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August 31, 2006

Headnote

Mutual Reliance Review System for Exemptive Relief Applications

National Instrument 51-102 *Continuous Disclosure Obligations*, s. 13.1 – information circular requirements - Information circular – An issuer wants relief from the requirement to include prospectus-level disclosure in an information circular to be circulated in connection with an arrangement, reorganization, acquisition or amalgamation - The issuer is only internally restructuring, not adding or removing any assets or changing the shareholders' proportionate interest in the issuer's operations - The issuer will provide sufficient information about the transaction for shareholders to understand the restructuring

National Instrument 52-107 *Acceptable Accounting Principles, Auditing Standards and Reporting Currency*, s.9.1 – Canadian GAAP and GAAS requirements - An issuer wants relief from the requirements to prepare financial statements and pro forma financial statements in accordance with Canadian GAAP and audit financial statements in accordance with Canadian GAAS, for certain financial statements that will be included in an information circular to be circulated in connection with an arrangement or reorganization - The issuer is only internally restructuring; the issuer's own financial statements are prepared in accordance with Canadian GAAP and reconciled to US GAAP, The issuer will include in the information circular financial statements and pro forma financial statements for the other entity that comply with US GAAP and US GAAS requirements

Securities Act, ss. 169(4)/11 - confidentiality - An applicant wants to keep an application and order confidential for a limited amount of time after the order is granted - The record provides intimate financial, personal or other information; the disclosure of the information before a specific transaction would be detrimental to the person affected; the information will be made available after a specific date

Applicable British Columbia Provisions

Securities Act, R.S.B.C. 1996, c. 418, ss. 11 and 169(4)

National Instrument 51-102, ss. 9.1 and 13.1

Form 51-102F5, Item 14.2

National Instrument 52-107, Parts 3 and 7, s. 9.1

In the Matter of
the Securities Legislation of

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Ontario, British Columbia, Alberta, Saskatchewan, Manitoba, Quebec, New Brunswick, Nova Scotia and Newfoundland and Labrador
(the "Jurisdictions")

and

In the Matter of
the Mutual Reliance Review System for Exemptive Relief Applications

and

In the Matter of
Extencare Inc.

MRRS Decision Document

Background

The local securities regulatory authority or regulator (the "Decision Maker") in each of the Jurisdictions has received an application (the "Application") from Extencare Inc. (the "Filer") for a decision under the securities legislation of the Jurisdictions (the "Legislation"):

1. for exemptions from the requirements in the Legislation (i) to prepare the financial statements of Assisted Living Concepts, Inc. ("ALC") appearing in the Filer's management proxy circular in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"); (ii) to audit the financial statements of ALC in accordance with Canadian Generally Accepted Auditing Standards ("GAAS"); (iii) to provide a statement by the auditor of ALC disclosing any material differences in the auditor's report and confirming that the auditing standards of the United States are substantially equivalent to Canadian GAAS; (iv) to provide a cross reference to the notes in the financial statements that reconcile the differences between the foreign GAAP and the Canadian GAAP; (v) to prepare pro forma financial statements of ALC in accordance with Canadian GAAP; and (vi) to provide the business acquisition disclosure that is required under the Legislation, in a management information circular of the Filer to be sent in connection with a special meeting of shareholders at which a reorganization transaction will be considered (the "Circular"), and
2. that the application and this MRRS Decision Document be maintained confidential until the earlier of:
 - (a) 30 days from the date of this MRRS Decision Document; and

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(b) such time as the Circular is mailed to shareholders.

(collectively, the “Requested Relief”).

Under the Mutual Reliance Review System for Exemptive Relief Applications:

- (a) the Ontario Securities Commission is the principal regulator for this application; and
- (b) this MRRS decision document evidences the Decision of each Decision Maker.

Interpretation

Defined terms contained in National Instrument 14-101 *Definitions* have the same meaning in this decision unless they are defined in this decision.

Representations

This decision is based on the following facts represented by the Filers:

3. Extendicare is a corporation governed by the *Canada Business Corporations Act* (the “CBCA”).
4. Extendicare is a reporting issuer in all the provinces of Canada. Extendicare is not, to its knowledge, in default of its reporting issuer obligations under the securities legislation of the provinces.
5. Extendicare’s primary operations are its long-term health care services, which it conducts through its skilled nursing and assisted living facilities.
6. As of the date hereof, the authorized share capital of Extendicare consists of an unlimited number of Subordinate Voting Shares, Multiple Voting Shares and Class I and Class II Preferred Shares.
7. As at July 1, 2006, Extendicare had 56,177,520 Subordinate Voting Shares, 11,778,433 Multiple Voting Shares, 84,305 Class I Preferred Shares, Series 2, 89,910 Class I Preferred Shares, Series 3, 244,640 Class I Preferred Shares, Series 4 and 382,979 Class II Preferred Shares, Series I outstanding.
8. Extendicare’s Subordinate Voting Shares, Multiple Voting Shares and preferred shares are listed on the Toronto Stock Exchange (the “TSX”). Extendicare’s Subordinate Voting Shares are also listed on the New York Stock Exchange (the “NYSE”).

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9. Extendicare is a registrant with the United States Securities and Exchange Commission (the "SEC") and is deemed a foreign private issuer thereby.
10. Extendicare's financial statements are prepared in accordance with Canadian GAAP using the Canadian dollar as both its functional and reporting currency. Extendicare prepares a Canadian-U.S. GAAP reconciliation in its notes to its consolidated financial statements. Extendicare's auditor is KPMG LLP, Toronto, Canada.
11. Extendicare Health Services, Inc. ("EHSI") is an indirect U.S. wholly-owned subsidiary of Extendicare. EHSI owns, directly or indirectly, the shares of most of Extendicare's subsidiaries in the United States. EHSI is a SEC registrant as it has publicly traded debt in the United States.
12. EHSI's financial statements are prepared in accordance with U.S. GAAP using the U.S. dollar as both its functional and reporting currency.
13. As of January 1, 2006, Extendicare, through EHSI, owned or leased 211 assisted living facilities in the United States, of which 177 facilities are owned or leased by ALC and 34 facilities are owned or leased by EHSI. As part of the spin-off transaction referred to in paragraph 15 below, EHSI has transferred or will be transferring 29 of its owned assisted living facilities to ALC.
14. ALC was acquired by EHSI on January 31, 2005. ALC has maintained separate historical financial reporting. ALC's financial statements are prepared in accordance with U.S. GAAP using the U.S. dollar as both its functional and reporting currency.
15. By press release dated May 31, 2006, Extendicare announced a proposed reorganization whereby (i) it will spin-off to holders of its Subordinate Voting Shares and Multiple Voting Shares almost all of its U.S. assisted living business, and (ii) convert its remaining business and the related assets, liabilities and operations into a real estate investment trust ("REIT"). The reorganization will be accomplished by way of a plan of arrangement (the "Arrangement") under the CBCA whereby (i) each holder of the Subordinate Voting Shares of Extendicare will receive one share of Class A common stock of ALC (being a subordinate voting share) and one unit of the new Extendicare REIT for each Subordinate Voting Share held and (ii) each holder of the Multiple Voting Shares of Extendicare will receive one share of Class B common stock of ALC (being a multiple voting share) and 1.075 units of the Extendicare REIT for each Multiple Voting Share held. As an alternative to

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the receipt of units of the new Extendicare REIT, non-exempt Extendicare Subordinate Voting or Multiple Voting shareholders resident in Canada will be entitled to receive one and 1.075, respectively, limited partnership units (“Exchangeable LP Units”) of a new limited partnership controlled by the REIT, which will be exchangeable into REIT units on a one-for-one basis subject to a maximum number of Exchangeable LP Units.

16. As part of the proposed transaction, EHSI has transferred or will transfer 29 of its assisted living facilities to ALC. The book value of the 29 facilities as at March 31, 2006 was equal to approximately 25% of the book value of ALC’s assets.
17. ALC has filed a registration statement on Form 10 in the United States with the SEC under the Securities Exchange Act of 1934 (the “Exchange Act”) with respect to its Class A common stock. ALC has applied to list the Class A common stock on the NYSE.
18. As required under the Exchange Act, the Form 10 filed by ALC contains the following financial statements prepared in accordance with U.S. GAAP:
 - (a) audited consolidated financial statements of ALC (as it existed prior to its acquisition by EHSI), being a consolidated balance sheet as of December 31, 2004 and 2003 and the related consolidated statements of operations, shareholders’ equity and cash flows for the three years ended December 31, 2004;
 - (b) audited combined financial statements of ALC (being a combination of the assisted living businesses owned by Extendicare as of December 31, 2005 and 2004) and the related combined statements of income, parent’s investment and cash flows for the three years ended December 31, 2005 (and only giving effect to the acquisition of ALC from the date of acquisition);
 - (c) comparative unaudited combined interim financial statements of ALC (being a combination of the assisted living businesses owned by Extendicare) for the six month period ended June 30, 2006 and 2005; and
 - (d) unaudited pro forma condensed combined statements of income of ALC for the year ended December 31, 2005 and for the six month period ended June 30, 2006 (assuming the separation from Extendicare was effective as of January 1, 2005) and unaudited pro forma condensed combined balance sheets of ALC as of June 30, 2006 (assuming the separation from Extendicare was effective as of such date).

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19. The financial statements in the Form 10 filed by ALC described in paragraphs 18(a) and 18(b) have been audited by KPMG LLP (Dallas and Milwaukee offices, respectively) in accordance with the standards of the Public Company Accounting Oversight Board, United States.
20. The financial statements described in paragraphs 18(b) and (c) above have been prepared to include all of Extendicare's assisted living business in the United States and are primarily a combination of (i) the assisted living facilities operated by EHSI prior to and after its acquisition of ALC, including giving effect to discontinued operations; (ii) the 177 assisted living facilities previously operated by ALC, which were acquired as a result of the acquisition of ALC in January 2005; and (iii) two assisted living facilities constructed during 2005 that are owned and operated by ALC. The pro forma financial statements described in paragraph 18(d) reflect certain adjustments, among others, to remove the five assisted living facilities being retained by EHSI.
21. The Arrangement will be subject, among other things, to court approval and approval of the holders of Extendicare's Multiple Voting Shares and Subordinate Voting Shares of Extendicare, voting on a class basis.
22. In connection with the shareholder meeting, Extendicare will prepare the Circular that will be sent to holders of its Multiple Voting Shares and Subordinate Voting Shares.
23. The Form 10 filed by ALC will be attached to or mailed with the Circular.
24. The Circular will contain or incorporate by reference the following financial statements (in addition to those contained in the Form 10):
 - (a) Extendicare's audited consolidated financial statements as at and for the years ended December 31, 2005 and 2004 (incorporated by reference on the same basis as if the Circular were a short form prospectus);
 - (b) Extendicare's interim financial statements for the six month periods ended June 30, 2006 and 2005 (incorporated by reference on the same basis as if the Circular were a short form prospectus);
 - (c) Extendicare REIT's audited balance sheet on or about the date of formation;

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- (d) Pro forma financial statements for the Extendicare REIT as at and for the year ended December 31, 2005 based on the following.
 - (i) historical Extendicare financial statements;
 - (ii) pro forma adjustments to remove ALC, based on financial information in accordance with Canadian GAAP and in Canadian dollars; and
 - (iii) pro forma adjustments to reflect the Extendicare REIT transactions; and
- (e) Pro forma interim financial statements for the Extendicare REIT for the six month period ended June 30, 2006, prepared on the same basis as set out in (d) above.

Decision

Each of the Decision Makers is satisfied that the test contained in the Legislation that provides the Decision Makers with the jurisdiction to make the decision has been met. The decision of the Decision Makers under the Legislation is that the Requested Relief is hereby granted, provided that:

- (a) the ALC financial statements are prepared in accordance with U.S. GAAP and U.S. GAAS,
- (b) the Circular contains the ALC financial statements described in paragraph 18 of this MRRS Decision Document, and
- (c) the Circular contains or incorporates by reference the financial statements described in paragraph 24 of this MRRS Decision Document.

John Hughes
Manager, Continuous Disclosure
Ontario Securities Commission