



December 13, 2010

Dear Sunwest Claimants,

This letter represents my latest and probably final update regarding distributions and recoveries in the Stayton bankruptcy and Sunwest receivership cases. My firm has been gradually winding down its work on the case. We will soon transition all outstanding Sunwest-related matters to the Receiver, Michael Grassmueck, and his firm, The Grassmueck Group. I expect that future communications to Sunwest claimants will take place exclusively through The Grassmueck Group.

Cash and Rollover Equity on Hand. As of December 1, 2010, all 144 communities in Sunwest's Holdco portfolio have been acquired by the Blackstone-Emeritus joint venture. With proceeds from the transaction, plus Holdco and other cash, less payment of estate obligations such as closing-related costs, administrative costs, and taxes, and a reserve for future administration of the estate and contingencies, approximately \$228 million in cash and rollover equity is currently available for distribution to claimants.

Claims. On November 29, 2010, the Court granted the Receiver's Motion for Order Establishing Allowed Claim Amounts. While certain claimants are still working with the Receiver's office to reach settlements or otherwise resolve pending disputes, by far the bulk of claims against the estate have now been determined. Including a contingency to cover ongoing disputes, allowed claims plus settlement values entitled to pro rata distributions of cash and rollover equity total \$525 million.

Projected Recovery from First Distribution. Of the cash on hand, approximately \$15 million will be paid out in 100-cent dollars for administrative claims and the cash portion of LLC settlements. The remaining \$213 million of cash and rollover equity will be used to pay allowed claims, yielding a 40% return to claimants in this first distribution. The Receiver anticipates mailing the first round of distribution checks no later than December 31, 2010.

Tax Consent Forms. In making the first distribution the Receiver intends to comply with state tax withholding requirements where applicable. The Receiver has notified claimants who may be affected by these requirements and has supplied them with a tax consent form where possible. Affected claimants who have not already returned a signed consent form might not receive the amount or nature of distribution they expect based on their elections and the calculations presented in this letter.

For example, due to the nature of their limited liability company interests, certain LLC members might not receive rollover equity pursuant to their LLC settlements. If a member entered into an LLC settlement but has tax withholding requirements that exceed the amount of the member's aggregate cash distribution, that member will not receive rollover equity. Instead, his or her distribution will be made entirely in cash, from which the appropriate tax amount will be withheld. Investors should understand that receiving cash instead of rollover equity may impact their tax planning.

It is now too late to return tax consent forms to the Receiver and have them taken into account for the first distribution. However, affected investors may work with the Receiver after the distribution to determine how the withheld funds are ultimately disbursed.

Projected Recovery from Subsequent Distributions. Over the next few months an additional \$13 million from Holdco-related sources is expected to become available for distribution to claimants. We continue to estimate recoveries from Trustco—including real estate, Encore Indemnity Management, and non-real estate assets—in the range of \$35 to \$60 million. And finally, distributable recoveries from the Litigation Trust are currently estimated at \$43 million.

Holdco funds not available for first distribution	\$ 13 M
Trustco	39 M
Litigation Trust	<u>43 M</u>
Total from remaining sources	\$ 95 M

If the funds tallied above are distributed equally among all allowed claims, subsequent distributions may return an additional 19% on allowed claims, for a total recovery approaching 60%.¹ Please understand that these figures represent our best estimates at this time, and may vary considerably from actual results.

Rollover Member. Based on final claim and settlement amounts, but subject to adjustments due to the tax consent issue described above, investors representing roughly \$146 million or 28% of total claims will receive equity in Sunwest Rollover Member, LLC. Sunwest Rollover Member will therefore represent approximately \$58 million, consisting of \$43.7 million in common interests and \$14.6 million in preferred. Given the Blackstone acquirer's total common equity capitalization of approximately \$348 million, Sunwest Rollover Member will own 12.6% of the joint venture's common membership.

Future Inquiries. Most Sunwest inquiries should now be directed to the Receiver's office at 1-866-674-6791 or 503-294-9928, or sunwestclaims@grassmueckgroup.com. This includes questions about claims, settlements, tax consent forms, and address changes. If you have questions specifically related to the CRO's duties or to this letter (other than the tax consent issue) you may also contact Maren Cohn in the CRO's office at mcohn@hamstreet.net.

Sincerely,



Clyde A. Hamstreet
Chief Restructuring Officer

¹ Under the Distribution Plan investors and general unsecured creditors may not share equally in certain third party settlements. See Section VIII.B.3(ii) and (iii).