FORM 51-102F3

MATERIAL CHANGE REPORT

Item 1 Name and Address of the Company

Extendicare Inc. (the "**Company**" or "**Extendicare**")
3000 Steeles Avenue East, Suite 700
Markham, Ontario L3R 9W2

Item 2 Date of Material Change

November 7, 2014

Item 3 News Release

A news release with respect to the material change referred to in this material change report was issued by the Company on November 7, 2014 through Marketwired and filed on SEDAR.

Item 4 Summary of Material Change

On November 7, 2014, the Company and one of its wholly-owned Canadian subsidiaries, Extendicare International, Inc., entered into a definitive share purchase agreement to sell substantially all of the Company's U.S. business (the "**Transaction**") to a group of investors led by Formation Capital, LLC ("**Formation Capital**"), a healthcare-focused private investment firm, and an affiliate of Safanad Inc. ("**Safanad**"), a global principal investment firm, for U.S.$870 million (C$992 million at the November 7, 2014 exchange rate), subject to specified adjustments, including a reduction on account of the outstanding amount of mortgage loans and other indebtedness relating to the U.S. business at closing, which, as at September 30, 2014, was approximately U.S.$665 million. After accounting for tax, working capital and other adjustments, and excluding advisor fees, the Company expects to receive net cash proceeds from the Transaction of approximately U.S.$222 million (C$253 million at the November 7, 2014 exchange rate). The estimated after-tax proceeds are subject to change at the time of closing, which is expected to occur in the second quarter of 2015. The Company intends to use the proceeds received from the Transaction to expand and grow its Canadian operations.

In addition to the cash proceeds from the Transaction, Extendicare and the purchaser have agreed in principle to enter into an agreement whereby Extendicare would be entitled to certain amounts, relating to centers to be leased prior to the closing of the Transaction, that are expected to approximate U.S.$6 million per year (net of upfront costs) on average for 15 years. Extendicare also has the potential for profit sharing above specified thresholds relating to such centers over the same period.

Item 5 Full Description of Material Change

1. Definitive Share Purchase Agreement

On November 7, 2014, FC Domino Acquisition, LLC (the "**Purchaser**"), an acquisition company formed by Formation Capital, and Extendicare International Inc. (the "**Vendor**") and Extendicare entered into a share purchase agreement (the "**SPA**") pursuant to which the Purchaser has agreed to purchase from the Vendor all of the issued and outstanding shares (the "**Purchased Shares**") of Extendicare Holdings, Inc. ("**EHI**"), the U.S. subsidiary that is the holding company for Extendicare's U.S. business. The properties and assets owned, leased or licensed by EHI and the subsidiaries of EHI (collectively, the "**EHI Entities**") constitute substantially all of the properties and assets relating to nursing, rehabilitative and assisted living business carried on by Extendicare in the United States (the "**EHI Healthcare Business**").

The following description of the SPA does not purport to be complete, may not contain all of the information about the SPA that is important to readers, and is qualified in its entirety by the SPA, a copy of which is available under Extendicare's profile on SEDAR at www.sedar.com. The SPA establishes and governs the legal relationship between the Purchaser, the Vendor and Extendicare with respect to the Transaction. The SPA is not intended to be a source of factual information about Extendicare or the EHI Healthcare Business.

Capitalized terms used in this Material Change Report and not otherwise defined herein shall have the meanings ascribed thereto in the SPA. All references to dollars or to "$" in the sections of this Material Change Report that follow below are references to United States dollars.

2. The Transaction

The SPA provides that the Purchaser will acquire the Purchased Shares for a purchase price of $870 million, subject to specified adjustments, including a reduction on account of the outstanding amount of mortgage loans and other indebtedness relating to the U.S. business at Closing, which, as at September 30, 2014, was approximately $665 million, and a deduction relating to a portion of the EHSI Loan (as hereinafter defined). After accounting for the dividend to be paid to the Vendor as part of a pre-closing reorganization (the "**Pre-Closing Reorganization**"), tax, working capital, and other adjustments, and excluding advisor fees, the Company expects to receive net cash proceeds of approximately $222 million.

In addition to the cash proceeds from the Transaction, Extendicare and the Purchaser have agreed in principle to enter into an agreement whereby Extendicare would be entitled to certain amounts, relating to centers to be leased prior to the closing of the Transaction, that are expected to approximate $6 million per year (net of upfront costs) on average for 15 years. Extendicare also has the potential for profit sharing above specified thresholds relating to such centers over the same period. Extendicare will also retain 10 of its U.S. skilled nursing centers (906 beds), which will continue to be held for sale, and its indirect wholly-owned subsidiary, Virtual Care Provider, Inc., which provides a range of information technology solutions to long-term care providers, and its wholly-owned Bermuda-based captive Laurier Indemnity Company, Ltd., which insures its U.S. general and professional liability risks.

3. Representations and Warranties

The Vendor has provided certain representations and warranties relating to the EHI Entities and the EHI Healthcare Business in the SPA, and the Purchaser has also provided certain representations and warranties to the Vendor in the SPA. The Vendor and Extendicare have agreed to jointly and severally indemnify the Purchaser from and against Losses arising out of any breach by the Vendor of, or any inaccuracy in, any representations or warranty of the Vendor contained in the SPA, subject to the terms and limitations set forth in the SPA.

4. Covenants of the Vendor Regarding the Conduct of EHI Healthcare Business Pending Closing

Under the SPA, the Vendor has agreed, during the interim period between the date of execution of the SPA and the Closing, to conduct its business in all material respects in the ordinary course of business consistent with past practice and to use commercially reasonable efforts to preserve intact its business organization and goodwill and its material relationships with Governmental Entities, customers, suppliers, landlords, and other persons with which it has material business relations; and to keep available the services of its current officers and key employees.

5. Conditions Precedent to Closing

The respective obligations of the Purchaser and the Vendor to complete the Transaction are subject to the satisfaction or waiver of certain conditions described below.

Under the SPA, the Vendor has acknowledged and agreed that it is the intent of the Purchaser, immediately upon consummation of the Transaction and as part of the Closing, to effect the transfer by the EHI Entities of the business and operations of the EHI Healthcare Facilities to third party operators and the concurrent lease by such third party operators of the EHI Healthcare Facilities from the EHI Entities (the "**Opco/Propco Separation**"). As a result, the

Closing is conditional upon certain regulatory and third party approvals being obtained in connection with both the Transaction and the Opco/Propco Separation.

6. Regulatory Approvals

Under the SPA, each of the Purchaser and the Vendor has agreed to use its commercially reasonable efforts to cause the conditions to Closing to be satisfied as promptly as practicable, including taking all necessary and appropriate actions for obtaining certain specified regulatory approvals, being:

(a) securing the expiration or termination of any waiting period (and any extension of such period under the HSR Act with respect to the Transaction and the Opco/Propco Separation);

(b) obtaining the required Healthcare Permits necessary for consummation of the Transaction and the Opco/Propco Separation; and

(c) obtaining all required waivers and consents from HUD and lenders under Extendicare Health Services Inc.'s HUD Mortgage Loans necessary for the consummation of the Transaction, the Pre-Closing Reorganization and the Opco/Propco Separation.

7. Conditions for the Benefit of the Purchaser

The obligation of the Purchaser to consummate the Transaction is further subject to the satisfaction (or waiver by the Purchaser) of conditions, including, but not limited to, the following:

(a) Except for certain fundamental representations and warranties of the Vendor which must be true and correct in all respects or true and correct in all but deminimus respects as of the Closing Date, the representations and warranties of the Vendor must be true and correct (without regard to any "materiality" or "Material Adverse Effect" qualifications) as of the date of the SPA and as of the Closing Date as if made at and as of the Closing Date (other than any such representations and warranties of the Vendor that by their terms are made as of an earlier date, which shall be true and correct as of such earlier date), except where the failure of such representations and warranties to be true and correct has not had, and would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect.

(b) All covenants and agreements contained in the SPA to be performed by the Vendor at or prior to the Closing shall have been performed in all material respects.

(c) Since the date of the SPA, there shall have been no event, change, circumstance, development, occurrence, condition, effect or state of facts that, individually or in the aggregate, has had, or would reasonably be expected to have, a Material Adverse Effect.

(d) All required Healthcare Permits and the HUD Approvals shall have been obtained without any action, condition, limitation, restriction or requirement that, individually or in the aggregate with any other actions, conditions, limitations, restrictions or requirements, would or would reasonably be expected to result in a Burdensome Condition, which includes a material and adverse effect on the long-term benefits, taken as a whole, which the Purchaser expects to derive from the Transaction and the Opco/Propco Separation.

8. Conditions for the Benefit of the Vendor

The obligation of the Vendor to consummate the Transaction is further subject to the satisfaction (or waiver by the Vendor) of conditions, including but not limited to the following:

(a) The representations and warranties of the Purchaser must be true and correct (without any regard to any "materiality" qualifications) as of the date of the SPA and the Closing Date as if made as of the Closing Date (other than any such representations and warranties of the Purchaser that by their terms are made as of an earlier date, which shall be true and correct as of such earlier date), except where the failure of such representations and warranties to be true and correct do not materially and adversely affect the Purchaser's ability to consummate the Transaction.

(b) All covenants and agreements contained in the SPA to be performed by the Purchaser at or prior to the Closing Date shall have been performed in all material respects.

9. Termination

The SPA may be terminated:

(a) by mutual written agreement of the Purchaser and the Vendor; or

(b) by either the Purchaser or the Vendor if the Transaction has not been consummated on or prior to June 30, 2015 (the "**Outside Date**"); provided, however, that if on the Outside Date any of the conditions to Closing relating to obtaining the regulatory approvals described in paragraph 6 above have not been satisfied or duly waived by the Party or Parties entitled to the benefit of such condition but all of the other conditions to the Closing have been satisfied (other than those conditions that by their nature cannot be satisfied until the Closing Date, but which would be capable of being satisfied (if the Closing Date occurred on the Outside Date)), then the Closing may be extended to any date on or prior to September 30, 2015 at the option of the Vendor or the Purchaser (such option to be exercised by the delivery of written notice to the other Party on the Outside Date); provided, further, that the right to terminate the SPA or to extend the Outside Date is not available to a Party that has breached in any material respect its obligations under the SPA in any manner that shall have substantially contributed to the failure of the Transaction to be consummated on or prior to the Outside Date; and provided, further, that if the Transaction has not been consummated on or prior to the Outside Date as a result of the failure of the Debt Financing to be provided in full pursuant to Debt Financing Commitment Letters or definitive agreements relating to the Debt Financing (a "**Financing Failure**") (other than a Financing Failure resulting from a Willful Breach of the covenants of the Purchaser relating to the financings), then, notwithstanding the second proviso, the Purchaser may terminate the SPA;

(c) by either the Purchaser or the Vendor, if (i) any Law shall have been enacted prohibiting the consummation of the Transaction or the Opco/Propco Separation, (ii) any Order shall have been issued by a Governmental Entity permanently restraining, enjoining or otherwise prohibiting the consummation of the Transaction or the Opco/Propco Separation and such Order shall have become final and non-appealable, or (iii) a Governmental Entity shall have denied a request to issue an Order or to take any other action that is necessary to fulfill the conditions of closing, and such denial of a request to issue such Order or to take such other action shall have become final and non-appealable;

(d) by the Purchaser, if all of the following shall have occurred: (i) the Vendor has breached or failed to perform in any material respect any of its representations, warranties, covenants or other agreements contained in the SPA; (ii) such breach or failure to perform would entitle the Purchaser not to consummate the Transaction; (iii) such breach or failure to perform is incapable of being cured by the Vendor prior to the Outside Date, or, if such breach or failure to perform is capable of being cured by the Vendor prior to the Outside Date, the Vendor shall not have cured such breach or failure to perform within thirty (30) days after receipt of written notice thereof (but no later than the Outside Date); and (iv) the Purchaser is not then in breach of the SPA in any material respect;

(e) by the Vendor, if all of the following shall have occurred: (i) the Purchaser has breached or failed to perform in any material respect any of its representations, warranties, covenants or other agreements contained in the SPA; (ii) such breach or failure to perform would entitle the Vendor not to consummate the Transaction; (iii) such breach or failure to perform is incapable of being cured by the Purchaser prior to the Outside Date or, if such breach or failure to perform is capable of being cured by the Purchaser prior to the Outside Date, the Purchaser shall not have cured such breach or failure to perform within thirty (30) days after receipt of written notice thereof (but no later than the Outside Date); and (iv) the Vendor is not then in breach of the SPA in any material respect; or

(f) by the Vendor, if (i) all of the mutual conditions of Closing and the conditions of closing for the benefit of the Purchaser have been satisfied (other than those conditions that by their terms are to be satisfied at the Closing, each of which is capable of being satisfied at the Closing), (ii) the Vendor has given irrevocable written notice to the Purchaser that it is prepared and able to consummate the Transaction, all conditions for the benefit of the Vendor have been satisfied (other than those conditions that by their terms are to be satisfied at the Closing, each of which is capable of being satisfied at the Closing) or that the Vendor is willing to waive, and (iii) the Purchaser fails to consummate the Transaction within three (3) Business Days of the date the Closing should have occurred.

10. Purchaser Termination Fee

(i) If the Vendor terminates the SPA pursuant to the termination event described in paragraph 9(f) above, or (ii) the Vendor or the Purchaser terminates the SPA (A) pursuant to the termination event described in paragraph 9(b) above, (B) a Financing Failure has occurred and is continuing as of the Outside Date (as extended), (C) all of the mutual conditions of closing and conditions of closing for the benefit of the Purchaser have been satisfied or waived by the Party or Parties entitled to waive such conditions (other than those conditions that by their terms are to be satisfied at the Closing, each of which is capable of being satisfied at the Closing), and (D) the Purchaser has failed to consummate the Closing on or before the Outside Date (as extended), then the Purchaser is required to pay to the Vendor a termination fee of $30 million (the "**Purchaser Termination Fee**"), by (i) release of the Deposit to the Vendor and (ii) wire transfer of immediately available funds in an amount equal to $30 million less the amount of the Deposit (net of the amount of any loan made to an EHI Entity out of the Deposit) to one or more accounts designated in writing by the Vendor within two (2) Business Days of the date of such termination.

11. Indemnification by the Vendor and Extendicare

From and after the Closing, subject to the terms and limitations set forth in the SPA, the Vendor and Extendicare have jointly and severally agreed to indemnify and save harmless the Purchaser from and against any Loss, based upon, relating to, resulting from or arising out of certain specified matters, including, without limitation:

(a) any breach by the Vendor of, or any inaccuracy in, any representation or warranty of the Vendor contained in the SPA;

(b) any breach or non-performance by Extendicare or the Vendor of any covenant to be performed by Extendicare or the Vendor that is contained in the SPA;

(c) any legal proceeding, audit, payment review or sanction alleging any violation by any of the EHI Entities of U.S. federal or state civil or administrative laws or regulations relating to health care fraud to the extent that the Losses are attributable to events or circumstances occurring prior to the Closing Date;

(d) any claim brought by a patient, resident or employee of any of the EHI Entities against any of the EHI Entities relating to or arising from the EHI Healthcare Business to the extent that the Losses are attributable to events or circumstances occurring prior to the Closing Date;

(e) any recoupments of overpayments by Medicare, Medicaid or other third party payors attributable to events or circumstances occurring prior to the Closing Date;

(f) any Taxes payable by the EHI Entities for any taxable period ending on or before the Closing Date; and

(g) any Taxes allocated to the EHI Entities for any pre-closing tax straddle period.

12. Corporate Integrity Agreement

Under the SPA, the Vendor has agreed to share in the annual costs (the "**CIA Costs**") to be incurred by the Purchaser, any EHI Entity and any of the Purchaser's Designees that are reasonably and necessarily incurred in order to implement and comply with the requirements of the Corporate Integrity Agreement between the Office of the Inspector General of the Department of Health and Human Services of the United States and Extendicare Health Services, Inc. and The Progressive Step Corporation (each a U.S. operating subsidiary of the Vendor), with an effective date of October 3, 2014 (the **"CIA"**). The CIA was entered into in connection with the settlement of the DOJ and OIG Quality of Care Investigation and the DOJ and OIG Therapy Investigation and has a five-year term ending in October 2019. The first $2 million aggregate annual amount of CIA Costs will be borne by the Purchaser, the EHI Entities and the Purchaser's Designees; the next $2 million aggregate annual amount of CIA Costs will be borne by the Vendor; the next $5 million aggregate annual amount of CIA Costs will be allocated and borne equally by the Purchaser, the EHI Entities and the Purchaser's Designees, on the one hand, and the Vendor, on the other hand; and the balance of such aggregate annual amount of CIA Costs will be borne solely by the Purchaser, the EHI Entities and the Purchaser's Designees. Extendicare estimates that its payment obligations relating to the CIA will be less than $2 million per year through to October 2019.

13. Financings

The Purchaser has obtained the equity and debt financing commitments described below. The funding under these commitments is subject to conditions, including conditions that do not relate directly to the SPA. The Purchaser has represented to the Vendor that, subject to the satisfaction of the terms and conditions of the Equity Financing Commitment Letters and the Debt Financing Commitment Letter, the amount of funds to be provided pursuant to the financings will be sufficient (A) on the date of the Pre-Closing Reorganization to permit the Lender to make the EHSI Loan, and (B) at the Closing to pay: (x) the cash purchase price for the Purchased Shares and the repayment or refinancing of indebtedness required as a result of the consummation of the Transaction; and (y) any and all fees and expenses, and satisfy all other payment obligations required to be satisfied by the Purchaser and the EHI Entities in connection with the closing of the Transaction and the financings.

14. Equity Financing

The Purchaser has received an equity financing commitment letter (each an "**Equity Financing Commitment Letter**") from each of NorthStar Healthcare Income Operating Partnership, LP ("**NorthStar**"), a Delaware limited partnership, and Safanad Management Limited ("**Safanad**"), a Cayman Islands exempted company. Each of NorthStar and Safanad has agreed under its Equity Financing Commitment Letter to invest up to $90 million (its "**Equity Commitment Amount**") in equity of the Purchaser (the "**Equity Financing**"), the proceeds of which will be used by the Purchaser to fund a portion of the Purchase Price payable to the Vendor pursuant to the SPA and related costs and expenses. NorthStar's and Safanad's obligation to fund its Equity Commitment Amount is subject to the satisfaction or waiver by the Purchaser of the conditions precedent to the Purchaser's obligation to consummate the Transaction and the Purchaser's receipt of the Debt Financing. The amount to be funded by NorthStar and Safanad, respectively, under its Equity Financing Commitment Letter will be reduced on a dollar-for-dollar basis pro rata if, after taking into account the proceeds of the Debt Financing and any available cash of the EHI Entities, the Purchaser does not require the full Equity Commitment Amount under such Equity Commitment Letter.

15. Debt Financing

In connection with the SPA, the Purchaser and EHI have obtained debt financing commitment letters dated as of November 7, 2014 from NorthStar (the "**Debt Financing Commitment Letters**") to provide, subject to the conditions contained therein, up to $225 million, in the aggregate, of debt financing (the "**Debt Financing**") to: (i) the Purchaser, the proceeds of which will be used by the Purchaser to fund a portion of the Purchase Price payable to the Vendor in accordance with the SPA; and (ii) EHI (the "**EHSI Loan**") in connection with the Pre-Closing Reorganization.

The Debt Financing is subject to a number of conditions, including, without limitation, execution and delivery of definitive loan documentation consistent with the Debt Financing Commitment Letters, consummation of the Transaction in accordance with the SPA in all material respects, and no Material Adverse Effect (as defined in the SPA) having occurred. The Debt Financing will be secured by EHI's unencumbered facilities.

16. Deposit and Limited Guarantees

(a) ***Deposit***

In connection with the SPA, the Purchaser has deposited with the Deposit Escrow Agent $12.5 million (such aggregate amount of $12.5 million together with all interest accruing thereon less the amount of any loans made to an EHI Entity out of such amount, the "**Deposit**"). The Deposit will be applied as follows: (i) if the Closing occurs, the Deposit will be applied to payment of the Purchase Price; (ii) if the SPA is terminated under circumstances in which the Purchaser Termination Fee is required to be paid, the Deposit will be applied towards payment of the Purchaser Termination Fee; and (iii) if the SPA is terminated under circumstances in which the Purchaser Termination Fee is not required to be paid, the Deposit will be released in accordance with the terms of the Deposit Escrow Agreement.

Under the Deposit Escrow Agreement, the Deposit will remain in escrow to satisfy the amount of the Vendor’s proven Losses, if any, as set forth in a final and non-appealable judgment of a court if the SPA is terminated in circumstances in which the Purchaser Termination Fee is not payable and the Vendor commences legal proceedings claiming such Losses within a specified number of days following termination.

(b) ***Limited Guarantees***

Each of NorthStar and Safanad has provided limited guarantees in favour of the Vendor, pursuant to which it has severally guaranteed its pro rata share of the obligation of the Purchaser to pay the Purchaser Termination Fee (less the amount of Deposit) and certain other indemnification and reimbursement obligations of the Purchaser under the SPA.

17. Forward-Looking Statements

This material change report contains forward-looking statements concerning anticipated financial events, results, circumstances, economic performance or expectations with respect to Extendicare and its subsidiaries, including, without limitation, statements regarding: the Company's expected net cash proceeds from the Transaction; the Company's expectations regarding completion of the Transaction; the expected timing of the closing of the Transaction; the Company's intentions with respect to the use of proceeds from the Transaction; the Company's entitlement to amounts relating to certain centers to be leased prior to the closing of the Transaction and such amounts; and its business operations, business strategy, and financial condition. Forward-looking statements can be identified because they generally contain the words "will", "expect", "intend", "anticipate", "believe", "estimate", "project", "plan" or "objective" or other similar expressions or the negative thereof. Forward-looking statements reflect management's beliefs and assumptions as of the date of this material change report and are based on information currently available, and Extendicare assumes no obligation to update or revise any forward-looking statement, except as required by applicable securities laws. These statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements of Extendicare to differ materially from those expressed or implied in the statements, including, without limitation: the Company's and the Purchaser's ability to close the Transaction in the time period anticipated, if at all, which is dependent upon the ability of the Vendor and the Purchaser to satisfy the closing conditions to the Transaction, many of which are beyond their control; obtaining the necessary regulatory approvals; certain termination rights of the parties under the SPA; consummation of the Equity Financing and the Debt Financing; purchase price adjustments and indemnification obligations under the SPA that could reduce the net cash proceeds to the Company; fluctuations in the rate of exchange of the Canadian dollar to the U.S. dollar; and other risks relating to the business and industry of the Company that are detailed from time to time in the Company's filings with the Canadian provincial securities regulators. Given these risks and uncertainties, readers are cautioned not to place undue reliance on Extendicare's forward-looking statements. Further information can be found in the disclosure documents filed by Extendicare with the securities regulatory authorities, available at www.sedar.com and on Extendicare's website at www.extendicare.com.

Item 6 Reliance on subsection 7.1(2) of National Instrument 51-102

Not applicable.

Item 7 Omitted Information

Not applicable.

Item 8 Executive Officer

For further information please contact:

Dylan T. Mann
Senior Vice President and Chief Financial Officer
Telephone: 414.908.8623
Fax: 905.470.4003

Item 9 Date of Report

November 17, 2014.