

A copy of this preliminary short form prospectus has been filed with the securities regulatory authorities in each of the provinces of Canada but has not yet become final for the purpose of the sale of securities. Information contained in this preliminary short form prospectus may not be complete and may have to be amended. The securities may not be sold until a receipt for the short form prospectus is obtained from the securities regulatory authorities.

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. This short form prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities.

Information has been incorporated by reference in this prospectus from documents filed with securities commissions or similar authorities in Canada. Copies of the documents incorporated herein by reference may be obtained on request without charge from the Secretary of Extendicare Inc. at 3000 Steeles Avenue East, Markham, Ontario L3R 9W2, telephone (905) 470-4000, and are also available electronically at www.sedar.com.

Preliminary Short Form Prospectus

New Issue

September 10, 2012



Extendicare Inc.

\$110,000,000

6.00% Convertible Unsecured Subordinated Debentures

Price: \$1,000 per Debenture

This short form prospectus qualifies the distribution (the "Offering") of \$110,000,000 aggregate principal amount of 6.00% convertible unsecured subordinated debentures (the "Debentures") of Extendicare Inc. (the "Corporation"), due September 30, 2019 (the "Maturity Date") at a price of \$1,000 per Debenture (the "Offering Price"). The Debentures bear interest at an annual rate of 6.00% payable semi-annually in arrears on March 31 and September 30 of each year (each, an "Interest Payment Date"), commencing March 31, 2013. The first payment of interest on the Debentures will include accrued and unpaid interest for the period from and including the date of the closing of the Offering to but excluding March 31, 2013.

Debenture Conversion Privilege

Each Debenture will be convertible into freely-tradeable common shares of the Corporation ("Common Shares") at the option of the holder of the Debenture (a "Debentureholder") at any time prior to 4:00 p.m. (Toronto time) on the earlier of the Maturity Date and the last business day immediately preceding the date specified by the Corporation for redemption of the Debentures, at a conversion price of \$11.25 per Common Share (the "Conversion Price"), being a conversion rate of approximately 88.8889 Common Shares per \$1,000 principal amount of Debentures, subject to adjustment in certain events in accordance with the Indenture (as defined herein). Debentureholders converting their Debentures will be entitled to receive, in addition to the applicable number of Common Shares, accrued and unpaid interest thereon, if any, for the period from and including the last Interest Payment Date on their Debentures up to and including the last record date set by the Corporation prior to the date of conversion for determining the holders of Common Shares (the "Shareholders") entitled to receive a dividend on the Common Shares. If the Corporation has suspended regular dividends, then a Debentureholder, in addition to the applicable number of Common Shares to be received on conversion of the Debentures, will be entitled to receive accrued and unpaid interest for the period from and including the last Interest Payment Date prior to the date of conversion to but excluding the date of conversion. Further particulars concerning the conversion privilege, including provisions for the adjustment of the Conversion Price in certain events, are set out under "Description of the Debentures—Conversion Rights".

The Debentures may not be redeemed by the Corporation prior to October 1, 2015. On and after October 1, 2015 but prior to October 1, 2017, the Debentures may be redeemed by the Corporation, in whole at any time or in part from time to time at the option of the Corporation, at a price equal to the principal amount thereof plus accrued and unpaid interest up to but excluding the Redemption Date (as defined herein), on not more than 60 days' and not less than 30 days' prior notice, provided that the volume-weighted average trading price of the Common Shares on the Toronto Stock Exchange (the "TSX") for the 20 consecutive trading days ending on the fifth trading day immediately preceding the date on which notice of redemption is given is not less than 125% of the Conversion Price. On and after October 1, 2017 but prior to the Maturity Date, the Debentures may be redeemed by the Corporation, in whole at any time or in part from time to time at the option of the Corporation, at a price equal to the principal amount thereof plus accrued and unpaid interest up to but excluding the Redemption Date, on not more than 60 days' and not less than 30 days' prior notice. The Debentures may also be redeemed by the Corporation in the event of the satisfaction of certain conditions after a Change of Control (as defined herein) has occurred. See "Description of the Debentures – Put Right upon a Change of Control".

Subject to regulatory approval and provided no Event of Default (as defined herein) has occurred and is continuing, the Corporation may, at its option, upon not more than 60 days' and not less than 30 days' prior notice, elect to satisfy its obligation to pay the principal amount of the Debentures due on redemption or at maturity through, in whole or in part, the issuance and delivery on the Redemption Date or Maturity Date, as applicable, of that number of freely-tradeable Common Shares obtained by dividing the aggregate principal amount of the outstanding Debentures to be redeemed or that have matured by 95% of the volume-weighted average trading price of the Common Shares on the TSX for the

20 consecutive trading days ending five trading days preceding the Redemption Date or the Maturity Date, as applicable. In addition, subject to regulatory approval, Common Shares may be issued to the Debenture Trustee (as defined herein) and sold, with the proceeds used to satisfy the Corporation's obligation to pay interest on the Debentures. Further particulars concerning the interest, redemption and maturity provisions of the Debentures are set out under "Description of the Debentures".

The issued and outstanding Common Shares of the Corporation are listed and posted for trading on the TSX under the trading symbol "EXE". The issued and outstanding 5.70% convertible unsecured subordinated debentures of the Corporation due on June 30, 2014 (the "2014 Debentures") are listed and posted for trading on the TSX under the trading symbol "EXE.DB". The issued and outstanding 7.25% convertible unsecured subordinated debentures of the Corporation due on June 30, 2013 (the "2013 Debentures") are listed and posted for trading on the TSX under the trading symbol "EXE.DB.A". Following closing of the Offering, the Corporation has agreed to issue a notice of redemption for the 2013 Debentures and to use part of the net proceeds of the Offering to complete the redemption of the 2013 Debentures. See "Use of Proceeds". On August 31, 2012, the last trading day prior to the public announcement of the Offering, the closing prices on the TSX of the Common Shares and \$100 principal amount of the 2014 Debentures were \$7.99 and \$101.75, respectively. On August 30, the last day that the 2013 Debentures traded prior to the public announcement of the Offering, the closing price on the TSX of \$100 principal amount of the 2013 Debentures was \$101.68. **There is currently no market through which the Debentures may be sold and purchasers may not be able to resell the Debentures purchased under this short form prospectus. This may affect the pricing of the Debentures in the secondary market, the transparency and availability of trading prices, the liquidity of the Debentures, and the extent of issuer regulation. See "Risk Factors".** The Corporation has applied to list the Debentures distributed under this short form prospectus and the Common Shares issuable on conversion of the Debentures on the TSX. Listing will be subject to the Corporation fulfilling all listing requirements of the TSX.

The price and terms of the Offering were determined by negotiation between the Corporation and RBC Dominion Securities Inc., CIBC World Markets Inc., BMO Nesbitt Burns Inc., National Bank Financial Inc., Scotia Capital Inc. and Byron Capital Markets Ltd. (collectively, the "Underwriters").

	Price to the Public	Underwriters' Fee ⁽¹⁾	Net Proceeds to the Corporation ⁽²⁾
Per Debenture.....	\$1,000	\$37.50	\$962.50
Total ⁽³⁾	\$110,000,000	\$4,125,000	\$105,875,000

Notes:

- (1) The Underwriters' fee (the "Underwriters' Fee") is equal to 3.75% of the gross proceeds of the Offering. See "Plan of Distribution".
- (2) Before deducting expenses of the Offering which are estimated to be approximately \$1,000,000, which, together with the Underwriters' Fee, will be paid by the Corporation from the proceeds of the Offering.
- (3) The Corporation has granted the Underwriters an option (the "Over-Allotment Option"), exercisable in whole at any time or in part from time to time up to the 30th day following the date of the closing of the Offering, to purchase from the Corporation up to an additional \$16,500,000 aggregate principal amount of Debentures at the Offering Price on the same terms and conditions set forth above to cover over-allotments, if any, and for market stabilization purposes. A purchaser who acquires Debentures forming part of the Over-Allotment Option acquires those Debentures under this short form prospectus, regardless of whether the over-allocation position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases. If the Underwriters exercise the Over-Allotment Option in full, the total price to the public will be \$126,500,000, the total Underwriters' Fee will be \$4,743,750 and the total net proceeds to the Corporation will be \$121,756,250. This short form prospectus also qualifies for distribution the grant of the Over-Allotment Option and the distribution of additional Debentures issued upon the exercise of the Over-Allotment Option.

Underwriters' Position	Maximum size	Exercise Period	Exercise Price
Over-Allotment Option	\$16,500,000 aggregate principal amount of Debentures	At any time until 30 days following closing of the Offering	\$1,000 per Debenture

The Underwriters, as principals, conditionally offer the Debentures, subject to prior sale, if, as and when issued by the Corporation and accepted by the Underwriters in accordance with the conditions contained in the agreement dated September 10, 2012 between the Corporation and the Underwriters in respect of the Offering (the "Underwriting Agreement") referred to under "Plan of Distribution" and subject to the approval of certain legal matters on behalf of the Corporation by Bennett Jones LLP and on behalf of the Underwriters by Torys LLP.

RBC Dominion Securities Inc. and CIBC World Markets Inc. are subsidiaries of Canadian chartered banks that have extended credit facilities and/or commercial mortgage loans to the Extendicare Group (as defined herein). Accordingly, the Corporation may be considered to be a "connected issuer" of RBC Dominion Securities Inc. and CIBC World Markets Inc. under applicable securities legislation. See "Relationship Between the Corporation and Certain of the Underwriters".

Subscriptions for the Debentures will be received subject to rejection or allotment in whole or in part and the Underwriters reserve the right to close the subscription books at any time without notice. It is expected that the closing of the Offering will occur on or about September 25, 2012 or such later date as the Corporation and the Underwriters may agree, but in any event not later than October 2, 2012. Book-entry only certificates representing the Debentures will be issued in registered form to CDS Clearing and Depository Services Inc. ("CDS") or its nominee as registered global securities and will be deposited with CDS on the date of the closing. A purchaser of the Debentures will receive only a customer confirmation from a registered dealer which is a CDS participant and from or through which the Debentures are purchased. **After the initial Offering, the offering price of the Debentures may be changed by the Underwriters, as described under "Plan of Distribution".** In accordance with and subject to applicable laws, the Underwriters may effect transactions in connection with the Offering that stabilize or maintain the market price of the Debentures at levels other than those which might prevail on the open market. See "Plan of Distribution".

The earnings coverage ratio of the Corporation in respect of its indebtedness for the twelve months ended December 31, 2011 both before and after giving effect to the Offering is less than one-to-one. See "Earnings Coverage".

The Debentures are not "deposits" within the meaning of the *Canada Deposit Insurance Corporation Act* (Canada) and are not insured under the provisions of that Act or any other legislation.

An investment in the Debentures and the Common Shares underlying the Debentures is subject to a number of risks and investment considerations that should be considered carefully by prospective purchasers. See "Forward-Looking Statements" and "Risk Factors".

The Corporation is a corporation amalgamated under the laws of Canada and is the successor issuer of Extencare Real Estate Investment Trust. See "The Corporation – Overview of the Corporation". The registered and principal office of the Corporation is located at 3000 Steeles Avenue East, Markham, Ontario L3R 9W2.

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FORWARD-LOOKING STATEMENTS

Certain statements contained in this short form prospectus and in certain documents incorporated by reference into this short form prospectus constitute "forward-looking statements" concerning anticipated future events, results, circumstances, economic performance or expectations with respect to the Extendicare Group, including, without limitation, statements regarding its business operations, business strategy and financial condition. Forward-looking statements can generally be identified by the expressions "anticipate", "believe", "estimate", "expect", "intend", "objective", "plan", "project" and other similar expressions or the negative thereof. These forward-looking statements reflect the Corporation's current expectations regarding future results, performance or achievements and are based upon information currently available to the Corporation and on assumptions that the Corporation believes are reasonable.

Although the forward-looking statements contained in this short form prospectus and in certain documents incorporated by reference into this short form prospectus are based upon estimates and assumptions that the Corporation believes are reasonable based on information currently available, these statements are not guarantees of future results, performance or achievements of the Extendicare Group. In addition to the assumptions and other factors referred to specifically in connection with these forward-looking statements, factors that could cause the actual results, performance or achievements of the Extendicare Group to differ materially from those expressed or implied by the forward-looking statements contained in this short form prospectus and in certain documents incorporated by reference into this short form prospectus are identified in the public filings of the Corporation and the REIT, the predecessor of the Corporation, with the Canadian securities regulators and include, without limitation, the following: changes in the overall health of the economy and government; the ability of the Extendicare Group to attract and retain qualified personnel; changes in the health care industry in general and the long-term care industry in particular because of political and economic influences; changes in applicable accounting policies; changes in regulations governing the health-care industry and the compliance by the Extendicare Group with such regulations; changes in government funding levels for health care services; changes in tax laws; resident care and class action litigation, including the exposure of the Extendicare Group to punitive damage claims, including the associated increased insurance costs, and other claims; the ability of the Extendicare Group to maintain and increase census levels; changes in competition; changes in demographics and local environment economies; changes in foreign exchange and interest rates; changes in the financial markets that may affect the ability of the Extendicare Group to refinance debt; and the availability and terms of capital to the Extendicare Group to fund capital expenditures.

The information contained in this short form prospectus, including the information set forth in this short form prospectus under "Risk Factors" and in the documents incorporated by reference herein, identifies additional factors that could affect the actual results, performance or achievements of the Extendicare Group.

Many other factors could also cause actual results, performance or achievements of the Extendicare Group to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements, and prospective purchasers are cautioned that the list of factors is not exhaustive. Should one or more of these risks or uncertainties materialize, or should assumptions underlying the forward-looking statements prove incorrect, the actual results, performance or achievements of the Extendicare Group may vary materially from those described herein or in the documents incorporated by reference herein as anticipated, believed, estimated, expected, intended, planned or projected. The forward-looking statements in this short form prospectus and in the documents incorporated by reference herein are expressly qualified by this cautionary statement. Given these risks and uncertainties, purchasers are cautioned not to place undue reliance on forward-looking statements of the Corporation. The forward-looking statements speak only as of the date of this short form prospectus or as of the date of the documents incorporated by reference herein, as the case may be. Except as required by applicable securities laws, the Corporation assumes no obligations to update or revise any forward-looking statements.

NON-GAAP MEASURES

In this short form prospectus and in the documents incorporated by reference in this short form prospectus, the terms "net operating income", "EBITDA", "earnings (loss) from continuing operations before separately reported gains/losses and distributions on Exchangeable LP Units", "Distributable Income", "Funds from Operations" and "Adjusted Funds from Operations" are used. These are not measures recognized under GAAP and do not have standardized meanings prescribed by GAAP. These non-GAAP measures are presented in this short form prospectus and in the documents incorporated by reference in this short form prospectus because either (i) Management believes that they are a relevant measure of the ability of the Corporation to pay cash dividends, or (ii) certain ongoing rights and obligations of the Corporation 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 operations, net earnings (loss) for the period, cash flow, or other measures of financial performance and liquidity reported in accordance with GAAP.

"Net operating income" is defined as revenue less operating expenses. "EBITDA" is defined as earnings from continuing operations before interest, income taxes, depreciation, amortization and accretion. In this calculation, the line items "distributions on Exchangeable LP Units", "fair value adjustments", "loss (gain) on foreign exchange and financial instruments" and "loss (gain) from asset impairment, disposals and other items" have been excluded. These line items are reported separately because they relate to the change in the fair value of, or gains and losses on termination of, interest rate agreements and foreign currency forward contracts, as well as gains or losses on the disposal or impairment of assets, and foreign exchange gains or losses on capital items. In addition, in previous years these line items have included provisions for restructuring charges and the write-off of unamortized financing costs on early retirement of debt. These items are reported separately and are excluded from EBITDA because they are transitional in nature and would otherwise distort historical trends. Management believes that certain lenders, investors and analysts use EBITDA to measure a company's ability to service debt and meet other payment obligations, and as a common valuation measurement in the long-term care industry. For example, certain of EHSI's debt covenants use EBITDA in their calculations. EBITDA is presented on a consistent basis from period to period, thereby allowing for consistent comparability of the Corporation's operating performance. The above line items are calculated on an after-tax basis as a means of deriving the remaining earnings from operations and related earnings per unit/share, the results of which are referred to as "earnings (loss) from continuing operations before separately reported gains/losses and distributions on Exchangeable LP Units". This is a measure commonly used by the Corporation and its investors as a means of assessing the performance of the core operations in comparison to prior periods.

"Distributable Income" is net earnings (loss) of the REIT, the predecessor of the Corporation, on a consolidated basis, as determined in accordance with GAAP, subject to certain adjustments as set out in the REIT Deed of Trust, which is no longer in effect as a result of the Plan of Arrangement. The Corporation will not report Distributable Income post July 1, 2012.

"Funds from Operations", or "FFO", is EBITDA less depreciation for furniture, fixtures, equipment and computers, accretion costs, net interest expense, and current income taxes.

"Adjusted Funds from Operations", or "AFFO", is defined as FFO plus the non-cash portions of financing and accretion costs and the principal portion of government capital funding payments, less the facility maintenance (non-growth) capital expenditures not already reflected in the calculation of FFO.

Both FFO and AFFO are subject to other adjustments, as determined by Management in its discretion, that are not representative of the Corporation's operating performance.

EXPLANATORY REFERENCES

Unless otherwise indicated, the information in this short form prospectus does not give effect to the exercise of any part of the Over-Allotment Option.

All references to "GAAP" in this short form prospectus are to Canadian GAAP, as defined in the Glossary of Terms.

Unless otherwise indicated, all dollar amounts in this short form prospectus are expressed in Canadian dollars.

Reference is made to the "Glossary of Terms" for the meaning of certain defined terms.

ELIGIBILITY FOR INVESTMENT

In the opinion of Bennett Jones LLP, counsel to the Corporation, and Torys LLP, counsel to the Underwriters, provided that either the Debentures or the Common Shares are then listed on a designated stock exchange (which currently includes the TSX), based on the provisions of the Tax Act as of the date hereof, the Debentures will be qualified investments under the Tax Act for a trust governed by a registered retirement savings plan ("RRSP"), registered retirement income fund ("RRIF"), registered disability savings plan, registered education savings plan, deferred profit sharing plan or tax-free savings account ("TFSA") (collectively, "Registered Plans"), other than a deferred profit sharing plan to which the Corporation, or an employer that does not deal at arm's length with the Corporation, has made a contribution. In addition, provided the Common Shares are then listed on a designated stock exchange (which currently includes the TSX), based on the provisions of the Tax Act as of the date hereof, the Common Shares issuable on the conversion, redemption or maturity of the Debentures will be qualified investments under the Tax Act for Registered Plans.

Notwithstanding that the Debentures and Common Shares may be qualified investments for a RRSP, RRIF or TFSA, the annuitant under a RRSP or RRIF or holder of a TFSA that holds Debentures or Common Shares, as the case may be, will be subject to a penalty tax if such Debentures or Common Shares, as the case may be, are a "prohibited investment" (as defined in the Tax Act) for the RRSP, RRIF or TFSA. The Debentures or Common Shares will generally not be a "prohibited investment" for a RRSP, RRIF or TFSA provided the annuitant of the RRSP or RRIF or the holder of the TFSA, as the case may be, deals at arm's length with the Corporation for purposes of the Tax Act and does not have a "significant interest" (within the meaning of the Tax Act) in the Corporation or a corporation, partnership or trust with which the Corporation does not deal at arm's length for purposes of the Tax Act. The Department of Finance (Canada) has recently indicated that it will recommend amendments to the Tax Act that will narrow the scope of the prohibited investment rules. However, no draft legislation has been released as of the date hereof. Holders of a TFSA and annuitants under a RRSP or RRIF should consult their own tax advisors as to whether the Debentures or Common Shares will be a prohibited investment in their particular circumstances.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents, filed with the securities commission or similar regulatory authority of each of the provinces of Canada, by the Corporation or by Extendicare REIT, prior to the Plan of Arrangement discussed under "The Corporation – Overview of the Corporation", are specifically incorporated by reference into and form an integral part of this short form prospectus:

- (a) the 2011 Annual Information Form;
- (b) the consolidated statements of financial position of Extendicare REIT as at December 31, 2011, December 31, 2010 and January 1, 2010, the consolidated statements of earnings (loss), comprehensive income (loss), changes in equity and cash flows for the years ended December 31, 2011 and December 31, 2010, together with the notes thereto, comprising a summary of

significant accounting policies and other explanatory information, and the Auditors' report thereon;

- (c) the 2011 Management Discussion and Analysis;
- (d) the management information and proxy circular of Extendicare REIT dated April 2, 2012 prepared in connection with the annual and special meeting of unitholders of Extendicare REIT held on May 8, 2012;
- (e) the unaudited interim consolidated financial statements of Extendicare REIT for the six months ended June 30, 2012, together with the notes thereto; and
- (f) the 2012 Second Quarter Management Discussion and Analysis.

Any documents of the type referred to above and any material change reports (excluding confidential material change reports), business acquisition reports or news releases disseminating financial information which the Corporation files with a securities commission or other similar securities regulatory authority in Canada after the date of this short form prospectus and before the termination of this distribution are deemed to be incorporated by reference in this short form prospectus.

Any statement contained in a document incorporated or deemed to be incorporated by reference into this short form prospectus shall be deemed to be modified or superseded for purposes of this short form prospectus to the extent that a statement contained in this short form prospectus or in any other subsequently filed document which also is or is deemed to be incorporated by reference into this short form prospectus modifies or supersedes such statement. The modifying or superseding statement does not have to state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement is not to be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it is made. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this short form prospectus.

THE CORPORATION

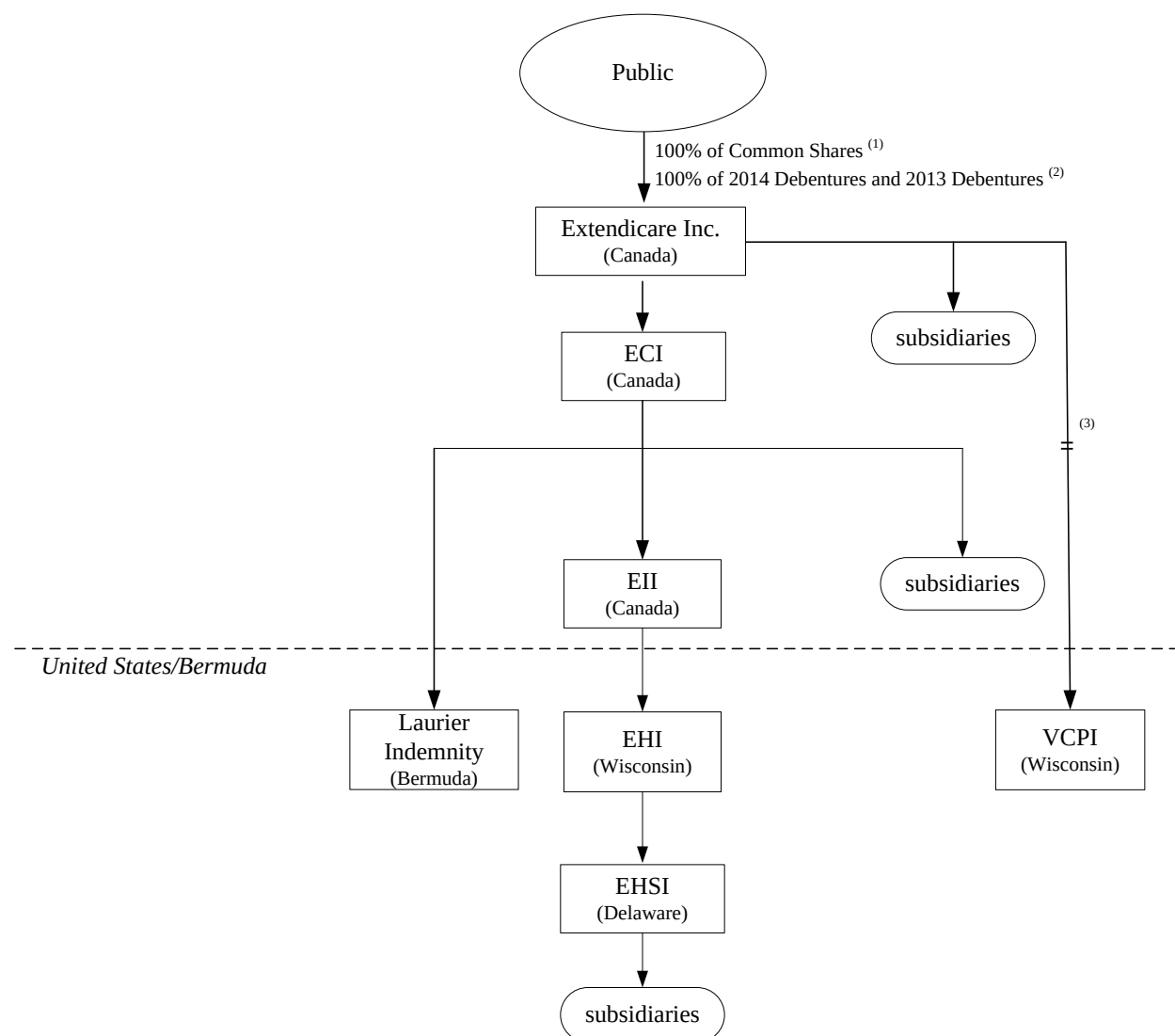
Overview of the Corporation

The Corporation is the successor to Extendicare REIT following the conversion of the REIT from an income trust structure to a corporate structure pursuant to a Plan of Arrangement under Section 192 of the CBCA effective 12:01 a.m. (Toronto time) on July 1, 2012 (the "Plan of Arrangement"). Pursuant to the Plan of Arrangement, Unitholders ultimately received one Common Share for each REIT Unit held. In addition, as a result of the Plan of Arrangement and pursuant to the successor provisions of the Indenture, the Corporation is liable for all of the covenants and obligations of Extendicare REIT in respect of the REIT's outstanding 2014 Debentures and 2013 Debentures, including the obligation to pay the amounts payable to the holders thereof. Holders of the outstanding 2014 Debentures and the 2013 Debentures are entitled to receive Common Shares on the same basis that REIT Units were previously issuable on the conversion thereof.

The conversion of the REIT from an income trust structure to a corporate structure was accounted for by the Corporation as a continuity of interests, and accordingly, the consolidated financial statements of the Corporation, post July 1, 2012, will be reflective as if the Corporation had always carried on the business previously carried on indirectly by the REIT. For further details relating to the corporate conversion of Extendicare REIT and the Plan of Arrangement, see the management information and proxy circular of Extendicare REIT dated April 2, 2012 prepared in connection with the annual and special meeting of unitholders of Extendicare REIT held on May 8, 2012.

The registered and principal office of the Corporation is located at 3000 Steeles Avenue East, Markham, Ontario, Canada L3R 9W2.

The following diagram illustrates the organizational structure of the Corporation, including the jurisdiction of incorporation of certain subsidiaries.



Notes:

(1) As at September 7, 2012, there were 85,348,639 Common Shares issued and outstanding.

(2) As at September 7, 2012, there were \$113,930,000 aggregate principal amount of 2014 Debentures and \$91,794,000 aggregate principal amount of 2013 Debentures issued and outstanding.

(3) All of the subsidiaries of the Corporation are wholly owned and "=" indicates the omission of intermediary wholly owned subsidiaries.

Summary Description of the Business of the Corporation

The Corporation, through its wholly-owned subsidiary operating entities, is a major provider of short-term and long-term senior care and related services through its network of owned and operated health care centers in North America. The Corporation employs 36,100 dedicated individuals and operates 245 senior care centers in the United States and Canada with an operational capacity of 26,943 residents, as at June 30, 2012. This excludes 19 Kentucky skilled nursing centers (1,545 beds) that have been leased to a third party effective July 1, 2012. See "Recent Developments – 2012 Kentucky Lease Transaction". Based on the information published in the June 2012 edition of *Provider Magazine*, which ranked public and private nursing centers operators in the United States by the number of nursing center beds, and based on information available on operators in Canada, the Corporation believes that it is currently the fifth largest operator of nursing center beds in North America after taking into account the Corporation's Canadian operations, which brings its total nursing center beds to 25,653. The Corporation believes that the ownership of senior care centers provides it with greater operational and financial flexibility to meet the changing needs of its residents and the regulatory and funding environment. As at June 30, 2012, the Corporation owned or operated under capital lease arrangements approximately 98% of its 227 owned or leased centers, excluding those under management contracts.

The Corporation's core business is the provision of skilled nursing care and rehabilitative services. In the United States, the Corporation's skilled nursing and rehabilitative care centers provide post-acute skilled nursing care and therapy services with the goal to return individuals back into the community or a lower-cost care setting and, if unattainable, to continue to provide long-term care services. In Canada, the majority of the Corporation's centers focus on long-term care services; however, the Corporation's goal is to expand its provision of post-acute services to equally reduce the health care costs within the Canadian health care system.

The Corporation complements its core nursing and assisted living operations with related long-term care businesses and services within both Canada and the United States. In Canada, through ParaMed, the Corporation provides approximately 4.6 million home health care hours in the provinces of Ontario and Alberta annually. In addition, the Corporation's Canadian operations provide group purchasing services to third parties in the health care industry. In the United States, through VCPI, the Corporation offers information technology hosting and professional services to 2,025 health care providers in 45 states, which the Corporation believes reduces their in-house technology costs for these services. Through ProStep, EHSI offers rehabilitative therapy services in 25 clinics located in four states in the United States. The Corporation also offers management, consulting, accounting and administrative services to third parties in both Canada and the United States. In aggregate, these ancillary businesses generated approximately 10% of the Corporation's consolidated revenue from continuing operations in 2011.

The Corporation self-insures its general and professional liability risks through Laurier Indemnity, which is domiciled in Bermuda.

For further details relating to the business of the Corporation, see "Description of the Business of Extendicare" in the 2011 Annual Information Form.

RECENT DEVELOPMENTS

2012 Medicare Update

CMS announced on July 27, 2012 that the net market basket increase for October 2012 will be 1.8%, consisting of a market basket increase of 2.5% minus a productivity adjustment of 0.7%. The Corporation estimates that the impact of this 1.8% funding increase will provide it with additional Medicare revenue of approximately US\$6.2 million per annum. However, the special U.S. Joint Select Committee on Deficit Reduction failed to make a recommendation to reduce government spending by January 15, 2012, resulting in the process of sequestration which will automatically reduce Medicare funding by 2% beginning January 2, 2013. The Corporation anticipates that the impact of this 2% funding reduction would reduce its Medicare revenue by approximately US\$7.0 million per annum.

2012 Kentucky Lease Transaction

As announced on May 14, 2012, EHSI has entered into an agreement to lease all 21 of its skilled nursing centers in the State of Kentucky (1,762 beds) to an experienced third-party long-term care operator based in Texas that operates through its affiliates in a number of other U.S. states. Effective July 1, 2012, EHSI had leased 19 of these centers (1,545 beds) under the operating lease and anticipates finalizing the leasing arrangements with respect to the remaining two centers following the receipt of third-party approvals that are expected to be received in September 2012. The operating lease is for a 10-year term with two 5-year extensions at the option of the operator. In addition, if certain conditions are met, the operator has the option to purchase all of the centers during the term of the initial lease term at agreed upon per bed amounts. As a result of this transaction, EHSI will no longer operate any skilled nursing centers in Kentucky. The Corporation recorded a pre-tax loss of \$2.6 million (US\$2.5 million) for the quarter ended June 30, 2012 in connection with the Kentucky lease transaction.

Based on the results for the six months ended June 30, 2012, the Corporation's Kentucky nursing centers generated annualized revenue of US\$135.2 million and EBITDA of US\$18.2 million, including an allocation of US\$12.0 million in provisions made for self-insured liabilities. Based on these annualized results, the lease transaction would reduce the Corporation's EBITDA by \$3.2 million and Adjusted Funds From Operations by \$0.6 million or \$0.007 per Common Share annually. The decision to exit the State of Kentucky is consistent with the Corporation's continuing strategy for achieving ongoing performance improvements that involves the divestiture of operations that impede growth or create undue risk exposure.

Provision for Self-Insured Liabilities

The results of the 2012 second quarter independent actuarial review necessitated the strengthening of the Corporation's prior years' reserves in the quarter ended June 30, 2012 by \$5.6 million. Similarly in 2011, independent actuarial reviews conducted during the 2011 third quarter and at year end necessitated the strengthening of the Corporation's prior years' reserves by \$31.4 million and \$11.4 million, respectively. The 2012 second quarter reserve, along with adjustments made in prior quarters, were primarily attributable to claims in the State of Kentucky, which has accounted for more than 50% of the Corporation's provision for self-insured liabilities over the past two years. According to the *2012 AON Long Term Care General Liability and Professional Liability Actuarial Analysis*, the loss rate in the State of Kentucky has increased from US\$690 per bed in 2004 to US\$4,930 per bed in 2011, and is projected to be US\$5,120 per bed in 2012. Kentucky's constitution prevents the enactment of limits on tort damages, which presents fertile ground for plaintiff attorneys. The Corporation believes that its decision to exit the State of Kentucky was prudent given the Corporation's liability claims experience and the unlikelihood of changes in Kentucky's constitution to limit tort damages.

2011 CMS Final Rule

The 2011 CMS Final Rule that was effective October 1, 2011 included an 11.1% reduction in Medicare funding to skilled nursing centers along with the elimination of group therapy and changes in the assessment process. The impact of the 2011 CMS Final Rule was not fully realized in the Corporation's 2011 fourth quarter results due to the transitional rules in place. Therefore, the Corporation experienced a further 1.6% decline in its average Medicare Part A rate in the 2012 first quarter from the 2011 fourth quarter levels. The Corporation's average daily revenue rates for Medicare Part A and Managed Care declined by 12.5% and 6.9%, respectively, in the 2012 first quarter from the 2011 third quarter levels. The Corporation estimates that the impact of the CMS Final Rule, prior to implementing cost saving measures, will reduce the Corporation's revenue and EBITDA by approximately US\$64 million on an annualized basis. The Corporation has taken measures to help mitigate the adverse effect of the elimination of group therapy and the assessment process changes, such as employing more therapists and improving productivity.

Prior to October 1, 2011, the Corporation completed a thorough review of its operations and implemented a number of changes within its organization and secured vendor pricing concessions. These savings are anticipated to reduce the Corporation's general, administrative and non-wage operating costs by an estimated US\$24 million on an annualized basis. None of these cost saving measures involved a reduction of direct care staffing at the Corporation's centers. Therefore, the Corporation estimates that the net negative effect of the 2011 CMS Final Rule on the

Corporation's EBITDA, partially offset by its cost saving initiatives, will be approximately US\$40 million on an annualized basis.

2011/2012 Refinancing Plan

U.S. Operations – HUD Mortgages

As at June 30, 2012, EHSI had substantially completed the refinancing of approximately US\$636 million of debt with approximately US\$510 million in U.S. Department of Housing and Urban Development ("HUD") insured mortgages and US\$126 million of cash on hand. As at June 30, 2012, EHSI had closed on 67 HUD loans with a principal balance of US\$503.3 million in connection with this refinancing. In addition, EHSI anticipates obtaining and closing on the remaining two HUD commitments with total principal balances of US\$6.9 million by the end of 2012. Upon conclusion of the refinancing, EHSI anticipates it will have closed on approximately US\$510 million in new HUD insured mortgages with a weighted average rate of approximately 4.33%, inclusive of mortgage insurance premium (MIP) fees, and term to maturity of approximately 33 years. The annualized interest savings from the refinancing is estimated to be US\$20 million.

The debt being refinanced related to EHSI's commercial mortgage-backed securities (CMBS) financings that were due in March 2012 (the "March 2012 CMBS Financing") and in May 2012 (the "May 2012 CMBS Financing"), mortgage financing from Sovereign Bank and other lenders (the "Sovereign Loans"), and approximately US\$17.5 million of advances on the EHSI Credit Facility. The Sovereign Loans, March 2012 CMBS Financing and May 2012 CMBS Financing were fully repaid by the end of June 2011, November 2011 and February 2012, respectively.

In July 2010, EHSI received approval as a corporate entity to proceed with HUD applications, subject to an overall limit of US\$550.0 million, and in December 2011, received approval to increase the overall limit to US\$585.0 million. EHSI already had approximately US\$27 million of HUD loans issued prior to this refinancing plan. In addition to the US\$510 million resulting from the refinancing plan discussed above, EHSI is in the process of securing further HUD financed loans that would utilize approximately US\$574 million of its US\$585 million overall limit, before it expires in October 2013. Upon completion of the refinancing, the Corporation anticipates having approximately 55 unencumbered centers valued at an estimated US\$250 million.

Canadian Operations – CMHC Mortgages

In December 2011, the Corporation's Canadian operations refinanced \$72.4 million of Canadian Mortgage Housing Corporation (CMHC) insured mortgages secured by 20 centers that were at fixed rates of 9.81% and due to mature in March 2013. The new debt consists of \$36.2 million secured by nine centers at a fixed rate of 2.986% maturing in 2022, \$22.9 million secured by nine centers at a fixed rate of 2.22% maturing in 2017, and variable-rate bridge loans for \$13.3 million secured by two centers due in June 2013, pending new fixed-rate mortgages to be negotiated in 2012. A prepayment penalty of approximately \$7.5 million was recognized in the 2011 fourth quarter. The Corporation estimates the annualized interest savings from this refinancing to be \$5 million.

During the 2012 first quarter, \$8.7 million of the bridge loan for one of the centers was converted from a variable-rate mortgage to a fixed-rate mortgage at 3.15%, due March 2022, using the existing CMHC certificate. In July 2012, the \$4.6 million bridge loan on a second center was converted to a fixed-rate mortgage under a new CMHC certificate in the amount of \$10.8 million at 2.93%, due December 2022.

EHSI Credit Facility

In June 2012, EHSI entered into a new US\$80.0 million senior secured revolving credit facility with a three-year term to June 2015 and floating-rate interest based on a pricing grid, to replace its US\$70.0 million credit facility that matured in June 2012.

The amount available to be borrowed under the EHSI Credit Facility is determined based on the lesser of: (i) 50% of the appraised values of the 20 skilled nursing centers collateralizing the EHSI Credit Facility; and (ii) an

amount based on the actual net cash flow of these centers for the last 12 months. As at the end of August 2012, EHSI had drawn US\$6.4 million on the EHSI Credit Facility and issued US\$2.6 million under a letter of credit, leaving US\$71.0 million available. At EHSI's option, the interest rate is either the eurodollar rate, with a floor set at 1%, plus a margin from 4% to 4.50%, or the United States prime rate plus a margin from 3% to 3.50%, with the specific margin based on EHSI's consolidated leverage ratio as defined in the EHSI Credit Facility. The interest rate at August 31, 2012 was 5.00% (December 31, 2011 – 6.43% under the former agreement).

EARNINGS COVERAGE

The following earnings coverage ratios and *pro forma* earnings coverage ratios have been calculated on a consolidated basis for the twelve months ended December 31, 2011 and June 30, 2012, and for the six months ended June 30, 2012. The earnings coverage ratios set forth below have been prepared in accordance with applicable Canadian disclosure requirements derived from audited financial information of Extendicare REIT, in the case of the year ended December 31, 2011, and unaudited financial information of Extendicare REIT, in the case of the twelve months ended June 30, 2012. The *pro forma* earnings coverage ratios have been adjusted to give effect to the issuance of the Debentures (assuming the Over-Allotment Option has not been exercised), as if such issuance had occurred at the beginning of the calculation period, as well as assuming that the 2013 Debentures have been redeemed from the net proceeds of the Offering. In addition, the *pro forma* earnings coverage ratios for the year ended December 31, 2011 have been adjusted for material issuances and redemption of debt during the six months ended June 30, 2012, as if these transactions had occurred on January 1, 2011. There have not been any material changes in the Corporation's indebtedness since June 30, 2012. The *pro forma* adjustments associated with the redemption of the 2013 Debentures include the elimination of the borrowing costs and the related fair value adjustment reported in earnings. The *pro forma* earnings coverage ratios assume that there will be no additional earnings derived from the net proceeds of the Offering.

Historical Ratios - Twelve Months ended December 31, 2011 and June 30, 2012

The Corporation's borrowing cost requirements, before giving effect to the Offering, for the twelve months ended December 31, 2011 and June 30, 2012, were approximately \$89.8 million and \$77.4 million, respectively. The Corporation's earnings before borrowing costs and income tax for the twelve months ended December 31, 2011 and June 30, 2012 were approximately \$75.7 million and \$102.8 million, respectively, resulting in an earnings coverage ratio of 0.84 times and 1.33 times, respectively. The earnings coverage ratio for the twelve months ended December 31, 2011 would have required additional earnings of \$14.1 million in order to achieve a 1:1 ratio.

The Corporation incurred a significant non-cash impairment charge of \$54.0 million in the 2011 third quarter relating to the revaluation of its United States properties and goodwill, resulting primarily from the estimated impact of reduced Medicare funding and changes in therapy services implemented by the 2011 CMS Final Rule. In addition, the Corporation's earnings include non-cash fair value adjustments on the Existing Convertible Debentures and the Exchangeable LP Units, which for the twelve months ended December 31, 2011 and June 30, 2012, represented a pre-tax gain of \$6.0 million and \$14.8 million, respectively. If the earnings coverage ratios for the twelve months ended December 31, 2011 and June 30, 2012 were adjusted to exclude these non-cash items, the Corporation's earnings before borrowing costs and income tax would have been \$123.7 million and \$142.0 million, respectively, resulting in adjusted earnings coverage ratios of 1.38 and 1.83, respectively.

Pro Forma Ratios - Twelve Months ended December 31, 2011 and June 30, 2012

The Corporation's *pro forma* borrowing cost requirements for the twelve months ended December 31, 2011 and June 30, 2012, after giving effect to the Offering, the redemption of the 2013 Debentures, and material changes in debt since those dates, were approximately \$88.4 million and \$78.6 million, respectively. The Corporation's *pro forma* earnings before borrowing costs and income tax for the twelve months ended December 31, 2011 and June 30, 2012, were approximately \$76.8 million and \$98.1 million, respectively, resulting in a *pro forma* earnings coverage ratio of 0.87 times and 1.25 times, respectively. The *pro forma* earnings coverage ratio for the twelve months ended December 31, 2011 would have required additional earnings of \$11.6 million in order to achieve a 1:1 ratio.

If the Corporation's *pro forma* earnings coverage ratios for the twelve months ended December 31, 2011 and June 30, 2012 were adjusted to exclude the non-cash items related to the impairment charge of \$54.0 million and the fair value adjustments related to the 2014 Debentures and the Exchangeable LP Units of \$7.1 million and \$10.1 million, respectively, the *pro forma* earnings before borrowing costs and income tax would be \$123.7 million and \$142.0 million, respectively, resulting in *pro forma* adjusted earnings coverage ratios of 1.40 and 1.81, respectively.

Historical and *Pro Forma* Earnings Coverage Ratios for the Six Months ended June 30, 2012

As discussed above under the heading "Recent Developments – 2011/2012 Refinancing Plan", the Corporation has refinanced a significant portion of its debt over the past year, thereby reducing its borrowing costs in 2012. The Corporation's borrowing cost requirements, before giving effect to the Offering, for the six months ended June 30, 2012 were approximately \$33.0 million (\$66.0 million on an annualized basis). The Corporation's earnings before borrowing costs and income tax for the six months ended June 30, 2012 were approximately \$111.2 million, resulting in an earnings coverage ratio of 3.37 times.

If the earnings coverage ratio for the six months ended June 30, 2012 was adjusted to exclude the non-cash fair value adjustments on the Existing Convertible Debentures, representing a pre-tax gain of \$5.1 million, the earnings before borrowing costs and income tax for the six months ended June 30, 2012 would have been approximately \$106.1 million, resulting in an adjusted earnings coverage ratio of 3.22 times.

After giving effect to the Offering and the redemption of the 2013 Debentures, the Corporation's *pro forma* borrowing cost requirements for the six months ended June 30, 2012 were approximately \$33.6 million. The Corporation's *pro forma* earnings before borrowing costs and income tax for the six months ended June 30, 2012 were \$107.2 million, resulting in a *pro forma* earnings coverage ratio of 3.19 times.

If the *pro forma* earnings coverage ratio for the six months ended June 30, 2012 was adjusted to exclude the non-cash fair value adjustments on the 2014 Convertible Debentures, representing a pre-tax gain of \$1.1 million, the *pro forma* earnings before borrowing costs and income tax for the six months ended June 30, 2012 would have been approximately \$106.1 million, resulting in a *pro forma* adjusted earnings coverage ratio of 3.16 times.

Upon initial recognition, the Debentures will be classified on the Corporation's consolidated statement of financial position as a financial liability, with a portion allocated to equity related to the conversion feature. Following the initial recognition, the debt component will be measured at amortized cost, with no changes to the equity component. The expenses of the Offering will be prorated to the debt and equity components, with the portion allocated to the debt component to be amortized over the term of the Debentures using the effective interest rate method and recognized as part of finance costs.

The following table summarizes the earnings coverage ratios described above.

	Six Months ended June 30, 2012	Twelve Months ended June 30, 2012	Twelve Months ended December 31, 2011
<i>(millions of dollars unless otherwise noted)</i>			
Historical:			
Denominator: borrowing costs	33.0	77.4	89.8
Numerator: earnings before borrowing costs and income taxes	111.2	102.8	75.7
Historical earnings coverage ratio	3.37	1.33	0.84
Historical adjusted:			
Denominator: borrowing costs	33.0	77.4	89.8
Earnings before borrowing costs and income taxes	111.2	102.8	75.7
Add (deduct): fair value adjustment on 2013 Debentures	(4.0)	(4.7)	1.1
Add (deduct): fair value adjustment on 2014 Debentures	(1.1)	(0.2)	(0.5)
Add (deduct): fair value adjustment on Exchangeable LP Units	–	(9.9)	(6.6)
Add (deduct): non-cash impairment charge in 2011 third quarter	–	54.0	54.0
Numerator: adjusted earnings before borrowing costs and income taxes	106.1	142.0	123.7
Historical adjusted earnings coverage ratio	3.22	1.83	1.38

<i>(millions of dollars unless otherwise noted)</i>	Six Months ended June 30, 2012	Twelve Months ended June 30, 2012	Twelve Months ended December 31, 2011
Pro forma:			
Denominator: borrowing costs	33.6	78.6	88.4
Earnings before borrowing costs and income taxes	111.2	102.8	75.7
Add (deduct): fair value adjustment on 2013 Debentures	(4.0)	(4.7)	1.1
Numerator: <i>pro forma</i> earnings before borrowing costs and income taxes	107.2	98.1	76.8
Pro forma earnings coverage ratio	3.19	1.25	0.87
Pro forma adjusted:			
Denominator: borrowing costs	33.6	78.6	88.4
Numerator: <i>pro forma</i> adjusted earnings before borrowing costs and income taxes	106.1	142.0	123.7
Pro forma adjusted earnings coverage ratio	3.16	1.81	1.40

USE OF PROCEEDS

The net proceeds of the Offering are estimated to be \$104,875,000, after deducting the Underwriters' Fee of \$4,125,000 and the estimated expenses of the Offering of approximately \$1,000,000. If the Over-Allotment Option is exercised in full, the net proceeds of the Offering are estimated to be \$120,756,250, after deducting the Underwriters' Fee of \$4,743,750 and the estimated expenses of the Offering of approximately \$1,000,000.

The net proceeds of the Offering will be used primarily by the Corporation to fund the redemption of the outstanding 2013 Debentures (principal amount outstanding - \$91,794,000). Following closing of the Offering, the Corporation has agreed to issue a notice of redemption relating to the 2013 Debentures. The balance of the net proceeds of the Offering will be used by the Corporation for general corporate purposes, which may include reducing indebtedness, funding internal growth expenditures or purchasing Common Shares under the Corporation's normal course issuer bid.

CONSOLIDATED CAPITALIZATION OF THE CORPORATION

The following table sets forth the unaudited consolidated capitalization of the REIT as at June 30, 2012, and the unaudited *pro forma* consolidated capitalization of the Corporation as at June 30, 2012, after giving effect to the Plan of Arrangement, the Offering and the redemption of the 2013 Debentures. This table should be read in conjunction with the unaudited condensed consolidated financial statements of the REIT for the three and six months ended June 30, 2012, together with the notes thereto, and the 2012 Second Quarter Management Discussion and Analysis, each of which is incorporated by reference into this short form prospectus. There have been no material changes to the capital structure of the Corporation subsequent to June 30, 2012, other than those resulting from the Plan of Arrangement as described in note 1. Changes in the number of Common Shares outstanding since June 30, 2012 resulting from activity under the dividend reinvestment plan and the normal course issuer bid, as described in note 1(e), have been excluded from the *pro forma* capitalization table.

As at June 30, 2012					
(thousands of dollars)	As Reported	Plan of Arrangement Adjustments (note 1)	Pro Forma After Giving Effect to the Plan of Arrangement	Offering and Redemption Adjustments (notes 2, 3 & 4)	Pro Forma After Giving Effect to the Plan of Arrangement, the Offering and the Redemption of the 2013 Debentures
Indebtedness					
Debentures (6%, face value) ⁽³⁾	—	—	—	110,000	110,000
equity component adjustment ⁽³⁾	—	—	—	(4,907)	(4,907)
2013 Debentures (7.25%, face value) ⁽²⁾	91,794	—	91,794	(91,794)	—
fair value adjustment	1,781	—	1,781	(1,781)	—
equity component adjustment ^{(1(a), 1(b))}	—	—	—	—	—
2014 Debentures (5.7%, face value)	113,930	—	113,930	—	113,930
fair value adjustment	1,698	—	1,698	—	1,698
equity component adjustment ^{(1(a), 1(c))}	—	—	—	—	—
HUD mortgages	533,993	—	533,993	—	533,993
CMHC mortgages	188,549	—	188,549	—	188,549
Non-CMHC mortgages/construction loans	30,197	—	30,197	—	30,197
Finance lease liabilities	128,214	—	128,214	—	128,214
EHSI Credit Facility	6,516	—	6,516	—	6,516
PrivateBank loans	34,839	—	34,839	—	34,839
Notes payable	8,249	—	8,249	—	8,249
Financing costs ⁽³⁾	(26,064)	—	(26,064)	(4,896)	(30,960)
Total Indebtedness	1,113,696	—	1,113,696	6,622	1,120,318
Unitholders'/Shareholders' Equity					
Unit/share capital ^{(1(e))}					
(85,028,197 units/shares outstanding)	460,262	—	460,262	—	460,262
Equity component of convertible debentures, net of taxes ^{(1(a), 1(d), (3))}	—	—	—	4,739	4,739
Contributed surplus	81	—	81	—	81
Accumulated deficit ^{(1(e), 1(f))}	(369,045)	(424)	(369,469)	—	(369,469)
Accumulated other comprehensive loss	(16,920)	—	(16,920)	—	(16,920)
Total Unitholders'/Shareholders' Equity	74,378	(424)	73,954	4,739	78,693
Total Capitalization	1,188,074	(424)	1,187,650	11,361	1,199,011

Notes:

- (1) As a result of the Plan of Arrangement and pursuant to the successor provisions of the Indenture, the Corporation is liable for all of the covenants and obligations of the REIT under the Indenture and under the Existing Convertible Debentures, and Unitholders received one Common Share for each REIT Unit held. The Plan of Arrangement will be accounted for as a continuity of interests, and accordingly, the consolidated financial statements of the Corporation will be reflective as if it had always carried on the business formerly carried on by the REIT. Accordingly, the Plan of Arrangement adjustments reflect the following:
 - (a) The Existing Convertible Debentures were, prior to the Plan of Arrangement, convertible into REIT Units at the option of the Unitholder. As the REIT Units were considered puttable instruments because they were redeemable at the option of the Unitholder, the Existing Convertible Debentures, including the debt and equity components, were designated as financial liabilities valued at fair value, with changes in fair value recognized in net earnings as part of net finance costs. As a result of the Plan of Arrangement, Debentureholders are entitled to receive Common Shares on the same basis that REIT Units were previously issuable on the conversion thereof and the debt and equity components of the Existing Convertible Debentures are now required to be bifurcated, as the Common Shares do not include a puttable attribute. Once the decision has been made to fair value a financial instrument, the measurement basis cannot be subsequently modified. Consequently, the debt component of the Existing Convertible Debentures will continue to be designated as a financial liability valued at fair value through net earnings. The equity component, if any, will be recorded as part of shareholders' equity.
 - (b) At June 30, 2012, the 2013 Debentures had an aggregate fair value of \$93,575, which was entirely attributed to the fair value of the financial liability.
 - (c) At June 30, 2012, the 2014 Debentures had an aggregate fair value of \$115,628, which was entirely attributed to the fair value of the financial liability.
 - (d) The aggregate fair value attributed to the equity conversion option of the Existing Convertible Debentures was determined to be nil.

- (e) As at June 30, 2012, there were 85,028,197 REIT Units outstanding, all of which were exchanged for Common Shares of the Corporation on July 1, 2012, pursuant to the Plan of Arrangement, on the basis of one Common Share for each REIT Unit held. As of September 7, 2012, there were 85,348,639 Common Shares outstanding, reflecting the purchase and cancellation of 13,600 Common Shares under the Corporation's normal course issuer bid and the issuance of 334,042 Common Shares under the Corporation's dividend reinvestment plan.
 - (f) The Plan of Arrangement did not result in the loss of tax pools. However, it did result in a change in the effective tax rates applied to the REIT's tax pools, such that the balance of the deferred income tax assets would decline by \$424 with a corresponding increase in the deferred income tax provision.
- (2) Proceeds of the Offering will be used primarily to redeem the outstanding 2013 Debentures. See "Use of Proceeds".
- (3) The Offering and Redemption Adjustments are based on the issuance of \$110,000 aggregate principal amount of Debentures for gross proceeds of \$110,000 less fees and transaction costs estimated to be \$5,125. Upon initial recognition, the debt and equity components of the Debentures are required to be bifurcated as the financial instrument is considered a compound instrument. The Corporation will measure the debt component at amortized cost. The *pro forma* valuation has determined that \$105,093 of the expected gross proceeds from the Offering is classified as a liability with the residual \$4,907 classified as equity attributable to the conversion option. The \$5,125 in fees and transaction costs are prorated with \$4,896 allocated to debt and \$229 to equity, net of tax of \$61. Consequently, the amount allocated to shareholders' equity is \$4,739. The fees and transaction costs allocated to the debt component will be amortized over the term of the Debentures using the effective interest rate method and recognized as part of net finance costs.
- (4) The Offering and Redemption Adjustments do not include the exercise of the Over-Allotment Option granted to the Underwriters to purchase up to an additional \$16,500 aggregate principal amount of Debentures for additional net proceeds to the Corporation of \$15,881.

TRADING PRICE AND VOLUME

The Common Shares commenced trading on the TSX on July 5, 2012 following completion of the Plan of Arrangement and the REIT Units were de-listed concurrently. The Common Shares, 2014 Debentures and 2013 Debentures are currently listed and posted for trading on the TSX under the symbols "EXE", "EXE.DB" and "EXE.DB.A", respectively.

The following table shows the monthly range of high and low prices of the REIT Units/Common Shares, the 2014 Debentures and the 2013 Debentures and the total monthly volumes on the TSX for each month from September 1, 2011 to August 31, 2012 and for the period September 1, 2012 to September 7, 2012.

Month	REIT Units / Common Shares (TSX: EXE.UN / EXE)			2014 Debentures (TSX: EXE.DB)			2013 Debentures (TSX: EXE.DB.A)		
	High (\$)	Low (\$)	Volume	High (\$)	Low (\$)	Volume	High (\$)	Low (\$)	Volume
September 2011	7.92	6.94	4,157,692	99.75	97.50	17,350	101.00	100.00	16,610
October 2011	7.62	6.18	3,934,956	100.50	94.00	26,880	100.75	98.00	69,820
November 2011	7.71	6.90	4,201,200	100.51	97.00	11,700	102.00	100.25	3,380
December 2011	8.63	6.95	5,905,797	102.50	98.25	11,080	106.50	100.75	9,030
January 2012	8.70	8.18	3,422,342	102.00	100.40	19,050	104.00	102.11	8,270
February 2012	8.94	8.30	4,137,833	102.00	100.75	4,290	102.75	101.70	6,430
March 2012	8.42	7.41	5,440,743	102.00	100.06	6,100	102.01	101.25	3,720
April 2012	8.30	7.54	1,963,303	104.00	100.00	8,130	101.40	100.35	6,430
May 2012	8.33	7.90	2,429,083	101.00	100.20	18,130	101.63	101.00	3,185
June 2012	8.10	6.80	6,242,688	102.50	100.25	7,890	102.00	100.50	8,640
July 2012	7.97	7.26	11,657,861	101.99	100.00	7,230	102.60	100.75	7,420
August 2012	8.14	7.32	4,049,349	103.51	101.50	3,340	102.00	101.27	12,580
September 2012 (through September 7, 2012)	8.13	7.89	552,535	101.76	101.00	2,050	101.70	100.50	44,020

On September 7, 2012, the closing prices for the Common Shares, 2014 Debentures and 2013 Debentures on the TSX were \$8.05, \$101.00 and \$100.51, respectively.

PLAN OF DISTRIBUTION

Pursuant to the Underwriting Agreement, the Corporation has agreed to issue and sell an aggregate principal amount of \$110,000,000 Debentures to the Underwriters and the Underwriters have severally agreed to purchase, as principals, such Debentures on or about September 25, 2012 or on such other date as the Corporation and the Underwriters may agree, but in any event not later than October 2, 2012. Delivery of the Debentures is conditional upon payment on closing of the Offering of \$1,000 per Debenture by the Underwriters to the Corporation. The Underwriting Agreement provides that the Corporation will pay to the Underwriters a fee of \$37.50 per Debenture issued and sold by the Corporation, for an aggregate fee payable by the Corporation of \$4,125,000, in consideration for the Underwriters' services in connection with the Offering.

The Offering Price of the Debentures offered hereunder was determined by negotiation between the Corporation and the Underwriters. The Underwriters propose to offer the Debentures to the public initially at the Offering Price. After the Underwriters have made a reasonable effort to sell all of the Debentures at the Offering Price, the offering price of the Debentures may be decreased, and further changed from time to time, to an amount not greater than the Offering Price and the compensation realized by the Underwriters will be decreased by the amount that the aggregate price paid by purchasers for the Debentures is less than the gross proceeds paid by the Underwriters to the Corporation.

The Corporation has granted to the Underwriters the Over-Allotment Option to purchase up to 15% of the principal amount of the Debentures issued (or up to an additional \$16,500,000 principal amount of Debentures) at a price of \$1,000 per Debenture on the same terms and conditions as the Offering of the Debentures, exercisable in whole or in part, at any time and from time to time until 30 days after the closing of the Offering for the purposes of covering the Underwriters' over-allocation position, if any, and for consequential market stabilization purposes. Debentures issuable upon exercise of the Over-Allotment Option will be issued on the later of closing of the Offering and two business days following exercise of such Over-Allotment Option. If the Over-Allotment Option is exercised in full, the price to the public, Underwriters' Fee and net proceeds to the Corporation (before deducting expenses of the Offering) will be \$126,500,000, \$4,743,750 and \$121,756,250, respectively. This short form prospectus also qualifies for distribution the grant of the Over-Allotment Option and the issuance of the Debentures pursuant to the exercise of the Over-Allotment Option.

A purchaser who acquires Debentures forming part of the Underwriters' over-allocation position acquires those Debentures under this short form prospectus, regardless of whether the over-allocation position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases.

The obligations of the Underwriters under the Underwriting Agreement are several, and not joint, and may be terminated at their discretion on the basis of their assessment of the state of the financial markets and may also be terminated upon the occurrence of certain stated events. The Underwriters are, however, obligated to take up and pay for all of the Debentures if any are purchased under the Underwriting Agreement. If an Underwriter fails to purchase the Debentures which it has agreed to purchase, any one or more of the other Underwriters may, but are not obligated to, purchase such Debentures, subject to certain exceptions.

The Corporation has agreed with the Underwriters that it will not, for the period commencing September 10, 2012 and ending 90 days after the closing date of the Offering, directly or indirectly, without the prior written consent of the Underwriters, issue, offer, sell, grant any option to purchase or otherwise dispose of (or announce any intention to do so) any equity securities of the Corporation or any securities convertible into, or exchangeable or exercisable for equity securities of the Corporation, including Common Shares issuable on conversion of the Debentures, except (i) pursuant to the terms of the 2013 Debentures, the 2014 Debentures or the Debentures; (ii) pursuant to the Shareholder Rights Plan; (iii) pursuant to the Corporation's dividend reinvestment plan; or (iv) pursuant to and as consideration or partial consideration for the acquisition of real property or assets from an arm's length vendor.

Pursuant to applicable policy statements of certain Canadian securities regulators, the Underwriters may not, throughout the period of distribution under this short form prospectus, bid for or purchase Debentures. The foregoing restriction is subject to exceptions, on the condition that the bid or purchase not be engaged in for the purpose of creating actual or apparent active trading in, or raising the price of, the Debentures. These exceptions

include bids or purchases permitted under the by-laws and rules of the TSX or the Universal Market Integrity Rules administered by the Investment Industry Regulatory Organization of Canada relating to market stabilization and passive market making activities and bids or purchases made for and on behalf of a customer where the order was not solicited during the period of distribution. Subject to the foregoing and applicable laws in connection with the Offering, the Underwriters may over-allot Debentures or effect transactions intended to stabilize or maintain the market price of the Debentures or the Common Shares at levels other than those that might otherwise prevail in the open market. Such transactions, if commenced, may be discontinued at any time.

Subscriptions for Debentures will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without prior notice. The Debentures will be issued in "book-entry only" form and must be purchased or transferred through a participant in the depository service of CDS.

The Corporation has applied to list the Debentures and the Commons Shares issuable upon the conversion, redemption or maturity of the Debentures on the TSX. Listing will be subject to the Corporation fulfilling all of the listing requirements of the TSX.

There is currently no market through which the Debentures may be sold and purchasers may not be able to resell the Debentures purchased under this short form prospectus.

Pursuant to the Underwriting Agreement, the Corporation has agreed to indemnify and hold harmless the Underwriters and their respective officers, directors, employees and agents against certain liabilities.

RELATIONSHIP BETWEEN THE CORPORATION AND CERTAIN OF THE UNDERWRITERS

RBC Dominion Securities Inc. and CIBC World Markets Inc., two of the underwriters, are wholly owned subsidiaries of Canadian chartered banks that are lenders (the "Lenders") to the Extencicare Group. Certain loans made by the Lenders (the "Mortgage Loans") have been secured by mortgages registered against various Canadian properties of the Extencicare Group. In addition, the Lender parent of RBC Dominion Securities Inc. is the banker for the Corporation and its Canadian subsidiaries and provides a \$70.0 million and US\$10.2 million credit facility to the Corporation (the "Extencicare Credit Facility"). The Extencicare Credit Facility is secured by mortgages registered against various other Canadian properties of the Extencicare Group, certain Canadian assets and restricted cash of the Extencicare Group. Accordingly, the Corporation may be considered to be a "connected issuer" of RBC Dominion Securities Inc. and CIBC World Markets Inc. within the meaning of the securities legislation of certain provinces of Canada.

As at June 30, 2012, approximately \$73.2 million was outstanding under the Mortgage Loans with the Lenders. As at June 30, 2012, there were letters of credit of \$43.1 million and US\$10.2 million outstanding under the Extencicare Credit Facility.

The Mortgage Loans and the Extencicare Credit Facility each contain representations, covenants, restrictions and events of default that are customary for such loans and agreements. As of the date of this short form prospectus, the Extencicare Group is in compliance with the terms of the Mortgage Loans and the Extencicare Credit Facility in all material respects and, except as has been publicly disclosed, the financial position of the Extencicare Group and the value of the security granted to the lenders thereunder have not materially changed since the indebtedness thereunder was incurred.

The decisions of RBC Dominion Securities Inc. and CIBC World Markets Inc. to participate in the underwriting of the Offering were made independently of their respective Lender parent and neither such Lender had any influence as to the determination of the terms of the Offering or the decision of the Corporation to issue the Debentures. The terms of the Offering were determined solely by negotiation between the Corporation and the Underwriters. RBC Dominion Securities Inc. and CIBC World Markets Inc. will not receive any benefit in connection with the Offering other than a portion of the Underwriters' Fee payable by the Corporation.

DESCRIPTION OF THE DEBENTURES

The following is a summary of the material attributes and characteristics of the Debentures. This summary does not purport to be complete and is subject to, and is qualified in its entirety by, the terms of the Indenture (as defined below).

General

The Debentures will be issued as a new series under a supplemental indenture to be dated the date of closing of the Offering between the Corporation and the Debenture Trustee (the "Third Supplemental Indenture") to the Trust Indenture dated as of the 21st day of June, 2007 between the REIT and the Debenture Trustee (the "Original Indenture"), pursuant to which the REIT issued the 2014 Debentures, as supplemented by the First Supplemental Indenture dated as of June 19, 2008 (the "First Supplemental Indenture") between the REIT and the Debenture Trustee, pursuant to which the REIT issued the 2013 Debentures, and as supplemented by the Second Supplemental Indenture dated as of July 1, 2012 (the "Second Supplemental Indenture") between the Corporation and the Debenture Trustee, entered into in connection with the Plan of Arrangement, pursuant to which the Corporation succeeded to, and was substituted for, and is now entitled to exercise every right and power of the REIT under the Original Indenture, as supplemented by the First Supplemental Indenture, as though the Corporation had been named as the REIT therein and pursuant to which the Corporation confirmed that it is liable for all of the covenants, liabilities and obligations of the REIT under the Original Indenture, as supplemented by the First Supplemental Indenture, and under the 2014 Debentures and the 2013 Debentures (including for the avoidance of doubt, the obligation to pay amounts payable to the holders thereof). The Original Indenture, as so supplemented by the First Supplemental Indenture, the Second Supplemental Indenture and the Third Supplemental Indenture, is hereinafter referred to as the "Indenture".

The Debentures will be in the aggregate principal amount of \$110,000,000 plus up to an additional \$16,500,000 principal amount of Debentures issued upon exercise of the Over-Allotment Option. The Corporation may, from time to time, without the consent of the Debentureholders, issue additional debentures of a different series under the Indenture, in addition to the Debentures offered hereby.

The Debentures will be dated as of the closing of the Offering and will mature on September 30, 2019. The Debentures will be issuable only in denominations of \$1,000 and integral multiples thereof and will bear interest from and including the date of issue at 6.00% per annum, which will be payable semi-annually in arrears on March 31 and September 30 in each year, commencing March 31, 2013. The first interest payment will include interest accrued from and including the date of the closing to but excluding March 31, 2013. Interest will be payable based on a 365-day year.

The principal amount of the Debentures will be payable in lawful money of Canada or, at the option of the Corporation and subject to applicable regulatory approval, by payment of Common Shares to satisfy, in whole or in part, the Corporation's obligation to repay the principal amount of the Debentures as further described under "Description of the Debentures – Method of Payment – Payment of Principal on Redemption or at Maturity" and "Description of the Debentures – Put Right upon a Change of Control". The interest on the Debentures will be payable in lawful money of Canada including, at the option of the Corporation and subject to applicable regulatory approval, in accordance with the Common Share Interest Payment Election as described under "Description of the Debentures – Method of Payment – Interest Payment Election".

The Debentures will be direct obligations of the Corporation and will not be secured by any mortgage, pledge, hypothec or other charge and will be subordinated to all other liabilities of the Corporation as described under "Description of the Debentures – Subordination". Neither the Indenture nor the Debentures limit the ability of the Corporation or any of its subsidiaries to incur, directly or indirectly, additional indebtedness, including indebtedness that ranks senior to the Debentures, or from mortgaging, pledging or charging their respective real or personal property or properties to secure any indebtedness.

The Debentures will be transferable, and may be presented for conversion at the principal office of the Debenture Trustee in Toronto, Ontario.

Subordination

The Indenture provides that the Debentures will be subordinated in right of payment to all present and future Senior Indebtedness of the Corporation, as more particularly set forth in the Indenture. No payment of principal or interest on the Debentures may be made (1) if any Senior Indebtedness is not paid when due and any applicable grace period with respect to such payment default on Senior Indebtedness has ended and such default has not been cured or waived or ceased to exist, or (2) if the maturity of any Senior Indebtedness has been accelerated because of a default and either such acceleration has not been rescinded or such Senior Indebtedness has not been repaid. Upon any distribution of assets of the Corporation on any dissolution, winding-up, total liquidation or reorganization of the Corporation, whether in bankruptcy, insolvency or receivership proceedings, upon an "assignment for the benefit of creditors" or any other marshalling of the assets and liabilities of the Corporation, or otherwise, all Senior Indebtedness of the Corporation will be required to be paid in full, or provision made for such payment, before the Debentureholders will be entitled to receive any payment made on account of the principal of or interest on the Debentures.

Neither the Indenture nor the Debentures limit the ability of the Corporation or any of its subsidiaries to incur, directly or indirectly, additional indebtedness, including indebtedness that ranks senior to the Debentures, or from mortgaging, pledging or charging their respective real or personal property or properties to secure any indebtedness.

"Senior Indebtedness" means the principal of, and the interest and premium (or any other amounts payable thereunder), if any, on:

- (a) all indebtedness, liabilities and obligations of the Corporation (other than the Debentures and other debentures issued pursuant to the Indenture), whether outstanding on the date of the Indenture or thereafter created, incurred, assumed or guaranteed in connection with the acquisition by the Corporation of any businesses, properties or other assets or for monies borrowed or raised by whatever means (including, without limitation, by means of commercial paper, bankers' acceptances, letters of credit, debt instruments, bank debt and financial leases, and any liability evidenced by bonds, debentures, notes or similar instruments) or in connection with the acquisition of any businesses, properties or other assets or for monies borrowed or raised by whatever means (including, without limitation, by means of commercial paper, bankers' acceptances, letters of credit, debt instruments, bank debt and financial leases, and any liability evidenced by bonds, debentures, notes or similar instruments) by others including, without limitation, any subsidiary of the Corporation for payment of which the Corporation is responsible or liable, whether absolutely or contingently; and
- (b) renewals, extensions, restructurings, refinancings and refundings of any such indebtedness, liabilities or obligations;

unless in each case it is provided by the terms of the instrument creating or evidencing such indebtedness, liabilities or obligations that such indebtedness, liabilities or obligations are not superior in right of payment to the Debentures and any other debentures issued pursuant to the Indenture which by their terms are subordinated.

The Debentures will be direct unsecured obligations of the Corporation. Each Debenture will rank *pari passu* with each other debenture of the same series or with other series of debentures that have been issued (including the 2014 Debentures and the 2013 Debentures) or that may be issued under the Indenture (regardless of their actual date or terms of issue) and, subject to statutory preferred exceptions, with all other present and future subordinated and unsecured indebtedness of the Corporation except for sinking fund provisions (if any) applicable to different series of debentures issued pursuant to the Indenture or other similar types of obligations of the Corporation.

Conversion Rights

Each Debenture will be convertible into fully paid, non-assessable and freely tradeable Common Shares, at the option of the holder, at any time prior to 4:00 p.m. (Toronto time) on the earlier of the Maturity Date, and the last business day immediately preceding the date specified by the Corporation for redemption of the Debentures, at a conversion price of \$11.25 per Common Share (the "Conversion Price"), being a conversion rate of approximately 88.8889 Common Shares per \$1,000 principal amount of Debentures, subject to adjustment in certain events in accordance with the Indenture. If all conversion rights attaching to the Debentures are exercised, the Corporation will be required to issue approximately 9,777,778 additional Common Shares (11,244,444 Common Shares if the Over-Allotment Option in respect of the Debentures is exercised in full), subject to anti-dilution adjustments. No adjustment to the Conversion Price will be made for dividends on the Common Shares issuable upon conversion or for accrued and unpaid interest on Debentures surrendered for conversion; however, holders converting their Debentures will be entitled to receive, in addition to the applicable number of Common Shares, accrued and unpaid interest, if any, in respect thereof for the period from and including the last Interest Payment Date, up to and including the last record date in respect of the Common Shares set by the Corporation prior to the date of conversion for determining the Shareholders entitled to receive a dividend on the Common Shares. If the Corporation has suspended regular dividends on the Common Shares, then a Debentureholder, in addition to the applicable number of Common Shares to be received on conversion, will be entitled to receive accrued and unpaid interest for the period from and including the last Interest Payment Date prior to the date of conversion to but excluding the date of conversion. Notwithstanding the foregoing, no Debentures may be converted during the period from the close of business on the Record Date preceding the Interest Payment Date to and including such Interest Payment Date, as the registers of the Debenture Trustee will be closed during such periods. The Common Shares issued upon conversion shall participate only in respect of distributions declared in favour of Shareholders of record on and after the date of conversion.

Subject to the provisions thereof, the Indenture provides for the adjustment of the Conversion Price in certain events including: (a) the subdivision or consolidation of the outstanding Common Shares; (b) the issue of Common Shares or securities convertible into or exchangeable for Common Shares to holders of all or substantially all of the outstanding Common Shares by way of a dividend or distribution, other than the issue of Common Shares to holders of Common Shares who have elected to receive dividends in the form of Common Shares pursuant to any dividend reinvestment plan or any share purchase plan or similar arrangements of the Corporation; (c) the issuance of options, rights or warrants to all or substantially all Shareholders entitling them, for a period of not more than 45 days after the record date, to acquire Common Shares or securities convertible into or exchangeable for Common Shares at a price per Common Share (or having a conversion or exchange price per Common Share) less than 95% of the then Current Market Price of the Common Shares on such record date; and (d) the distribution to all or substantially all Shareholders of shares of any class other than Common Shares (other than shares of any class distributed to Shareholders who participate in the Corporation's dividend reinvestment plan), rights, options or warrants (other than those referred to in (c) above), evidences of indebtedness of the Corporation, or other assets (other than cash distributions and equivalent distributions in securities paid in lieu of cash distributions in the ordinary course). There will be no adjustment of the Conversion Price in respect of any event described in (a), (b), (c) or (d) above if, subject to prior regulatory approval, the Debentureholders are allowed to participate as though they had converted their Debentures prior to the applicable record date or effective date of such event. The Corporation will not be required to make adjustments in the Conversion Price unless the cumulative effect of such adjustments would change the Conversion Price by at least 1%.

In the case of any reclassification of the Common Shares or capital reorganization of the Corporation (other than a change resulting only from consolidation or subdivision of the Common Shares), or in the case of any consolidation, amalgamation, arrangement or merger of the Corporation with or into any other entity, or in the case of any sale or conveyance of the properties and assets of the Corporation as, or substantially as, an entirety to any other entity, or in the case of a liquidation, dissolution or winding-up of the Corporation, the terms of the conversion privilege shall be adjusted so that each Debenture shall, after such reclassification, capital reorganization, consolidation, amalgamation, arrangement, merger, sale, conveyance, liquidation, dissolution or winding-up, be exercisable for the kind and amount of securities or property of the Corporation, or such continuing, successor or purchaser entity, as the case may be, which the holder thereof would have been entitled to receive as a result of such reclassification, capital reorganization, consolidation, amalgamation, arrangement, merger, sale, conveyance, liquidation, dissolution or winding-up, if on the effective date or

record date thereof it had been the holder of the number of Common Shares into which the Debenture was convertible prior to the effective date of such event.

No fractional Common Shares will be issued upon any conversion of the Debentures, but in lieu thereof the Corporation shall satisfy such fractional interests by a cash payment equal to the fractional interest which would have been issued multiplied by the Conversion Price (less any taxes required to be withheld).

Redemption and Purchase

The Debentures will not be redeemable by the Corporation prior to October 1, 2015. On and after October 1, 2015, and prior to October 1, 2017, the Debentures may be redeemed by the Corporation, in whole at any time or in part from time to time at the option of the Corporation, on not more than 60 days' and on not less than 30 days' prior notice, at a redemption price equal to the principal amount thereof plus accrued and unpaid interest to but excluding the date of redemption, provided that the Current Market Price immediately preceding the date on which the notice of redemption is given is not less than 125% of the Conversion Price. On and after October 1, 2017, and prior to the Maturity Date, the Debentures may be redeemed by the Corporation, in whole at any time or in part from time to time at the option of the Corporation, at a redemption price equal to the principal amount thereof plus accrued and unpaid interest in respect thereof for the period up to but excluding the date of redemption from and including the last Interest Payment Date on not more than 60 days' and not less than 30 days' prior notice.

In the case of redemption of less than all of the Debentures, the Debentures to be redeemed will be selected by the Debenture Trustee on a *pro rata* basis to the nearest multiple of \$1,000 or by lot in such manner as the Debenture Trustee deems equitable, subject to the consent of the TSX.

The Corporation will have the right at any time and from time to time to purchase Debentures in the market, by tender or by private contract, at any price, subject to compliance with regulatory requirements; provided, however, that if an Event of Default has occurred and is continuing, the Corporation will not have the right to purchase the Debentures by private contract.

The Debentures may also be redeemed by the Corporation in the event of the satisfaction of certain conditions after a Change of Control has occurred as described under "Description of Debentures – Put Right upon a Change of Control".

All Debentures converted, redeemed or purchased as aforesaid will be cancelled and not be reissued or resold.

Put Right upon a Change of Control

Upon the occurrence of a change of control of the Corporation involving the acquisition by any Person, or group of Persons acting jointly or in concert, of voting control or direction over 66⅔% or more of the votes attaching, collectively, to (i) the outstanding Common Shares and (ii) Common Shares issuable upon the conversion or exercise of securities convertible into or carrying the right to acquire Common Shares, in accordance with their terms (a "Change of Control"), each holder of Debentures may require the Corporation to purchase, on the date which is 30 days following the giving of notice of the Change of Control as set out below (the "Put Date"), the whole or any part of such holder's Debentures at a price equal to 101% of the principal amount thereof (the "Put Price") plus accrued and unpaid interest up to but excluding the Put Date (the "Total Put Price"). For greater certainty, the definition of "Change of Control" specifically excludes any transaction or series of transactions in which a new parent entity is established, created, or adopted for, or in replacement of, the Corporation and subsequent thereto voting control of or direction over the equity interests in the new parent entity are held by the Shareholders immediately prior to such transaction or series of transactions, provided that immediately upon consummation or completion of any such transaction or series of transactions, the acquisition by any Person or group of Persons acting jointly or in concert of voting control or direction over 66⅔% or more of votes attaching, collectively, to the outstanding equity interests in the new parent entity shall constitute a Change of Control.

If 90% or more in aggregate principal amount of the Debentures outstanding on the date the Corporation provides notice of the Change of Control to the Debenture Trustee have been tendered for purchase on the Put Date, the Corporation will have the right but not the obligation to redeem all the remaining outstanding Debentures on such date at the Total Put Price. Notice of such redemption must be given to the Debenture Trustee prior to the Put Date or as soon as reasonably possible thereafter by the Debenture Trustee to the holders of the Debentures not tendered for purchase.

The Total Put Price will be payable in lawful money of Canada or, at the Corporation's option and subject to regulatory approval, and provided no Event of Default has occurred and is continuing, by payment of Common Shares to satisfy, in whole or in part, the Corporation's obligation to pay the Total Put Price. If the Corporation so elects to satisfy all or a portion of the Total Put Price by the issuance of Common Shares, the number of Common Shares to be issued will be determined by dividing the Total Put Price to be so paid by the issuance of Common Shares by 95% of the Current Market Price of the Common Shares on the Put Date.

The Indenture contains notification provisions to the following effect:

- (a) the Corporation will, as soon as practicable after the occurrence of a Change of Control and in any event no later than five business days thereafter, give written notice to the Debenture Trustee of the occurrence of a Change of Control and the Debenture Trustee will, as soon as practicable thereafter, and in any event no later than two business days after receiving notice from the Corporation of the occurrence of a Change of Control, provide written notice to the Debentureholders of the Change of Control, the repayment right of the Debentureholders, and the Corporation's right to redeem untendered Debentures under certain circumstances; and
- (b) a Debentureholder, in order to exercise the right to require the Corporation to purchase its Debentures, must deliver to the Debenture Trustee, not less than five business days prior to the Put Date, written notice of the Debentureholder's exercise of such right together with a duly endorsed form of transfer.

The Corporation will comply with the requirements of Canadian securities laws and regulations to the extent such laws and regulations are applicable in connection with the repurchase of the Debentures in the event of a Change of Control.

Amalgamation, Merger and Sale of Assets

The Corporation may not enter into any transaction or series of transactions whereby all or substantially all of its undertaking, property or assets would become the property of any other person (a "Successor") whether by way of reorganization, consolidation, amalgamation, arrangement, merger, transfer, sale or otherwise, unless the Corporation complies with the requirements of the Indenture, including that:

- (a) the Successor has assumed all the covenants and obligations of the Corporation under the Indenture in respect of the Debentures;
- (b) the Debentures will be valid and binding obligations of the Successor entitling the Debentureholders to all of the rights of Debentureholders under the Indenture, including the rights of conversion;
- (c) such transaction, in the opinion of counsel to the Corporation, is on such terms as to substantially preserve and not materially and adversely impair any of the rights and powers of the Debenture Trustee or of the Debentureholders under the Indenture; and
- (d) no condition or event exists as to the Corporation (at the time of such transaction) or the Successor (immediately after such transaction) and after giving full effect thereto which constitutes or would constitute an Event of Default.

Method of Payment

Payment of Principal on Redemption or at Maturity

On redemption or at maturity, the Corporation will repay the indebtedness represented by the Debentures by paying to the Debenture Trustee in lawful money of Canada an amount required to repay the principal amount of the outstanding Debentures together with accrued and unpaid interest thereon. The Corporation may, at its option, on not more than 60 days and not less than 30 days prior notice and subject to applicable regulatory approval, unless an Event of Default has occurred and is continuing, elect to satisfy its obligation to repay, in whole or in part, all or any portion of the principal amount of the Debentures that are to be redeemed or that are to mature by issuing and delivering fully paid, non-assessable and freely tradeable Common Shares to the Debentureholders. The number of Common Shares to be issued will be determined by dividing the principal amount of the Debentures that are to be redeemed or that are to mature, as the case may be, by 95% of the Current Market Price of the Common Shares on the date fixed for redemption or maturity, as the case may be. No fractional Common Shares will be issued on redemption but, in lieu thereof, the Corporation shall satisfy fractional interests by a cash payment equal to the Current Market Price of the fractional interest.

Interest Payment Election

Unless an Event of Default has occurred and is continuing, the Corporation may elect, at any time and from time to time, subject to applicable regulatory approval, to issue and solicit bids from investment banks, brokers or dealers to sell Common Shares in order to raise funds to satisfy all or part of its obligation to pay interest on the Debentures in accordance with the Indenture (the "Common Share Interest Payment Election"), in which event Debentureholders will be entitled to receive a cash payment, equal to the interest payable, from the proceeds of the sale of such Common Shares by the Debenture Trustee. The Indenture provides that, upon such election, the Debenture Trustee shall (i) accept the proceeds with respect to the sales of Common Shares by the Corporation; (ii) invest the proceeds of such sales in specified short-term Canadian federal or provincial government or Canadian chartered bank obligations which mature prior to the applicable Interest Payment Date; (iii) deliver proceeds to Debentureholders sufficient to satisfy the Corporation's interest payment obligations; and (iv) perform any other action necessarily incidental thereto as directed by the Corporation in its absolute discretion. The amount received by a holder in respect of interest and the timing of payment thereof will not be affected by whether the Corporation elects to utilize the Common Share Interest Payment Election.

The Indenture sets forth the procedures to be followed by the Corporation and the Debenture Trustee in order to effect the Common Share Interest Payment Election. If a Common Share Interest Payment Election is made, the sole right of a Debentureholder in respect of interest will be to receive cash from the Debenture Trustee in full satisfaction of the obligation of the Corporation to pay interest on the Debentures.

Neither the Corporation's making of the Common Share Interest Payment Election nor the consummation of sales of Common Shares will (a) result in the Debentureholders not being entitled to receive, on the applicable Interest Payment Date, cash in an aggregate amount equal to the interest payable on such date or (b) entitle such holders to receive any Common Shares in satisfaction of the interest payable on the applicable Interest Payment Date.

Events of Default

The Indenture provides that an event of default ("Event of Default") in respect of all debentures issued under the Indenture (including the Debentures, the 2014 Debentures and the 2013 Debentures) will occur if certain events described in the Indenture occur, including if any one or more of the following described events has occurred and is continuing: (i) failure for 15 days to pay interest on any debentures issued under the Indenture (including the Debentures) when due; (ii) failure to pay principal or premium, if any, on any debentures issued under the Indenture (including the Debentures), whether at maturity, upon redemption, by declaration of acceleration, or otherwise; (iii) an unremedied breach of any material covenant or condition of the Indenture by the Corporation after a 30 day cure period following notice of such breach being given by the Debenture Trustee; or (iv) certain events of bankruptcy, insolvency or reorganization of the Corporation under bankruptcy or insolvency laws. If an Event of Default has occurred and is continuing, the Debenture Trustee may, in its discretion, and shall, upon the request of holders of not

less than 25% in principal amount of the then outstanding Debentures and the debentures of any other series (including the 2014 Debentures and the 2013 Debentures), declare the principal of (and premium, if any) and interest on all outstanding Debentures (and the debentures of any other series, including the 2014 Debentures and the 2013 Debentures) to be immediately due and payable. Certain Events of Default may be waived by written direction of the holders of 66⅔% of the principal amount of the outstanding Debentures and the debentures of any other series (including the 2014 Debentures and the 2013 Debentures), by Extraordinary Resolution (as defined below) or by the Debenture Trustee in certain circumstances in accordance with the terms of the Indenture.

The Indenture contains a provision that precludes the Corporation from declaring or paying any cash dividends on any Common Shares (or securities convertible into or exchangeable for Common Shares) at any time after the occurrence of an Event of Default caused by the failure to pay interest on any debentures issued under the Indenture (including the Debentures, the 2014 Debentures and the 2013 Debentures) when due until such Event of Default has been cured or waived.

Modification

The rights of the Debentureholders and other debentures issued pursuant to the Indenture may be modified in accordance with the terms of the Indenture. For that purpose, among others, the Indenture contains certain provisions that make binding on all Debentureholders and the debentures of any other series (including the 2014 Debentures and the 2013 Debentures) resolutions (each an "Extraordinary Resolution") passed at meetings of the Debentureholders and the debentures of any other series (including the 2014 Debentures and the 2013 Debentures), by votes cast thereat by holders of not less than 66⅔% of the principal amount of the then outstanding Debentures and the debentures of any other series (including the 2014 Debentures and the 2013 Debentures), present at the meeting or represented by proxy, or rendered by instruments in writing signed by the holders of not less than 66⅔% of the principal amount of the then-outstanding Debentures and the debentures of any other series (including the 2014 Debentures and the 2013 Debentures). If any such modification especially affects the rights of the holders of a particular series of debentures in a manner or to an extent differing in any material way from that in or to which the rights of the holders of any other series of debentures are affected (as determined by an opinion of counsel), then the Extraordinary Resolution will not be binding on the holders of the especially affected series of debentures unless it is also approved by holders of not less than 66⅔% of the principal amount of the then-outstanding debentures of such especially affected series present at the meeting or represented by proxy. Under the Indenture, the Debenture Trustee will have the right to make certain amendments to the Indenture in its discretion without the consent of the Debentureholders.

Satisfaction and Discharge of Debentures

The Corporation may satisfy and discharge its obligations under one or more series of debentures issued under the Indenture (including the Debentures, the 2014 Debentures and the 2013 Debentures) by depositing with the Debenture Trustee, in trust for the benefit of holders of the applicable series of debentures, such amount of direct obligations of, or obligations the principal and interest of which are guaranteed by, the Government of Canada, Common Shares or money, as is sufficient to pay, satisfy and discharge the aggregate amount of principal and interest owing in respect of the applicable series of debentures for the period commencing on the date of such deposit and ending on the date of maturity or any repayment or redemption date. Upon such deposit, the Corporation will be deemed to have fully paid, satisfied and discharged the applicable series of debentures and, except as expressly contemplated in the Indenture, the provisions of the Indenture will no longer be binding on the Corporation in respect of the applicable series of debentures. Holders of such debentures will continue to have the right to convert their debentures in accordance with the terms of the Indenture. In addition, following such deposit, holders of the applicable series of debentures will continue to receive regular interest payments and will be entitled to receive payments of principal when due.

Book-Entry Only System

The Debentures will be issued in the form of fully registered global Debentures (the "Global Debentures") held by, or on behalf of, CDS or its successor (the "Depository"), as custodian for its Participants.

All Debentures will be represented by Global Debentures registered in the name of the Depository or its nominee. Purchasers of Debentures represented by Global Debentures will not receive Debentures in definitive form. Rather, the Debentures will be represented only in "book-entry only" form (unless the Corporation, in its sole discretion, elects to prepare and deliver definitive Debentures in fully registered form). Beneficial interests in the Global Debentures, constituting ownership of the Debentures, will be represented through book-entry accounts of institutions (including the Underwriters) acting on behalf of beneficial owners, as direct and indirect participants of the Depository (the "Participants"). Each purchaser of a Debenture represented by a Global Debenture will receive a customer confirmation of purchase from the Underwriter from whom the Debenture is purchased in accordance with the practices and procedures of the selling Underwriter. The practices of the Underwriters may vary but generally customer confirmations are issued promptly after execution of a customer order. The Depository will be responsible for establishing and maintaining book-entry accounts for the Participants having interests in Global Debentures.

Neither the Corporation nor the Underwriters will assume any liability for (a) any aspect of the records relating to the beneficial ownership of the Debentures held by the Depository or the payments relating thereto; (b) maintaining, supervising or reviewing any records relating to the Debentures; or (c) any advice or representation made by or with respect to the Depository and relating to the rules governing the Depository or any action to be taken by the Depository or at the direction of its Participants. The rules governing the Depository provide that it acts as the agent and depository for the Participants. As a result, Participants must look solely to the Depository and beneficial owners must look solely to Participants for the payment of the principal and interest on the Debentures paid by or on behalf of the Corporation to the Depository.

As indirect holders of Debentures, investors should be aware that they (subject to the situations described below) (a) may not have Debentures registered in their name; (b) may not have physical certificates representing their interest in the Debentures; (c) may not be able to sell the Debentures to institutions required by law to hold physical certificates for securities they own; and (d) may be unable to pledge Debentures as security.

If the Depository notifies the Corporation that it is unwilling or unable to continue as depository in connection with the Global Debentures, or if at any time the Depository ceases to be a clearing agency or otherwise ceases to be eligible to be a depository and the Corporation and the Debenture Trustee are unable to locate a qualified successor, or if the Corporation elects, in its sole discretion, to terminate the book-entry system, beneficial owners of Debentures represented by Global Debentures at such time will receive Debentures in registered and definitive form (the "Definitive Debentures").

Offers for Debentures

The Indenture contains provisions to the effect that if an offer to acquire all outstanding debentures issued under the Indenture (including the Debentures, the 2014 Debentures and the 2013 Debentures) where, as of the date of the offer to acquire, the debentures that are subject to the offer to acquire, together with the offeror's debentures, constitute in the aggregate 20% or more of the outstanding principal amount of the debentures, and not less than 90% of the outstanding principal amount of such debentures (other than debentures held at the date of the take-over bid by or on behalf of the offeror or associates or affiliates of the offeror or any Person acting jointly or in concert with the offeror) are taken up and paid for by the offeror, then the offeror will be entitled to acquire the outstanding debentures (including the Debentures, the 2014 Debentures and the 2013 Debentures) held by holders thereof who did not accept the offer on the terms offered by the offeror.

Transfer and Exchange of Debentures

Transfers of beneficial ownership in Debentures represented by Global Debentures will be effected through records maintained by the Depository for such Global Debentures or its nominees (with respect to interests of Participants) and on the records of Participants (with respect to interests of Persons other than Participants). Unless the Corporation elects, in its sole discretion, to prepare and deliver Definitive Debentures, beneficial owners who are not Participants in the Depository's book-entry system, but who desire to purchase, sell or otherwise transfer ownership of or other interest in Global Debentures, may do so only through Participants in the Depository's book-entry system.

The ability of a beneficial owner of an interest in a Debenture represented by a Global Debenture to pledge the Debenture or otherwise take action with respect to such owner's interest in a Debenture represented by a Global Debenture (other than through a Participant) may be limited due to the lack of a physical certificate.

Registered holders of Definitive Debentures may transfer such Debentures upon payment of taxes or other charges incidental thereto, if any, by executing and delivering a form of transfer together with the Debentures to the registrar for the Debentures at its principal offices in Toronto, Ontario, or in such other city or cities as may from time to time be designated by the Corporation, whereupon new Debentures will be issued in authorized denominations in the same aggregate principal amount as the Debentures so transferred, registered in the names of the transferees. No transfer or exchange of a Debenture will be registered during the period from the date of any selection by the Debenture Trustee of any Debentures to be redeemed or during the 15 preceding days or thereafter until the close of business on the date upon which notice of redemption of such Debentures is given. In addition, no transfer or exchange of any Debentures that have been selected or called for redemption will be registered.

Payments

Payments of interest and principal on each Global Debenture will be made to the Depository or its nominee, as the case may be, as the registered holder of the Global Debenture. As long as the Depository or its nominee is the registered holder of a Global Debenture, such Depository or its nominee, as the case may be, will be considered the sole legal owner of the Global Debenture for the purposes of receiving payments of interest and principal on the Debentures and for all other purposes under the Indenture and the Debentures. The record dates (each, individually, a "Record Date") for the payment of interest will be March 31 and September 30 in each year (or the first business day following such date if not a business day). Interest payments on Global Debentures will be made by electronic funds transfer on the day interest is payable and delivered to the Depository or its nominee, as the case may be.

The Corporation understands that the Depository or its nominee, upon receipt of any payment of interest or principal in respect of a Global Debenture, will credit Participants' accounts, on the date interest or principal is payable, with payments in amounts proportionate to their respective beneficial interest in the principal amount of such Global Debenture as shown on the records of the Depository or its nominee. The Corporation also understands that payments of interest and principal by Participants to the owners of beneficial interests in such Global Debenture held through such Participants will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participants. The Corporation's responsibility and liability in respect of payments on Debentures represented by a Global Debenture is limited solely and exclusively, while the Debentures are registered in Global Debenture form, to making payment of any interest and principal due on such Global Debenture to the Depository or its nominee.

If Definitive Debentures are issued instead of or in place of Global Debentures, payments of interest on each Definitive Debenture will be made by electronic funds transfer, if agreed to by the holder of the Definitive Debenture or if required under any applicable payment clearing system rules, or by cheque dated the Interest Payment Date and mailed at least five business days preceding the applicable Interest Payment Date to the address of the holder appearing in the register maintained by the registrar for the Debentures at the close of business on the Record Date. Payment of principal at maturity will be made at the principal office of the Debenture Trustee in Toronto, Ontario (or in such other city or cities as may from time to time be designated by the Corporation) against surrender of the Definitive Debentures, if any. If the due date for payment of any amount of principal or interest on any Definitive Debenture is not, at the place of payment, a business day, such payment will be made on the next business day and the holder of such Definitive Debenture shall not be entitled to any further interest or other payment in respect of such delay.

Reports to Holders

The Corporation will file with the Debenture Trustee, within 15 days after the filing thereof with the Ontario Securities Commission, copies of its annual report and such information, documents and other reports that it is required to file with the Ontario Securities Commission and deliver to its shareholders. Notwithstanding that the Corporation may not be required to remain subject to the reporting requirements of the Ontario Securities

Commission, the Corporation shall provide to the Debenture Trustee (a) within 90 days after the end of each fiscal year, an annual financial statement of the Corporation, and (b) within 45 days after the end of each of the first three fiscal quarters of each fiscal year, interim financial statements of the Corporation which shall, at a minimum, contain such information as is required to be provided in quarterly reports under the laws of Canada or any province thereof to security holders of a company with securities listed on the TSX, whether or not the Corporation has any of its securities so listed. Each of such reports will be prepared in accordance with applicable Canadian disclosure requirements and GAAP. The Corporation will provide copies of such information, documents and reports to Debentureholders upon request.

Governing Law

The Indenture and the Debentures will be construed in accordance with the laws of Ontario and the laws of Canada applicable therein and shall be treated in all respects as Ontario contracts.

DESCRIPTION OF CAPITAL STRUCTURE

The authorized capital of the Corporation consists of an unlimited number of Common Shares and that number of preferred shares, issuable in series, equal to 50% of the number of Common Shares issued and outstanding at the time of the issuance of any series of preferred shares ("Preferred Shares"). The following is a summary of the rights, privileges, restrictions and conditions attaching to the share capital of the Corporation.

Common Shares

The holders of the Common Shares are entitled to receive notice of and to attend all meetings of shareholders of the Corporation and to one vote in respect of each Common Share held at all such meetings (except meetings at which only holders of another specified class or series of shares are entitled to vote, pursuant to the provisions of the CBCA). Subject to the prior rights, privileges, restrictions and conditions attaching to the preferred shares and to any other class of shares ranking senior to the Common Shares, the holders of the Common Shares shall be entitled to receive dividends, if, as and when declared by the Board of Directors out of assets of the Corporation properly applicable to the payment of dividends in such amounts and payable in such manner as the Board of Directors may determine. In the event of the liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, or any other distribution of assets of the Corporation among its shareholders for the purpose of winding-up its affairs, subject to the rights, privileges, restrictions and conditions attaching to the preferred shares and to any other class of shares ranking senior to the Common Shares, the holders of the Common Shares shall be entitled to receive the remaining property of the Corporation.

Preferred Shares

The Preferred Shares may at any time and from time to time be issued in one or more series. The Board of Directors shall, by resolution, duly passed before the issuance of the Preferred Shares of each series, fix the number of the Preferred Shares in such series and determine the designation, rights, privileges, restrictions and conditions attaching to the Preferred Shares of such series, including, but without in any way limiting or restricting the generality of the foregoing, the rate or rates, amount or method or methods of calculation of preferential dividends, whether cumulative or non-cumulative or partially cumulative, and whether such rate(s), amount or method(s) of calculation shall be subject to change or adjustment in the future, the currency or currencies of payment, the date or dates and place or places of payment thereof and the date or dates from which such preferential dividends shall accrue, the redemption price and terms and conditions of redemption (if any), the rights of retraction (if any), and the prices and other terms and conditions of any rights of retraction, voting rights (if any) and conversion or exchange rights (if any) and any sinking fund, purchase fund or other provisions attaching thereto, the whole subject to filing with the Director under the CBCA (or successor legislation thereto) of articles of amendment setting forth the number, designation, rights, privileges, restrictions and conditions to be attached to the Preferred Shares of such series and the issuance of a certificate of amendment in respect thereof.

The number of Preferred Shares of all series that the Corporation is authorized to issue, at any time and from time to time, is limited to that number equal to 50% of the number of Common Shares that are issued and outstanding at the time of the issuance of any series of Preferred Shares.

The purpose for the creation of the Preferred Shares was not to defeat a hostile take-over bid. There is no current intention to issue Preferred Shares for the purposes of defeating a hostile take-over bid; however, in such a circumstance, the Board of Directors will perform its legal duties in the best interests of the Corporation.

CASH DISTRIBUTIONS AND DIVIDENDS

A table summarizing the monthly cash distributions declared and paid by Extencicare REIT, the predecessor of the Corporation, during the period commencing on November 6, 2006 and ending on March 31, 2012 is set forth in the 2011 Annual Information Form under the heading "Distributions – Distributions Made". Monthly cash distributions per REIT Unit for the months of April 2012 to June 2012, inclusive, and monthly cash dividends per Common Share for the months of July 2012 and August 2012, were as follows:

Month	Gross amount per REIT Unit or Common Share	Record Date	Payment Date
April	\$0.07	April 30, 2012	May 15, 2012
May	\$0.07	May 31, 2012	June 15, 2012
June	\$0.07	June 29, 2012	July 16, 2012
July	\$0.07	July 31, 2012	August 15, 2012
August	\$0.07	August 31, 2012	September 17, 2012

The conversion of Extencicare REIT from an income trust structure to a corporate structure itself did not impact the funds available for distribution by the Corporation to its shareholders. The declaration and payment of dividends is subject to the discretion of the Board of Directors, as to the amount of and if and when a dividend is declared and paid, after consideration of the same factors that were taken into account by the board of trustees of the REIT with respect to distributions to Unitholders, which factors include results of operations, requirements for capital, future financial prospects and debt covenants, as well as other factors that may be considered to be relevant by the Board of Directors.

RISK FACTORS

There are certain risks inherent in an investment in the Debentures and in the activities of the Extencicare Group that investors should carefully consider before investing in the Debentures. In addition to the specific risks described herein, reference is made to the risks described in the other documents incorporated by reference in this short form prospectus, including in particular as set forth in the section entitled "Risk Factors" in the 2011 Annual Information Form.

Risks related to Legal Proceedings and Regulatory Actions

The Corporation and its subsidiaries are defendants in actions brought against them from time to time in connection with their operations. Recently adopted U.S. health care reform legislation is calling for more government oversight of the long-term care industry and operators are experiencing an increase in government investigations, audits and scrutiny of their operations. It is not possible to predict the ultimate outcome of the various proceedings at this time or to estimate additional costs that may result. However, based on current knowledge, management does not believe that liabilities, if any, arising from pending litigation will have a material adverse effect on the consolidated financial position, or results of operations of the Corporation.

In early 2010, EHSI received subpoenas from the U.S. Department of Health and Human Services ("DHHS"), Office of the Inspector General ("OIG"), relating to the possible submission of claims that may be in violation of the U.S. Social Security Act and to the provision of rehabilitation services. EHSI and its subsidiaries believe that they are in material compliance with the requirements imposed on them by the U.S. Social Security Act, and have furnished all requested information and continue to cooperate with the OIG in its investigations. Management has agreed to meet with the OIG in Washington in early October, 2012 to discuss the investigations. The OIG has not provided the Corporation with details of its investigations or any specific matters that it wishes to discuss at the meeting. Accordingly, the Corporation is unable at this time to assess the possible outcome of the investigations or determine how long they may continue.

The DHHS, OIG, CMS and other federal, state and provincial enforcement agencies may conduct additional investigations related the Corporation's business in the future that may, individually or in the aggregate, including the current OIG investigations, have a material adverse effect on the business or financial condition of the Corporation.

Risks related to the Debentures

There is currently no trading market for the Debentures.

There is currently no trading market for the Debentures. No assurance can be given that an active or liquid trading market for the Debentures will develop or be sustained. If an active or liquid market for the Debentures fails to develop or be sustained, the prices at which the Debentures trade may be adversely affected. Whether or not the Debentures will trade at lower prices depends on many factors, including liquidity of the Debentures, prevailing interest rates and the markets for similar securities, the market price of the Common Shares, general economic conditions, and the Corporation's financial condition, historic financial performance and future prospects.

The Debentures are unsecured, subordinated obligations of the Corporation and the likelihood that purchasers of the Debentures will receive payments owing to them under the terms of the Debentures will depend on the Corporation's financial condition and creditworthiness. The Indenture contains limited covenant protection.

The likelihood that purchasers of the Debentures will receive payments owing to them under the terms of the Debentures will depend on the Corporation's financial condition and creditworthiness. In addition, the Debentures are unsecured obligations of the Corporation and are subordinate in right of payment to all of the Corporation's existing and future Senior Indebtedness. Therefore, if the Corporation becomes bankrupt, liquidates its assets, reorganizes or enters into certain other transactions, the Corporation's assets will be available to pay its obligations with respect to the Debentures only after it has paid all of its Senior Indebtedness in full. There may be insufficient assets remaining following such payments to pay amounts due on any or all of the Debentures then outstanding. The Debentures are also effectively subordinate to claims of creditors of the Corporation's subsidiaries except to the extent that the Corporation is a creditor of such subsidiaries ranking at least *pari passu* with such other creditors. The Indenture does not prohibit or limit the ability of the Corporation or its subsidiaries to incur additional debt or liabilities (including Senior Indebtedness), to sell or pledge assets or to make distributions except in respect of cash distributions where an Event of Default caused by the failure to pay interest when due has occurred and such default has not been cured or waived. The Indenture does not contain any provision specifically intended to protect Debentureholders in the event of a future leveraged transaction involving the Corporation or any of its subsidiaries.

The effect of certain transactions on the Debentures could substantially lessen or eliminate the value of the conversion privilege.

In the case of certain transactions, each Debenture will become convertible into the securities, cash or property receivable by a Shareholder under the transaction. This change could substantially lessen or eliminate the value of the conversion privilege associated with the Debentures in the future. For example, if the Corporation were acquired in a cash merger, each Debenture would become convertible solely into cash and would no longer be convertible into securities whose value would vary depending on the Corporation's future prospects and other factors. See "Description of the Debentures – Conversion Rights".

Redemption Prior to Maturity

The Debentures may be redeemed, at the option of the Corporation, at any time and from time to time on and after October 1, 2015, subject to certain conditions, at a price equal to the principal amount thereof plus accrued and unpaid interest. Debentureholders should assume that this redemption option will be exercised if the Corporation is able to refinance at a lower interest rate or it is otherwise in the interest of the Corporation to redeem the Debentures.

Inability of the Corporation to Purchase Debentures on a Change of Control

If a Change of Control of the Corporation occurs, Debentureholders will have the right to require the Corporation to redeem the Debentures in an amount equal to 101% of the principal amount of the Debentures plus accrued and unpaid interest until the date of redemption. If Debentureholders holding 90% or more of all the Debentures exercise their right to require the Corporation to redeem such Debentures, the Corporation may acquire the remaining Debentures on the same terms. In such event, the conversion privilege associated with the Debentures would be eliminated. Although the Corporation may be required to purchase all outstanding Debentures upon the occurrence of a Change of Control, it is possible that following a Change of Control the Corporation will not have sufficient funds at that time to make any required purchase of outstanding Debentures or that restrictions contained in other indebtedness will restrict those purchases. See "Description of the Debentures – Put Right upon a Change of Control".

Dilution

The Corporation may determine to redeem outstanding Debentures for Common Shares or to repay outstanding principal amounts thereunder on maturity by issuing Common Shares. The issuance of Common Shares may have an adverse impact on the price of Common Shares and Shareholders may suffer dilution.

Prevailing Yields on Similar Securities

The prevailing yield on securities similar to the Debentures will affect the market price of the Debentures. Assuming all other factors remain unchanged, the market price of the Debentures will decline as prevailing yields for similar securities rise, and will increase as prevailing yields for similar securities decline.

CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Bennett Jones LLP, counsel to the Corporation, and Torys LLP, counsel to the Underwriters, the following is, as of the date hereof, a summary of the principal Canadian federal income tax considerations pursuant to the Tax Act generally applicable to a holder who acquires Debentures pursuant to the Offering and who, for purposes of the Tax Act and at all relevant times, deals at arm's length with and is not affiliated with the Corporation, and holds the Debentures and will hold any Common Shares issuable on the conversion, redemption or maturity of the Debentures (collectively with the Debentures, the "Securities") as capital property (in this section of the prospectus, referred to as a "Holder"). Generally, the Securities will be considered to be capital property to a Holder provided the Holder does not hold the Securities in the course of carrying on a business and has not acquired them in one or more transactions considered to be an adventure or concern in the nature of trade. Certain Holders resident in Canada whose Securities might not otherwise qualify as capital property may, in certain circumstances, be entitled to make the irrevocable election under subsection 39(4) of the Tax Act to have such Securities and any other "Canadian security" (as defined in the Tax Act) owned by such holders in the taxation year in which the election is made, and in all subsequent taxation years, deemed to be capital property. Holders should consult their own tax advisors regarding their particular circumstances.

This summary is based upon the current provisions of the Tax Act, all specific proposals to amend the Tax Act that have been publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof (the "Proposed Amendments") and counsel's understanding of the current published administrative policies and assessing practices of the Canada Revenue Agency. This summary assumes the Proposed Amendments will be enacted in the form proposed; however, no assurance can be given that the Proposed Amendments will be enacted in

the form proposed, or at all. Except for the Proposed Amendments, this summary does not take into account or anticipate any changes in law or practice, whether by legislative, governmental, administrative or judicial decisions or action, nor does it take into account provincial, territorial or foreign tax considerations, which may differ significantly from the Canadian federal income tax considerations discussed herein.

This summary is of a general nature only, is not exhaustive of all possible Canadian federal income tax considerations with respect to an investment in Securities and is not intended to be, nor should it be construed to be, legal or tax advice to any particular Holder and no representations with respect to the income tax consequences to any particular Holder are made. Prospective Debentureholders should consult their own tax advisors for advice with respect to the tax consequences to them of acquiring, holding and disposing of Securities, having regard to their particular circumstances.

Holders Resident in Canada

The following discussion is generally applicable to a Holder who, for purposes of the Tax Act and at all relevant times, is resident or deemed to be resident in Canada (a "Resident Holder"). This summary is not applicable to a Holder (i) that is a "financial institution" for the purposes of the mark-to-market rules in the Tax Act, (ii) an interest in which would be a "tax shelter investment", (iii) that is a "specified financial institution", or (iv) that makes or has made an election to report the Holder's "Canadian tax results" in a currency other than Canadian dollars, all within the meaning of the Tax Act. Any such Holder should consult its own tax advisor with respect to an investment in Debentures.

Taxation of Interest on Debentures

A Resident Holder that is a corporation, partnership, unit trust or any trust of which a corporation or a partnership is a beneficiary will be required to include in computing its income for a taxation year any interest on the Debentures that accrues to it, or is deemed to accrue to it, to the end of the year or that has become receivable by or is received by the Resident Holder before the end of the year, including on a redemption or payment on maturity, except to the extent that such interest was included in computing the Resident Holder's income for a preceding taxation year.

Any other Resident Holder, including an individual, will be required to include in computing income for a taxation year all interest on the Debentures that is received or receivable by the Resident Holder in that taxation year (depending on the method regularly followed by the Resident Holder in computing income), except to the extent that the interest was included in the Resident Holder's income for a preceding taxation year. If at any time a Debenture should become an "investment contract" (as defined in the Tax Act) in relation to a Resident Holder, such Resident Holder will be required to include in computing income for a taxation year any interest that accrues or is deemed to accrue to the Resident Holder on the Debenture up to the end of any "anniversary day" (as defined in the Tax Act) of the Debenture in that taxation year, to the extent such interest was not otherwise included in computing the Resident Holder's income for the year or a preceding taxation year. For this purpose, "anniversary day" means the day that is one year after the day immediately preceding the date of issue of a Debenture, the day that occurs at every successive one year interval from that date, and the day on which the Debenture is disposed of.

A Resident Holder that throughout the relevant taxation year is a "Canadian-controlled private corporation" (as defined in the Tax Act) may be liable to pay a refundable tax of 6 $\frac{2}{3}$ % on its aggregate investment income, which includes interest income.

Upon a disposition or deemed disposition of a Debenture, including on a redemption, payment on maturity, purchase for cancellation or conversion, interest accruing thereon, or deemed to accrue thereon, to the date of disposition will be included in computing the income of the Resident Holder for the taxation year in which the disposition occurs, except to the extent that such interest has otherwise been included in the Resident Holder's income for the year or a preceding taxation year.

Exercise of Conversion Privilege

Generally, a Resident Holder who converts a Debenture into Common Shares pursuant to the Resident Holder's conversion privilege will be deemed not to have disposed of the Debenture and, accordingly, will not be considered to realize a capital gain (or capital loss) on such conversion. Under the current administrative practice of the Canada Revenue Agency, a Resident Holder who, upon conversion of a Debenture into Common Shares, receives cash not in excess of \$200 in lieu of a fraction of a Common Share may treat this amount as proceeds of disposition of a portion of the Debenture, thereby realizing a capital gain (or capital loss), or reduce the adjusted cost base of the Common Shares that the Resident Holder receives on the conversion by the amount of the cash received.

Upon a conversion of a Debenture, interest accrued thereon to the date of conversion will be included in computing the income of the Resident Holder as described above under "– Taxation of Interest on Debentures". The aggregate cost to a Resident Holder of the Common Shares acquired on the conversion of a Debenture generally will be equal to the Resident Holder's adjusted cost base of the Debenture immediately before the conversion. The adjusted cost base to a Resident Holder of a Common Share at any time will be averaged with the adjusted cost base of any other Common Shares held by the Resident Holder as capital property at the time.

Disposition of Debentures

A disposition or deemed disposition of a Debenture by a Resident Holder, including on a redemption, payment on maturity or purchase for cancellation (but not including the conversion of a Debenture into Common Shares pursuant to the Resident Holder's right of conversion described above), generally will result in the Resident Holder realizing a capital gain (or a capital loss) equal to the amount, if any, by which the proceeds of disposition, net of any amount included in the Resident Holder's income as interest and any reasonable costs of disposition, are greater (or less) than the Resident Holder's adjusted cost base thereof. Such capital gain (or capital loss) will be subject to the tax treatment described below under "– Taxation of Capital Gains and Capital Losses".

If the Corporation pays any amount upon the redemption, purchase or maturity of a Debenture by issuing Common Shares to a Resident Holder, the Resident Holder's proceeds of disposition of the Debenture will be equal to the fair market value of the Common Shares and any other consideration received (except amounts received in satisfaction of accrued interest). The Resident Holder's cost of the Common Shares so received will be equal to the fair market value of such Common Shares. The adjusted cost base to a Resident Holder of a Common Share at any time will be averaged with the adjusted cost base of any other Common Shares held by the Resident Holder as capital property at that time.

Receipt of Dividends on Common Shares

A Resident Holder will be required to include any dividends received on Common Shares in computing its income for a taxation year.

In the case of a Resident Holder that is an individual (other than certain trusts), such dividends will be subject to the gross-up and dividend tax credit normally applicable to taxable dividends received from taxable Canadian corporations, including the enhanced gross-up and dividend tax credit if such dividends are designated as "eligible dividends" by the Corporation. There may be limitations on the ability of the Corporation to designate all or any portion of any dividend as an "eligible dividend" and, accordingly, no assurance can be given as to the extent to which any dividends will be designated as "eligible dividends".

In the case of a Resident Holder that is a corporation, dividends on the Common Shares will be included in the Resident Holder's income for the taxation year in which such dividends are received and generally will be deductible in computing the Resident Holder's taxable income. A Resident Holder that is a "private corporation" (as defined in the Tax Act) or any other corporation resident in Canada controlled, whether because of a beneficial interest in one or more trusts or otherwise, by or for the benefit of an individual (other than a trust) or a related group of individuals (other than trusts), may be liable to pay a refundable tax of 33⅓% on dividends received on Common Shares to the extent such dividends are deductible in computing taxable income for the year.

Disposition of Common Shares

A disposition or a deemed disposition of a Common Share by a Resident Holder (except to the Corporation) will generally result in the Resident Holder realizing a capital gain (or a capital loss) equal to the amount by which the proceeds of disposition of the Common Share, net of any reasonable costs of disposition, are greater (or less) than the Resident Holder's adjusted cost base thereof.

Taxation of Capital Gains and Capital Losses

Generally, one-half of any capital gain (a "taxable capital gain") realized by a Resident Holder in a taxation year must be included in the Resident Holder's income for the year, and one-half of any capital loss (an "allowable capital loss") realized by a Resident Holder in a taxation year must be deducted from taxable capital gains realized by the Resident Holder in that year. Allowable capital losses for a taxation year in excess of taxable capital gains for that year generally may be carried back and deducted in any of the three preceding taxation years, or carried forward and deducted in any subsequent taxation year, against net taxable capital gains realized in such years, to the extent and under the circumstances described in the Tax Act.

The amount of any capital loss realized by a Resident Holder that is a corporation on the disposition of a Common Share may be reduced by the amount of dividends received by it on such Common Share to the extent and under the circumstances described in the Tax Act. Similar rules may apply where a corporation is a member of a partnership or a beneficiary of a trust that owns Common Shares, directly or indirectly, through a partnership or a trust. Such Resident Holders should consult their own tax advisors.

A Resident Holder that is, throughout the relevant taxation year, a "Canadian-controlled private corporation" (as defined in the Tax Act) may be liable to pay a refundable tax of 6 $\frac{2}{3}$ % on its aggregate investment income, which includes taxable capital gains.

Capital gains realized by an individual (including certain trusts) may give rise to a liability for alternative minimum tax as calculated under detailed rules set out in the Tax Act.

Holders Not Resident in Canada

The following discussion is generally applicable to a Holder who, for purposes of the Tax Act and at all relevant times, is neither resident nor deemed to be resident in Canada, does not use or hold Debentures, or Common Shares acquired upon the conversion of a Debenture, in carrying on a business in Canada, and deals at arm's length with any person or entity resident or deemed to be resident in Canada to whom the Holder disposes of Debentures (a "Non-Resident Holder"). This discussion does not apply to an insurer that carries on an insurance business in Canada and elsewhere, or to an "authorized foreign bank" (as defined in the Tax Act).

Taxation of Interest on Debentures

A Non-Resident Holder will not be subject to Canadian withholding tax in respect of amounts paid or credited or deemed to have been paid or credited by the Corporation as, on account or in lieu of payment of, or in satisfaction of, interest or principal on the Debentures.

Exercise of Conversion Privilege

The conversion of a Debenture into Common Shares on the exercise of the conversion privilege by a Non-Resident Holder generally will be deemed not to constitute a disposition of the Debenture and, accordingly, the Non-Resident Holder will not realize a gain or a loss on such conversion.

Disposition of Debentures and Common Shares

A Non-Resident Holder will not be subject to tax in respect of any capital gain realized by such Non-Resident Holder on a disposition or deemed disposition of a Debenture (other than a conversion of a Debenture into

Common Shares on the exercise of a conversion privilege by the Non-Resident Holder) or a Common Share, as the case may be, unless the Debenture or Common Share constitutes "taxable Canadian property" (as defined in the Tax Act) of the Non-Resident Holder at the time of disposition and the Holder is not entitled to relief under an applicable income tax treaty. Provided the Common Shares are listed on a designated stock exchange (which currently includes the TSX) at the time of disposition, the Debentures and the Common Shares generally will not constitute taxable Canadian property of a Non-Resident Holder unless, at any time during the 60-month period immediately preceding the disposition: (i) the Non-Resident Holder, persons with whom the Non-Resident Holder did not deal at arm's length, or the Non-Resident Holder together with all such persons, owned 25% or more of the issued shares of any class or series of shares of the capital stock of the Corporation; and (ii) more than 50% of the fair market value of the Common Shares was derived directly or indirectly from any combination of (a) real or immovable property situated in Canada, (b) "Canadian resource properties" (as defined in the Tax Act), (c) "timber resources properties" (as defined in the Tax Act) and (d) options in respect of, or interests in or rights in, property described in (a) to (c). A Non-Resident Holder owning Debentures or Common Shares that may constitute taxable Canadian property should consult its tax advisor with respect to the tax consequences of a disposition thereof.

Receipt of Dividends on Common Shares

Where a Non-Resident Holder receives a dividend on Common Shares, the amount of such dividend will be subject to Canadian withholding tax at the rate of 25% of the gross amount of the dividend unless the rate is reduced under the provisions of an applicable income tax treaty. The rate of Canadian withholding tax applicable to a dividend is generally reduced to 15% for a Non-Resident Holder that beneficially owns the dividend and is a resident of the United States entitled to benefits under the *Canada-United States Income Tax Convention* (1980), as amended.

LEGAL PROCEEDINGS

To the knowledge of Management, no legal proceedings of a material nature by or against the Corporation or any of its subsidiaries are pending or threatened.

LEGAL MATTERS AND INTERESTS OF EXPERTS

The matters referred to under "Eligibility for Investment" and "Certain Canadian Federal Income Tax Considerations" as well as certain other legal matters relating to the Offering will be passed upon on behalf of the Corporation by Bennett Jones LLP and on behalf of the Underwriters by Torys LLP. As of September 10, 2012, the partners and associates of Bennett Jones LLP, as a group, and the partners and associates of Torys LLP, as a group, beneficially owned, directly or indirectly, less than 1% of the outstanding Common Shares, the 2014 Debentures or the 2013 Debentures.

AUDITOR, TRANSFER AGENT AND REGISTRAR

The auditors of the Corporation are KPMG LLP, Chartered Accountants, Toronto, Ontario.

The transfer agent and registrar for the Common Shares, the Debentures, the 2014 Debentures and the 2013 Debentures is Computershare Trust Company of Canada, at its principal office in Toronto, Ontario.

EXEMPTIONS

Concurrently with the filing of this short form prospectus, the Corporation has applied for relief from the requirement under National Instrument 44-101 – *Short Form Prospectus Distributions* to file a Personal Information Form and Authorization to Collect, Use and Disclose Personal Information in the form attached as Appendix A to National Instrument 41-101 – *General Prospectus Requirements* ("PIF") for each director of the Corporation and officer of the Corporation that previously filed a PIF while serving as a trustee and/or officer of Extendicare REIT prior to the completion of the conversion of the Corporation from an income trust structure to a corporation effective as of 12:01 a.m. (Toronto time) on July 1, 2012.

Pursuant to a decision of the Autorité des marchés financiers dated September 7, 2012, the Corporation was granted relief from the requirements that all documents incorporated by reference in this preliminary short form prospectus must be in both the French and English languages. For the purposes of the preliminary short form prospectus only, the Corporation is not required to file French versions of all the documents incorporated by reference herein.

STATUTORY RIGHTS OF WITHDRAWAL AND RESCISSION

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, revision of the price or damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission or revision of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of these rights or consult with a legal adviser.

GLOSSARY OF TERMS

In this short form prospectus, the following terms have the meanings set forth below:

"2011 Annual Information Form" means the annual information form of the REIT for the year ended December 31, 2011;

"2011 Management Discussion and Analysis" means management's discussion and analysis of the financial condition and results of operations of the REIT for the year ended December 31, 2011;

"2012 Second Quarter Management Discussion and Analysis" means management's discussion and analysis of the financial condition and results of operations of the REIT for the six months ended June 30, 2012;

"2013 Debentures" means the convertible unsecured subordinated debentures issued by Extencicare REIT on June 19, 2008 and due June 30, 2013, bearing interest at an annual rate of 7.25%, payable semi-annually in arrears on June 30th and December 31st in each year, for which, as a result of the Plan of Arrangement, the Corporation is liable;

"2014 Debentures" means the convertible unsecured subordinated debentures issued by Extencicare REIT on June 21, 2007 and due June 30, 2014, bearing interest at an annual rate of 5.70%, payable semi-annually in arrears on June 30th and December 31st in each year, for which, as a result of the Plan of Arrangement, the Corporation is liable;

"allowable capital loss" has the meaning given to such term under "Certain Canadian Federal Income Tax Considerations";

"Board of Directors" means the board of directors of the Corporation;

"Canadian GAAP" means, at any time, accounting principles generally accepted in Canada as recommended in the Handbook of the Canadian Institute of Chartered Accountants, at the relevant time and which for financial years beginning on or after January 1, 2011 is IFRS;

"CBCA" means the *Canada Business Corporations Act*, R.S.C. 1985, c. C-44, including the regulations promulgated thereunder, in either case, as amended;

"CDS" means CDS Clearing and Depository Services Inc.;

"Change of Control" has the meaning given to such term under "Description of the Debentures – Put Right upon a Change of Control";

"CMS" means the Centers for Medicare and Medicaid Services, a federal agency in the United States that administers Medicare and Medicaid;

"Common Shares" means the common shares of the Corporation;

"Conversion Price" has the meaning given to such term under "Description of the Debentures – Conversion Rights";

"Corporation" means Extencicare Inc.;

"Counsel" has the meaning given to such term under "Description of the Debentures";

"Current Market Price" means the volume-weighted average trading price of the Common Shares on the TSX for the 20 consecutive trading days ending on the fifth trading day preceding the date of the applicable event;

"Debentureholder" means a holder of Debentures;

"Debenture Trustee" means Computershare Trust Company of Canada, in its capacity as trustee under the Indenture;

"Debentures" means the 6.00% convertible unsecured subordinated debentures of the Corporation due September 30, 2019;

"Definitive Debentures" has the meaning given to such term under "Description of the Debentures – Book-Entry Only System";

"Depository" the meaning given to such term under "Description of the Debentures – Book-Entry Only System";

"ECI" means Extendicare (Canada) Inc., a corporation amalgamated under the laws of Canada and a subsidiary of the Corporation;

"EHI" means Extendicare Holdings, Inc., a corporation incorporated under the laws of Wisconsin and a subsidiary of the Corporation;

"EHSI" means Extendicare Health Services, Inc., a corporation incorporated under the laws of Delaware and a subsidiary of the Corporation;

"EHSI Credit Facility" means the credit agreement dated as of June 20, 2012, among EHI, EHSI (as borrower), the lender parties thereto and others relating to the US\$80 million dollar credit facility of EHSI;

"EII" means Extendicare International Inc., a corporation incorporated under the laws of Canada and a subsidiary of Extendicare;

"Event of Default" has the meaning given to such term under "Description of the Debentures – Events of Default";

"Exchangeable LP Units" means the Class B limited partnership units of Extendicare LP;

"Existing Convertible Debentures" means the 2013 Debentures and the 2014 Debentures;

"Extendicare Group" means, collectively, the Corporation and all of its subsidiaries;

"Extendicare LP" means Extendicare Limited Partnership, a limited partnership that was formed under the laws of the Province of Ontario and that was dissolved pursuant to the Plan of Arrangement;

"Extendicare Trust" means Extendicare Trust, an unincorporated open-ended limited purpose trust that was established under the laws of Ontario pursuant to the Trust Deed of Trust and that was dissolved pursuant to the Plan of Arrangement;

"First Supplemental Indenture" has the meaning given to such term under "Description of the Debentures – General";

"Global Debentures" has the meaning given to such term under "Description of the Debentures – Book-Entry Only System";

"Holder" has the meaning given to such term under "Certain Canadian Federal Income Tax Considerations";

"HUD" has the meaning given to such term under "Recent Developments - 2011/2012 Refinancing Plan - U.S. Operations – HUD Mortgages";

"IFRS" means the generally accepted accounting principles determined with reference to International Financial Reporting Standards, as defined by the International Accounting Standard Board, and which have been prescribed as being Canadian GAAP for publicly accountable enterprises by the Accounting Standards Board of the Canadian Institute of Chartered Accountants for financial years beginning on or after January 1, 2011, as amended from time to time;

"Indenture" has the meaning given to such term under "Description of the Debentures – General";

"Interest Payment Date" means a date specified in the Debentures as the date on which an instalment of interest on the Debentures shall become due and payable;

"Laurier Indemnity" means Laurier Indemnity Company, Ltd. a corporation incorporated under the laws of Bermuda and a subsidiary of ECI;

"Management" means the senior management of Extendicare Group;

"Maturity Date" means September 30, 2019;

"Non-Resident Holder" has the meaning given to such term under "Certain Canadian Federal Income Tax Considerations - Debentureholders Not Resident in Canada";

"Offering" means the distribution of the Debentures qualified by this short form prospectus;

"Offering Price" means the price of \$1000 per Debenture;

"Original Indenture" has the meaning given to such term under "Description of the Debentures – General";

"Over-Allotment Option" has the meaning given to such term in Note (3) on page (ii) of this short form prospectus;

"ParaMed" means ParaMed Home HealthCare, a division of ECI which provides home health care services in Canada;

"Participants" has the meaning given to such term under "Description of the Debentures – Book-Entry Only System";

"Person" means any individual, partnership, association, body corporate, trust, trustee, executor, administrator, legal representative, government, regulatory authority or any other entity;

"Plan of Arrangement" has the meaning given to such term under "The Corporation – Overview of the Corporation";

"Preferred Shares" has the meaning given to such term under "Description of Capital Structure – Preferred Shares";

"Proposed Amendments" has the meaning given to such term under "Certain Canadian Federal Income Tax Considerations";

"ProStep" means The Progressive Step Corporation, a corporation incorporated under the laws of Wisconsin, and a subsidiary of EHSI;

"Record Date" has the meaning given to such term under "Description of the Debentures – Payments";

"REIT" or **"Extendicare REIT"** means Extendicare Real Estate Investment Trust, an unincorporated open-ended limited purpose trust that was established under the laws of the Province of Ontario pursuant to the REIT Deed of Trust and that was dissolved pursuant to the Plan of Arrangement;

"REIT Deed of Trust" means the second amended and restated deed of trust dated October 28, 2006 that governed the REIT;

"REIT Unit" means a trust unit of the REIT (other than a Special Voting Unit) that was authorized and issued by the REIT under the REIT Deed of Trust, none of which are issued and outstanding;

"Resident Holder" has the meaning given to such term under "Certain Canadian Federal Income Tax Considerations – Debentureholders Resident in Canada";

"Second Supplemental Indenture" has the meaning given to such term under "Description of the Debentures – General";

"Securities" has the meaning given to such term under "Certain Canadian Federal Income Tax Considerations";

"Senior Indebtedness" has the meaning given to such term under "Description of the Debentures – Subordination";

"Shareholder Rights Plan" means the shareholder rights plan agreement dated as of July 1, 2012, between the Corporation and Computershare Trust Company of Canada, as rights agent;

"Shareholders" means holders of Common Shares;

"Special Voting Units" means special voting units of the REIT that were authorized and issued by the REIT to the holders of Exchangeable LP Units (other than the REIT, Extendicare Trust and Extendicare LP) under the REIT Deed of Trust, none of which are issued and outstanding;

"Successor" has the meaning given to such term under "Description of Debentures – Amalgamation, Merger and Sale of Assets";

"Tax Act" means the *Income Tax Act* (Canada), as amended, including the regulations promulgated thereunder;

"taxable capital gain" has the meaning given to such term under "Certain Canadian Federal Income Tax Considerations";

"Third Supplemental Indenture" has the meaning given to such term under "Description of the Debentures – General";

"Trust Deed of Trust" means the deed of trust dated September 11, 2006 that governed Extendicare Trust;

"TSX" means the Toronto Stock Exchange;

"Underwriters" means, collectively, RBC Dominion Securities Inc., CIBC World Markets Inc., BMO Nesbitt Burns Inc., National Bank Financial Inc., Scotia Capital Inc. and Byron Capital Markets Ltd.;

"Underwriting Agreement" means the underwriting agreement dated September 10, 2012, between the Corporation and the Underwriters;

"Unitholders" means the former holders of REIT Units; and

"VCPI" means Virtual Care Provider, Inc., a corporation incorporated under the laws of Wisconsin and a subsidiary of Extendicare.

AUDITOR'S CONSENT

We have read the short form prospectus of Extendicare Inc. (the "Corporation") dated September •, 2012 relating to the distribution of \$110,000,000 aggregate principal amount of 6.00% convertible unsecured subordinated debentures due September 30, 2019 of the Corporation. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the incorporation by reference in the above-mentioned prospectus of:

- (a) our report to the unitholders of Extendicare Real Estate Investment Trust ("Extendicare REIT") on the consolidated statements of financial position of Extendicare REIT as at December 31, 2011, December 31, 2010 and January 1, 2010, the consolidated statements of earnings (loss), comprehensive income (loss), changes in equity and cash flows for the years ended December 31, 2011 and December 31, 2010 and notes, comprising a summary of significant accounting policies and other explanatory information. Our report is dated February 29, 2012; and
- (b) our report, dated April 2, 2012, to the Board of Directors of 8067929 Canada Inc. on the financial statements which comprise the statement of financial position as at April 2, 2012, the statement in changes in shareholders' equity and cash flows for the period from February 3, 2012, the date of incorporation, to April 2, 2012, and notes, comprising a summary of significant accounting policies and other explanatory information contained in the management information and proxy circular of Extendicare REIT, dated April 2, 2012, relating to the plan of arrangement involving Extendicare REIT, Extendicare Trust, Extendicare Holding General Partner Inc., Extendicare Limited Partnership, 8120404 Canada Inc., Extendicare Inc. and 8067929 Canada Inc. and the holders of trust units of Extendicare REIT.

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Chartered Accountants, Licensed Public Accountants

September •, 2012
TORONTO, ONTARIO

CERTIFICATE OF THE CORPORATION

Dated: September 10, 2012.

This short form prospectus, together with the documents incorporated herein by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of each of the provinces of Canada.

EXTENDICARE INC.

(Signed) Timothy L. Lukenda
President and Chief Executive Officer

(Signed) Douglas J. Harris
Senior Vice President and
Chief Financial Officer

On Behalf of the Board of Directors

(Signed) Mel Rhinelanders
Director

(Signed) Benjamin J. Hutzler
Director

CERTIFICATE OF THE UNDERWRITERS

Dated: September 10, 2012.

To the best of our knowledge, information and belief, this short form prospectus, together with the documents incorporated herein by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of each of the provinces of Canada.

RBC DOMINION SECURITIES INC.

(Signed) Carolyn A. Blair

CIBC WORLD MARKETS INC.

(Signed) Mark Johnson

BMO NESBITT BURNS INC.

(Signed) Drew Koivu

NATIONAL BANK FINANCIAL INC.

(Signed) Glen Hirsh

SCOTIA CAPITAL INC.

(Signed) Bryce Stewart

BYRON CAPITAL MARKETS LTD.

(Signed) Robert Orviss