing disruptive change. Simply put, the old rules just don't apply.

We have been through market cycles before, but this time, it is different, in some very important ways. Government budgetary constraints at both the federal and state levels are resulting in deep and varied cuts to health care funding under the current fee-for-service payment regime.

Meanwhile, the focus on longer-term government deficit reduction is leading to widespread experimentation of health care reform. The myriad of initiatives in play are creating a constant uncertainty with respect to payment models and funding levels for the industry. Health care reform is truly a game-changer, as financial considerations are completely reshaping service delivery models and payment systems. Skilled nursing providers are impacted by reductions in funding, while reform initiatives are rapidly evolving.

The simple fact is, the number of people in the U.S. who need skilled nursing services is growing dramatically. Demographically, people are living longer and the senior care sector is growing.

In 2010, the total Medicare enrollment was 48 million people; by 2020 it is projected to be 62 million. The enrolment in skilled nursing centers is also predicted to grow by one million over this time, but the actual number of certified facilities able to meet these needs is on the decline. And, because there will be winners and losers in this new arena, those who do not adapt and prepare for these coming changes, will perish.

At the same time, another dynamic that is having a significant impact on skilled nursing and rehab providers is the rapid growth in alternative care settings, including home health care and assisted living. While not a direct substitute for the clinical competency and rehabilitation capability of SNF providers, alternative care settings are diverting the longer stay, more clinically stable residents out of skilled nursing facilities, and this is affecting occupancy levels across the sector.

Health care providers, like Extendicare, are being challenged not only to operate successfully within the current framework but also to prepare themselves for a rapidly evolving, and as yet uncertain, future. At the present time, out of necessity we have one foot in each canoe, as we prepare to navigate the choppy waters ahead.

In both Canada and the U.S., Extendicare is a major provider in this rapidly changing sector. Despite the fundamental changes occurring, I believe that we are well positioned to adapt and capitalize on our intrinsic strengths in this new marketplace.

Today, I'd like to share with you the impact of these changes and what we at Extendicare, are doing to adapt to them and to respond. I'll begin by outlining our current state of affairs and, in particular, review our 2012 successes, challenges and overall results. Doug will then drill down into the numbers a little further for the year and our first quarter of 2013. I will then discuss the steps we have taken to position our company for success and provide our outlook for the future.

Current State of Affairs

Extendicare is a leading North American-wide provider of senior care services. According to a recent edition of Provider Magazine, we are ranked as the eighth largest operator of nursing center beds in the U.S., with 146 skilled nursing centers in 11 states.

In Canada, Extendicare is the largest private sector operator of long-term care centers. The majority of our 84 nursing centers are located in Ontario where we have a 10% market share. We are currently the largest home health care operator in the province with a market share of approximately 15% based on the hours of service provided, and we intend to grow this business to meet increasing market demand. In addition, throughout North America, we operate 15 assisted living and retirement centers, a chronic care center and a rehabilitation hospital, bringing our total centers under operation to 247.

The past several years have been challenging for Extendicare, as well as for all other U.S. long-term care providers. In order to convey the magnitude of the adverse impact of these pressures on our U.S. business, consider this: Since the end of 2010, our AFFO has been adversely impacted by the following: the 2011 CMS Final Rule, changes to therapy services, sequestration and other reimbursement changes, as well as lower census levels, incremental staffing to meet regulatory and key referral sources expectations, and costs association with litigation.

We estimate that these items have collectively adversely impacted us by approximately $96 million, after tax. And, in order to mitigate some of this decline, we have implemented administrative cost savings measures and lowered our interest costs by approximately $29 million, after tax, thereby reducing the adverse impact on our AFFO to approximately $67 million or $0.77 per share.

Extendicare sustained disappointing financial and operational results in 2012, with declines in revenue and EBITDA due to these adverse environmental conditions, Medicare funding cuts and the need to strengthen our reserves for self-insured general and professional liabilities. For the year, our revenue and EBITDA was $2 billion and $183 million, respectively. Excluding the positive effect of foreign exchange, that is a year-over-year decline of 3.4% and 9.0%, respectively. And, given the priority on deficit reduction that I mentioned earlier, these circumstances will continue to prevail, putting further downward pressure on Medicare rates for the foreseeable future.

Turning to our self-insured liability reserves, following the independent review of our reserves that are conducted three times a year, it was necessary to strengthen our provision by US$17 million in 2012, compared to the US$43 million recorded a year earlier. The continued strengthening of our prior years' reserves was primarily attributable to claims in the State of Kentucky and the settlement of certain pre-2012 claims in other states.

Based on current claims activity, I believe we are making the provisions necessary to address our current exposure. This is a key priority for us and we continue to aggressively pursue risk management strategies and devote significant resources to this issue so that we can assess the validity of claims, mitigate liability and reduce our exposure in the future.

From an operations perspective, our occupancy numbers for 2012 reflect both the adverse impact of the challenging U.S. economic environment and the proliferation of alternative care settings that are quickly becoming part of the landscape. Over the course of the year, our same-facility skilled nursing center average daily census, or "ADC," declined by 121 days, or 1%, from 2011. We continue to be affected by weak U.S. economic conditions that have reduced disposable incomes and placed a general constraint on the public's ability to spend on health care in addition to the impact of public policy shifts towards more home and community-based alternative care settings.

Given these realities, our Board took the difficult but necessary decision to adjust our monthly dividend to a level that is supportable by our current businesses and less dependent on the volatile nature of the cash flow from our U.S. skilled nursing operations. Strategically, we are positioning the U.S. cash flow for re-investment in the U.S. business to provide financial flexibility and adaptability to the changing market conditions. This redeployment also reinforces our commitment to quality and low tolerance for risk, and it enables us to make the strategic investments we need to make to stay a provider of choice in the U.S. market.

The new monthly dividend of $0.04 per share declared for May, or $0.48 on an annual basis, is a reduction from the $0.07 per share declared in April. This was a decision that we do not take lightly and we understand the disappointment of some of our shareholders. Nevertheless, I believe the decision and direction of the Board was the right one and is in the best interests of our company and our shareholders over the long run.

The highlight of 2012 was the refinancing of our U.S. long-term debt, which we substantially concluded last year. This brings an end to a process that was started in 2010 to create a firm financial foundation for the Company. The US$636 million long-term debt refinancing with approximately US$506 million in mortgages insured by the U.S. Department of Housing and Urban Development (HUD) and US$130 million of cash on hand is a key strategic asset because of the enduring financial strength that it provides us.

We complemented this initiative by also completing a $72 million mortgage refinancing on our Canadian operations at the end of 2011. Together, these transactions have yielded annualized interest savings in the neighbourhood of $25 million.

Also, we further strengthened our financial condition by finalizing the leasing of all 21 of our skilled nursing centers in the State of Kentucky to a third-party operator. Our planned exit from Kentucky was prudent and in the interest of our Company and its shareholders. It is also consistent with our philosophy of conservative risk management and commitment to quality, which are the defining features of our Company.

Our management team has acted swiftly and effectively to put operational and organizational efficiencies in place to give us strength and flexibility, so that we can stay focused on our core business and objective – delivering quality care to the residents of our centers in North America.

With that, I will now turn it over to Doug, who will review our 2012 financial results in more detail.

Doug Harris
Chief Financial Officer

Thank you Tim, and good afternoon.

In 2012, we delivered disappointing financial results, due to reductions in Medicare funding, declines in occupancy and the impact of adjustments taken to strengthen our prior years' reserves for self-insured liabilities.

As the majority of our operations are based in the United States and we report our financial results in Canadian dollars, in my analysis, I will remove the impact of both the change in foreign exchange rates and prior year reserve adjustments.

Revenue from our Canadian operations increased by $31 million due to the full-year impact of our new centers in Alberta, along with funding improvements. Whereas, we experienced a decline of revenues of US$102 million in our U.S. operations primarily due to the impact of leasing our Kentucky operations, the 2011 CMS Final Rule and lower census levels. As a result, our consolidated revenue declined by $70 million, or 3.4%, in 2012 as compared to 2011.

Likewise, EBITDA from our Canadian operations were solid with an increase over the prior year of $6 million. Whereas, EBITDA in the U.S. declined by US$51 million largely due to the impact of the 2011 CMS Final Rule and lower census levels, partially offset by higher average Medicaid, private and other rates. Our cost savings measures that were implemented to partially offset the impact of the 2011 CMS Final Rule kept the year-over-year cost increase down to approximately half a percent. As a result, our Consolidated EBITDA declined by $45 million, or 18.3%, and represented 9.8% of revenue compared to 11.6% in 2011.

Now turning to AFFO, after removing the impact of the prior year reserve adjustment, our 2012 adjusted AFFO was $101 million, and was only $7 million below that for 2011. Interest expense savings of $18 million along with reduced current income taxes of $24 million offset a significant portion of the decline in our EBITDA between the two years. The reduction in interest expense was the result of both the Canadian and U.S. refinancing. Whereas current tax savings were due to utilization of Canadian loss-carryforwards, book-to-file adjustments, changes in timing differences and the proportion of income in our non-taxable captive.

For 2012, we reported AFFO of $0.99 per basic share as compared to the $0.84 in distributions. Therefore, our payout ratio was 85%. Excluding the $17 million in prior year reserves, our AFFO would have been $1.19 per share, with a payout ratio of 71%.

Now let's turn to our Q1 2013 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 2013, we reported AFFO of $18 million or 21 cents per basic share as compared to $27 million or 32 cents in Q1 2012. Excluding the impact of foreign exchange, revenue declined by $22 million to $498 million; and EBITDA declined $10 million to $39 million. After removing the impact of the 2012 insurance premium adjustment and unique tax items between the two quarters, the reduction in AFFO was primarily the result of lower total census and incremental operational expenses including provisions for general and professional liability reserves from our U.S. operations.

A full review of our Q1 2013 results will be discussed in our conference call scheduled for 10 a.m. tomorrow morning.

With that, I will now turn the presentation back to Tim.

Tim Lukenda
President and CEO

Thank you, Doug.

Positioning for Success

As you have heard today, Extendicare has been managing through a period of profoundly challenging conditions that are set to create a new paradigm for our industry.

In order to survive and thrive in this rapidly changing industry, I believe Extendicare must possess certain key characteristics to give us a competitive edge in the new marketplace. These include:

1. Quality as a core fundamental competency;
2. Cost-efficiency in the delivery of care;
3. Technological sophistication;
4. Market knowledge and concentration.

Extendicare is firmly committed to providing complex clinical care and rehabilitation therapy of the highest quality, as well as comfort and a sense of community, to help improve the quality of life of our patients. As we grow as a leading service provider, we are always looking at new opportunities to adapt to the changing marketplace. We do this by improving the services we offer by embracing new clinical technologies, investigating lifestyle innovations and introducing more sophisticated programs for health care delivery that entrench our commitment to quality.

We are investing in the use of advanced clinical technologies at all levels of our business to improve the medical care of our residents, optimize resources and enhance communication capabilities within our centers. By incorporating the latest in medical, service tracking and communications technologies into our centers, and working alongside our health care partners, we strive to optimize resources and achieve the best in living and working standards for our patients and employees.

As part of this endeavour, Extendicare has begun to implement an Electronic Medical Record system – or “EMR” – throughout the organization over the next several years to greatly enhance our ability to provide timely information and tools to our frontline caregivers. When it is introduced, the EMR should help increase the accuracy and availability of clinical information, decrease duplication of data entry, improve workflows and assist in improving the quality care of our residents.

We also continue to pursue lifestyle innovations to increase the quality of life that we provide our customers, to help them live better. Our Life Enhancement Series was developed as part of that initiative.

These programs, which target conditions such as congestive heart failure, diabetes, Alzheimers and dementia, mental health and behaviour, and short-term rehabilitation, aim to complement the specialized medical programs offered by local hospitals and are designed to accommodate higher acuity patients in need of specialized services. The programs will help position Extendicare favourably in a changing health care environment in the U.S., and strengthen 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.

For patients requiring intensive short-term rehabilitation, we have established 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.

Fundamental to these developments is our belief in – and commitment to – quality. Quality is at the heart of our business. Our U.S. centers are evaluated through the Five-Star Quality Rating System designed by the Centers for Medicare and Medicaid Services, the U.S. federal agency that administers these programs. This system helps 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.

Since the system was started, almost 60% of Extendicare's centers have improved their individual rating with over 36% now achieving a four-star or five-star rating. This has increased from 9%, only five years ago. Our average star rating has improved over this period to 2.7 stars with a goal of exceeding three stars on average, in the near future. Strategies to improve ratings include continuing education and training, and ensuring that staffing levels are optimized for changes in acuity mix and improving the documentation of care provided.

At the same time, in 2012, we were once again recognized for outstanding performance in the U.S. health care profession. Last year, we won two of the American Health Care Association's prestigious Silver – Achievement in Quality awards. Tendercare Mt. Pleasant Health and Rehab Center in Mt. Pleasant, Michigan and Cedar Springs Health and Rehabilitation Center in Cedarburg, Wisconsin were two of only 55 centers nationwide to receive this award this past year.

Also, another 17 of our health centers received the American Health Care Association's Bronze – Commitment to Quality awards in recognition of their strong commitment to continuous quality improvement.

With these awards, over 60% of our skilled nursing centers have received either Bronze or Silver awards.

Turning now to Canada, our business here remains strong and we are a leader in both the nursing home and home health sectors of the industry.

In 2012, our EBITDA margin improved to 9.9% from 9.4% in the previous year. The average daily revenue rate on a same-facility basis increased by 2.0% over 2011 and our occupancy rates remained unchanged at a solid 98%. In addition, we significantly increased our managed contract business, which is a growing line of business for Extendicare in Canada.

Last year, we continued to make strategic investments to further grow our Canadian operations and consolidate our leadership position in the industry. As you may recall, in 2011, we opened a new state-of-the-art 180-bed nursing center in Edmonton, Alberta.

And in Ontario, last month we opened a new 256-bed nursing center in Sault Ste. Marie, and are scheduled to open a 180-bed center in Timmins this September. These projects replace existing centers we operate in those locations. Once they are fully operational, we expect they will generate incremental EBITDA of approximately $1.8 million.

Through ParaMed, the home care division of Extendicare, we are also the largest home health care operator in Ontario with a market share of approximately 15%, based on the hours of service provided. In March of this year, we were proud to learn that Accreditation Canada had awarded the highest accreditation rating "Accredited with Exemplary Standing" to ParaMed. We are excited by this and expect that our superior quality service delivery will drive opportunities for future growth.

Extendicare continues to leverage its expertise in managing long-term care centers by developing partnership arrangements with public, private and not-for-profit organizations. Through our Extendicare Assist division in Canada, we are focused on acquiring new managed care partnerships and consulting opportunities to grow our managed care portfolio. With the addition of six centers in 2012, this now stands at 28.

<u>Future Outlook</u>

Within the rapidly changing North American health care continuum, Extendicare holds a key position as a leading low-cost, quality health care provider best able to meet the specific needs of individuals who require skilled nursing care or short-stay rehabilitation. This is our value proposition within the industry that I believe will be recognized by governments and insurance payors as they look for efficient and cost-effective health care solutions over the long term.

Looking ahead, we are determined to embrace these changes as our industry continues to evolve. With the demographic transformation now upon us, our value as a leading low-cost, post-acute quality provider has never been more clear. We will continue to do what we do well, which is to build on our strength, stability and dedication to quality, to grow our core business and seize new opportunities as they emerge where our platform and expertise offer strategic advantage.

Throughout the past year, our team has adapted and responded to many changes and, all the while, did our best to manage those aspects within our control. We are committed to delivering value, for our customers, for government and insurance payors, and for our shareholders. As you heard, the Board announced today a strategic review with the intention to separate our Canadian and U.S. businesses. My goal is to continue to advance initiatives in both countries to enhance the value of all parts of our businesses for the benefit of our shareholders. We believe the changes we have made position Extendicare to continue to be successful in this evolving health care sector.

I would like to express my appreciation and gratitude to our customers for putting your trust in us, our Board for their unwavering support, and our shareholders for your confidence and continued support in achieving our vision.

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