

EXTENDICARE

Health Services, Inc.

July 31, 2008

Mayor Gary Becker
City of Racine, WI
730 Washington Avenue
Racine WI 53403

Re: Letter of Intent: City Owned Land fronting on Newman Road

Dear Mayor Becker:

We are pleased to be initiating discussions with you regarding the possibility of Extendicare Health Facilities, Inc., or an affiliated entity ("Extendicare"), acquiring approximately 15 acres of wetland free, developable vacant land owned by the City of Racine, Wisconsin (hereafter referred to as either "Seller" or "City") located in the southwest quadrant of the City property bounded by Newman Road, Spring Street, and North Green Bay Road.

We hope to develop a new Skilled Nursing Facility and an adjacent Assisted Living facility at this location. We believe the citizens in the surrounding neighborhoods are currently underserved with skilled nursing facilities, and that this proposed development would provide many important community benefits for your constituents. This continuum of care concept provides the necessary support to elderly residents needing assistance with activities of daily living or skilled nursing care with rehabilitation therapy in order to return home following hospitalization or surgery.

The State of Wisconsin has strict controls on skilled nursing homes via the Certificate of Need regulations, and the State has not awarded any new beds for a very long time. The only way new skilled nursing facilities can be developed is for existing or banked beds to be used, which allows companies like Extendicare to assemble 'existing' beds from various locations with the intent to develop a new freestanding facility. Extendicare has banked beds at this time and is seeking the right location to use them. You may be aware that we are in the process of constructing a skilled nursing facility in the Town of Summit and both the concept and design have been well received.

One of the many community benefits for the City of Racine is the positive economic impact a development like these offers. Based on experience, we expect that the development costs for these two facilities will be approximately \$15,000,000. All work shall be bid to local and regional contractors. We expect to employ approximately 110 full-time equivalent employees for the skilled facility, and 15 to 20 full-time employees for the Assisted Living facility.

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This Letter of Intent (the "LOI") sets forth certain non-binding and non-contractual understandings regarding the proposed acquisition structure and terms. By execution of this LOI, Extencicare and Seller confirm our respective intentions with regard to the proposed transactions described herein.

This LOI is not intended to constitute a binding contract, an offer to enter into a contract, nor to create other obligations or rights between the parties; provided, however, the sections designated "Disclosure" and "Confidentiality" identify certain binding commitments that will govern our negotiations and interim due diligence processes.

Acquisition Structure and Terms

This LOI will confirm the present intention of the parties concerning a proposed transaction between Extencicare and Seller.

At this time, the parties are contemplating a real property acquisition, whereby Extencicare would purchase the Property ("Real Property Acquisition"). The parties agree that, upon the execution of this LOI and subject to the Section below titled Negotiation of the Definitive Agreement, they shall direct their respective legal counsel to prepare a definitive purchase agreement along with the relevant schedules and exhibits, which shall set forth the terms, covenants and conditions of the Real Property Acquisition and which shall include therein, without limitation, the terms, covenants and conditions set forth in this LOI (the "Definitive Agreement"). Extencicare shall prepare the initial draft of the Definitive Agreement.

The terms of the contemplated Real Property Acquisition are intended to include, but are not limited to, the following:

- 1) Real Property Acquisition. The Seller shall sell, transfer, convey and assign to Extencicare and Extencicare shall purchase and assume from the Seller, on the Closing Date set forth below, marketable and insurable title to the Property free and clear of any and all liens, restrictions, encumbrances, and third party interests of every nature and kind whatsoever, except for those interests which Extencicare permits to remain pursuant to the Definitive Agreement (the "Permitted Interests"). Extencicare shall have the absolute right to assign its rights to purchase the Assets to a corporate affiliate or affiliates. Extencicare shall not assume and Seller shall remain fully liable for, and indemnify and defend Extencicare against, any and all liabilities, indebtedness, commitments or obligations of any and all kind whatsoever which relate to the sale of the Property or the ownership and use of the Property prior to the Closing Date.

- 2) Closing Date. A Closing Date shall be at the end of a calendar month at a date determined by mutual agreement of the parties, and shall allow for a reasonable period of due diligence review, document preparation, and regulatory approvals.

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3) Purchase Price. Based upon the information provided to Extendicare prior to the date of this LOI and subject to completion of Extendicare's due diligence review to be described herein and in the Definitive Agreement, Extendicare shall pay the greater of the sum of Forty Thousand and 00/100 Dollars (\$40,000.00) per acre, approximately Six Hundred Thousand and 00/100 Dollars (\$600,000.00) (the "Purchase Price"), or the Appraised Value per acre. Such Appraisal to be performed by Mr. Gene Bock, with Southern Wisconsin Appraisal. The final Purchase Price shall be based upon the exact acreage as determined by the ALTA ASCM Survey of the Property described below. The Purchase Price shall be paid, in cash, in United States funds, on the Closing Date by wire transfer to Seller's account or by other means or methods as reasonably directed by Seller. The Closing of the transaction will not be subject to Extendicare obtaining financing of the Purchase Price; provided, however, Extendicare may arrange such financing at its discretion.

4) Title Insurance, Real Estate Surveys, Environmental Reports. The Seller shall be responsible for the payment of any and all costs incurred in Extendicare's obtaining a comprehensive Owner's title commitment and policy of title insurance with a comprehensive endorsement, a GAP endorsement and a 3.1 zoning endorsement. Extendicare shall have the right to select the title insurance company to issue such policies and endorsements, which shall be licensed to do business in the state where the Property is located. Extendicare shall order the title insurance commitment upon execution of the Definitive Agreement.

The Seller shall further be responsible for the payment of the ALTA/ASCM real estate survey to be delivered to Extendicare and the Title Insurance Company containing detail sufficient to remove any and all exceptions to title relating to the receipt of a survey and otherwise containing the detail reasonably required by Extendicare. Extendicare shall have the right to select the registered land surveyor to provide the survey and shall order the survey upon execution of the Definitive Agreement.

Extendicare shall be responsible for obtaining, at its sole cost and expense, an environmental Phase I report, and potential wetland boundary determination. The Seller shall provide to Extendicare within five (5) business days after execution of this LOI with a legible copy of any and all title insurance policies, real estate surveys and environmental reports, notices, demands or similar documents relating to environmental conditions.

5) Transaction Costs. The Seller shall pay for any and all transfer taxes, documentary stamp taxes, sales and/or excise taxes relating to the sale of the Property and recording of the transfer documents including, without limitation, the Warranty deed. The Seller shall be responsible for the removal, at its sole cost and expense, of any and all liens, restrictions and encumbrances relating to the Property, except for the Permitted Restrictions. The

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parties shall share equally in any escrow fees charged by the Title Company relating to the escrow closing of the transaction.

The preceding understanding does not constitute a complete statement of the intentions of the parties, nor does it constitute a legally binding or enforceable agreement or commitment to enter into a definitive purchase agreement. The parties shall not be contractually bound until such time as the parties have entered into the Definitive Agreement. The terms of the Definitive Agreement shall provide, without limitation, for the following conditions precedent to Extendicare's obligation to proceed to Closing:

- (a) Board of Director approval;
- (b) completion of the due diligence period provided herein and in the Definitive Agreement;
- (c) the receipt, review and approval of the title insurance commitment, policy and endorsements, the real estate survey, and the environmental reports;
- (d) the Property shall be zoned properly, in the sole determination of Extendicare, for the operation of a skilled nursing facility of no less than 120 beds and an assisted living facility of no less than 60 units;
- (e) Extendicare shall have received such certificates of occupancy, licenses and permits necessary to operate a skilled nursing facility and assisted living facility;
- (f) the Property shall have access to all necessary utilities as Extendicare may reasonably determine in its sole discretion; and
- (g) such other conditions precedent, representations and warranties customarily provided in such purchase agreement.

Interim Agreement

Upon your execution of this LOI, the following will constitute our legally binding and enforceable agreement regarding our commitments and an interim process and protocols.

Binding terms of this LOI are intended to include the following:

- 1) Due Diligence Review. Consummation of the transaction will be contingent, among other things, on Extendicare's completion of a satisfactory financial, legal, regulatory and business review of the Property.

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The preliminary due diligence period would commence on the execution date of this LOI and continue for a period of up to ninety (90) days, unless an extension is agreed to by the parties. During the due diligence period, the Seller will permit Extendicare and its agents to have reasonable access to the Property, all of the Property records and other information Extendicare may reasonably request in order to complete the due diligence.

- 2) Negotiation of Definitive Agreement. Within thirty (30) days following the execution of this LOI, Extendicare shall provide to the Seller a Definitive Purchase Agreement for review by the Seller and the parties shall exercise good faith and due diligence in the negotiation and execution of the Definitive Agreement.
- 3) Disclosure. Neither party will make any public disclosure or publicity release pertaining to the existence of this LOI or of the subject matter contained herein without having first obtained the written consent of the other party.
- 4) Confidentiality. Each party will ensure that it and its employees, representatives, other agents and affiliates agree to keep confidential all information provided by the other with respect to their Property, and will not disclose any such information to any third parties, or use such information if the transaction contemplated by this LOI is not consummated, provided that either party may disclose any such information if it so required by applicable law, regulation or legal process. The parties agree the terms of this confidentiality agreement survive the term or termination of this LOI.
- 5) Exclusivity. This LOI is delivered with the understanding that the Seller is not currently bound under any contract or agreement with any third party concerning a transaction with respect to the sale, lease, option or other transfer involving the Property. Further, the Seller covenants and agrees that from the date of execution of this LOI until both of the parties terminate the negotiations hereunder in writing, Seller will not, without the prior written approval of Extendicare, offer the Property for sale, solicit offers to buy, lease or option the Property or any portion thereof, hold discussions with any party (other than Extendicare) looking toward such an offer or solicitation or enter into any agreement of any nature or kind with any third party with respect to the Property.
- 6) Expenses. Except as set forth herein or otherwise agreed upon, each party shall bear its own costs and expenses in connection with the contemplated transaction.
- 7) Assignment. This LOI may not be assigned by either party without the express written consent of the other party except that it is agreed that Extendicare shall have the right to assign its rights hereunder and in the Definitive Purchase Agreement to an affiliated entity of Extendicare.

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- 8) Counterparts. This LOI may be executed in counterparts, each of which shall be deemed an original and together shall constitute one and the same instrument.

With 26 skilled nursing facilities within the state of Wisconsin and our headquarters based in Milwaukee, Extendicare has a strong commitment to the state. We look forward to future discussions and encourage you to visit our website at www.extendicare.com to learn more about our company, our vision, and the depth of our services.

If the above correctly sets forth your understanding of our intentions with respect to the transaction outlined above, please indicate by signing one of the two enclosed copies of this LOI and returning it to me by facsimile or email with a hard copy to follow by mail. Please retain the second copy for your records. Extendicare does not receive a signed copy of this LOI on or before the 15th day of August 2008, this LOI shall be deemed terminated.

Sincerely,
Extendicare Health Services, Inc.



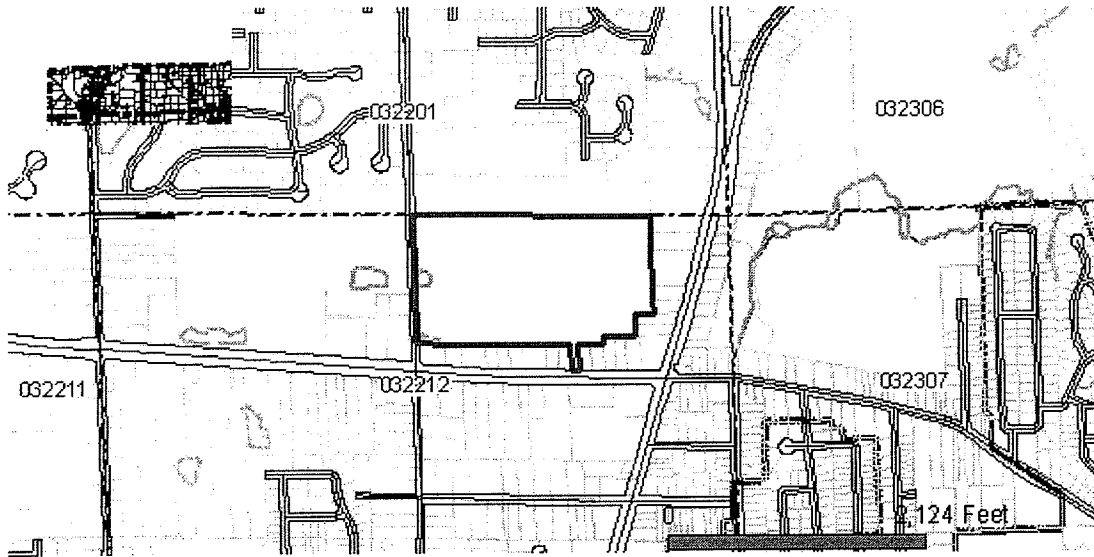
Bill Bryan
Vice President Design and Development

SELLER'S ACCEPTANCE OF LETTER OF INTENT

Approved and accepted by the undersigned, the Mayor of the City of Racine being fully authorized to do so by the Seller, as of the _____ day of July, 2008.

City of Racine, Wisconsin

By: _____
Gary Becker, Mayor



TAX ID

151-032212,02,000