Annual Meeting

May 9, 2013

The Gallery, TMX Broadcast Centre
Toronto, Ontario

EXCERPT FROM THE CHAIRMAN'S REMARKS*

MEL RHINELANDER
Chairman

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* check against delivery

EXTENDICARE

Mel Rhinelander
Chairman
Excerpt from Chairman Remarks at the Annual Meeting, May 9, 2013

Before Tim's discussion, I want briefly to comment on two issues.

The first issue is the Board's decision last week to reduce the monthly dividend from 7 to 4 cents commencing this June, and the second issue is the Board's activities in respect of the current Extendicare corporate structure and its U.S. and the Canadian businesses.

Current Environment
Before I briefly comment on these two issues, I want to make some contextual comments about the U.S. environment. It is well known and acknowledged that the U.S. health care legislative and regulatory reform, with its related Federal and State spending cuts, have had and will continue to have a critical impact on the U.S. industry. However, certain other factors will also be critically important. These factors include changing market dynamics and related changes in residents' expectations, requirements and needs, and an adverse litigation environment, which will also fundamentally impact the operating environment in the U.S. for post-acute providers over the next several years. We anticipate continuing uncertainty in the U.S. health care sector, resulting from or at least compounded by persistent weakness in the economy, government budgetary challenges, increases in alternative care settings for seniors, and the impact of health care reform initiatives.

The identification and implementation of the market placement strategy for a company's U.S. health care business is not optional but in fact critical.

These factors and others will have a fundamental and significant impact on the U.S. health care business. To be clear, the final outcome of these various factors is not now known, but the fundamental dynamics are changing and a company that fails to respond timely, creatively and flexibly will, in my opinion, has bleak prospects. Our CEO will speak more about these challenges and opportunities in his remarks.

Dividend
With this unpredictable uncertainty, the Board responsibly addressed its dividend policy. The Board concluded it required additional flexibility to address the constant unpredictable changing U.S. health care environment. As Tim noted on the investor call last week, this adjustment is consistent with our philosophy of maintaining a conservative and indeed responsible payout while at the same time reducing our reliance on U.S. cash flow to support our dividend level. The Company's U.S. cash flow will principally be used to enhance operations, provide financial and strategic alternative flexibility, and allow us to be responsive to future changes in funding.

Having said that I would be remiss if I did not remind our investors of some of the significant initiatives taken by our management team to delay and to some extent offset the negative impacts of the current challenges. Tim and his team have made a significant investment in the care and quality of services to our residents by increasing staffing and services. This is not only increasing expectation and requirement of our patients and government – it is simply the right thing to do. We will not comprise our services. Having said that your management team have offset the increased cost of staffing and services by reducing costs and expenses away from the bed side by more than $25 million per year. Management completed a significant refinancing of our U.S. debt providing us with long term benefits. And as we have done in the past, management has attempted to minimize the effects of liability expenses by a creative and timely exit of our operations in Kentucky. These are simply a few of the significant highlights of the initiatives and accomplishments of your management team to delay and minimize the impact of a dividend reduction.

I mentioned earlier that Tim in his remarks will speak to management's operational plans for the future. But before I turn the podium over to Tim let me address what the Board is doing.

Reorganization

I propose to talk briefly about the Board's reorganization activities pertaining to our current status of operating and owning our U.S. and Canadian businesses.

The Extendicare U.S. and Canadian businesses, from the perspectives of future challenges, opportunities and resultant strategies, capitalization, operational approaches, investment opportunities and returns, will continue to become increasingly divergent and disparate.

Complexities associated with the Company's cross border business mix, the inherent growth vs. income strategies, and the attendant tax complexities due to its cross border structure have long presented challenges to the market in assessing the Company's value, which is even more apparent as a result of the recent dividend reduction. The U.S. senior care environment contrasts with Canadian environment, which includes relatively higher occupancy rates for traditional senior care providers, provincial regulation that limits new supply and a comparatively more stable reimbursement environment in which the Company strives to control costs, maximize efficiency and provide quality services.

As a result, there is an increasing compelling case to arrange for the separation of the two businesses.

In addition, while not specific to the health care industry or Extendicare, I note that there has been a recent trend for public companies to consider the disposition of operations that are more appropriately owned separately because their true value is not being reflected as part of the whole company. One way of doing this is to arrange for an arm's length sale of the U.S. business and to deploy the net proceeds in the best interests of the corporation and its shareholders. These alternatives include deleveraging, dividends, accretive or strategic acquisitions and share repurchases. However the process of finding a buyer willing to pay an acceptable price in uncertain times is difficult.

As we have previously publicly stated, in view of the U.S. health care environment with the difficulties and trends I have just mentioned, the Board has undertaken a review of its strategic alternatives and has made substantial and significant progress in this process. The purpose of the process is to identify and execute on a realignment of the Company's U.S. and Canadian businesses with the objective of enhancing shareholder value. Last year, the Board appointed a Strategic Committee to bring a disciplined focus to this important initiative. (The members of the committee are Mel Rhinelander (Chairman), Margery Cunningham, Ben Hutzel, Michael Kirby and Tom MacQuarrie.) Although still actively engaged in its deliberations, the committee has identified, considered and is in the process of evaluating the strategic alternatives pertaining to its U.S. and Canadian businesses that may be available to the Company. The Strategic Committee is working with Citigroup as its financial advisor to assist in its strategic review process.

We are most aware that certain shareholders believe that a reorganization involving the separation of operations and real estate in the U.S. (sometimes referred to as opco/propco) should have been pursued a few years ago. Although it was adopted in certain high profile transactions, at our 2011 AGM, I advised that we had carefully reviewed this structural alternative but for various reasons could not conclude as to its advisability. As many of you know, this structure is now running into increasing serious difficulties. This is noted not for credits in the self congratulatory ledger but to emphasize the critically important and difficult calculus of the prudent review and timely implementation of transformative strategic alternatives which enhance shareholder value. We have concluded that we have correctly analyzed this calculus which is difficult and complicated because of our cross border structure and multi-jurisdictional operations.

Based upon the Committee's review, analysis and recommendations thus far, the Board has concluded that it will separate the U.S. and the Canadian businesses. The separation of the businesses may take the form of a sale of the U.S. business or a distribution of the U.S. or the Canadian business to the shareholders. The Board is prudently reviewing the prospects of such a sale and alternatively of distributing either the U.S. or Canadian business to its shareholders. The Board will adopt whatever approach it concludes will represent sustainable value enhancement. As you know, our corporate structure has certain fiscal, operational and financial complexities but we are well along in finalizing our analysis.

Although the specific technique and form of the separation of the U.S. and Canadian businesses are still being reviewed by the Committee, the Board will proceed prudently but with active resolve to complete this reorganization as soon as practically possible which we expect to be completed late this year.

I should note that until such time as we have something specific to announce, we will not be speculating or answering any questions regarding the activities of the Strategic Committee.

With that I will now ask your CEO and CFO to provide their remarks following which we will take questions regarding their comments.