EXTENDICARE

FORM 51-102F4
BUSINESS ACQUISITION REPORT

Item 1 Identity of Company

1.1 Name and Address of Company

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

1.2 Executive Officer

The following executive officer of Extendicare is knowledgeable about the significant acquisition and this business acquisition report:

Elaine E. Everson
Vice President and Chief Financial Officer
(905) 470-5570

Item 2 Details of Acquisition

2.1 Nature of Business Acquired

On April 30, 2015, the Company, through one of its wholly owned subsidiaries, Extendicare (Canada) Inc. (the "**Purchaser**"), completed the acquisition (the "**Acquisition**") of the Canadian home health care business of Revera Inc. ("**Revera HHC**"), carried on through Revera Health Services Inc., Revera Health Services Clinic LP and Revera Health Services Homecare LP (each a "**Vendor**" and together the "**Vendors**"), each a wholly owned subsidiary of Revera Inc., pursuant to the terms of an Acquisition Agreement dated January 14, 2015, as amended, for $83.6 million in cash. Of the purchase price of $83.6 million, which is subject to a final working capital adjustment, $81.6 million was paid to the Vendors, and a purchase price holdback of $2.0 million is being held in escrow by the Vendors' counsel to indemnify the Purchaser in certain circumstances for any losses relating to volume reductions associated with specified government contracts.

Further information relating to the Acquisition is available in the Company's material change report dated January 23, 2015, filed on SEDAR at www.sedar.com under Extendicare's issuer profile.

The Acquisition brought together two leading Canadian private-sector home health care providers focused on quality, person-centred care and employee satisfaction. Extendicare has rebranded the Revera home health business under its ParaMed banner across six provinces (Ontario, British Columbia, Alberta, Quebec, Manitoba and Nova Scotia).

2.2 Acquisition Date

April 30, 2015

2.3 Consideration

The purchase price paid by the Purchaser was $83.6 million in cash, which included an estimated working capital adjustment of $0.6 million to the date of closing, subject to further adjustment, and a purchase price holdback of $2.0 million that is being held in escrow by the Vendors' counsel to indemnify the Purchaser in certain circumstances for any losses relating to volume reductions associated with specified government contracts.

The Purchaser financed the Acquisition with a bridge loan of $80 million (the "Bridge Loan") and cash on hand of $3.6 million. The Bridge Loan was outstanding from April 30, 2015 until July 2, 2015, and bore interest at an average interest rate of 5.93% per annum. In addition, financing fees incurred of $1.4 million have been recorded as part of the carrying value of the Bridge Loan and amortized using the effective interest method.

On July 2, 2015, the Bridge Loan was repaid in full using a portion of the proceeds from the sale of substantially all of the Company's U.S. business, which was completed effective July 1, 2015.

2.4 Effect on Financial Position

The effect of the Acquisition on the financial position of the Company is presented in the unaudited pro forma condensed combined financial statements of Extendicare attached hereto as Schedule "A".

Except as otherwise disclosed by Extendicare in its public filings on SEDAR at www.sedar.com under its issuer profile, Extendicare does not have any current plans for material changes in its business affairs or the business affairs of Revera HHC purchased from the Vendors which may have a significant effect on the financial performance or financial position of the Company.

2.5 Prior Valuations

Not applicable.

2.6 Parties to Transaction

Not applicable.

2.7 Date of Report

July 14, 2015

Item 3 Financial Statements and Other Information

The following financial statements are attached as Schedule “A” to this Report:

1. audited carve-out financial statements of Canadian home health care business of Revera Inc., as at December 31, 2014 and for the year ended December 31, 2014;

2. unaudited carve-out interim condensed financial statements of Canadian home health care business of Revera Inc., as at March 31, 2015 and for the three months ended March 31, 2015; and

3. unaudited pro forma condensed combined financial statements of Extendicare Inc. as at March 31, 2015 and for the year ended December 31, 2014 and the three-months ended March 31, 2015.

Schedule A

Index to Financial Statements

Historical Financial Statements of the Canadian Home Health Care Business of Revera Inc.

Unaudited Pro Forma Condensed Combined Financial Statements of Extendicare

CANADIAN HOME HEALTH CARE BUSINESS OF REVERA INC.

CARVE-OUT FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

Independent Auditor's Report

Grant Thornton LLP
19th Floor, Royal Bank Plaza South Tower
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Toronto, ON
M5J 2P9

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To the Directors of
Extendicare Inc.

We have audited the accompanying carve-out financial statements of Canadian Home Health Care Business of Revera Inc. (the "Division") as described in note 1 to the carve-out financial statements which comprise the carve-out balance sheet as at December 31, 2014, the carve-out statements of comprehensive income, changes in net investment and cash flows for the year ended December 31, 2014, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these carve-out financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of carve-out financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these carve-out financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the carve-out financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the carve-out financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the carve-out financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the division's preparation and fair presentation of the carve-out financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the division's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the carve-out financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the carve-out financial statements present fairly, in all material respects, the financial position of Canadian Home Health Care Business of Revera Inc. as at December 31, 2014 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Matter

Without modifying our opinion, we draw attention to Note 2 to the carve-out financial statements which describes that the carve-out financial statements for the Canadian Home Health Care Business of Revera Inc. as at December 31, 2013 and for the year ended December 31, 2013 were not audited or reviewed. Consequently we take no responsibility for the 2013 carve-out financial statements.

Grant Thornton LLP

Toronto, Canada
July 9. 2015

Chartered Accountants
Licensed Public Accountants

CANADIAN HOME HEALTH CARE BUSINESS OF REVERA INC.
CARVE-OUT BALANCE SHEET
(In thousands of Canadian dollars)

	Note	**As at December 31, 2014**	As at December 31, 2013 (unaudited)
Assets			
Cash		**9**	10
Trade and other receivables	*7*	**13,423**	12,840
Prepayments		**247**	204
Total current assets		**13,679**	13,054
Property and equipment, net	*6*	**4,121**	3,782
Intangible assets	*9*	**19,197**	20,942
Goodwill	*8*	**37,067**	37,067
Total non-current assets		**60,385**	61,791
Total assets		**74,064**	74,845
Liabilities			
Accounts payable and accrued liabilities	*10*	**14,811**	13,785
Long-term debt – current portion		**–**	331
Total current liabilities		**14,811**	14,116
Net investment	*14*	**59,253**	60,729
Total liabilities and net investment		**74,064**	74,845

The accompanying notes are an integral part of the financial statements.

CANADIAN HOME HEALTH CARE BUSINESS OF REVERA INC.

CARVE-OUT STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

(In thousands of Canadian dollars)

	Note	**2014**	2013 (unaudited)
Revenue		**188,415**	177,955
Expenses			
Operating expenses		**172,724**	161,614
General and administrative expenses		**4,752**	3,674
Total expenses		**177,476**	165,288
Income before undernoted		**10,939**	12,667
Depreciation of property and equipment	*6*	**735**	875
Amortization of intangible assets	*9*	**1,745**	1,745
Net loss (gain) on disposals of property and equipment	*6*	**157**	(269)
Income from operating activities		**8,302**	10,316
Finance costs, net		**53**	179
Net income		**8,249**	10,137
Total comprehensive income		**8,249**	10,137

The accompanying notes are an integral part of the financial statements.

CANADIAN HOME HEALTH CARE BUSINESS OF REVERA INC.
CARVE-OUT STATEMENT OF CHANGES IN NET INVESTMENT

(In thousands of Canadian dollars)

	Equity Attributable to the Owner of the Division
	$
As at December 31, 2012	**62,989**
Net income for the year	**10,137**
Distribution to parent	**(12,397)**
As at December 31, 2013	**60,729**[1]
As at December 31, 2013	**60,729**
Net income for the year	**8,249**
Distribution to parent	**(9,725)**
As at December 31, 2014	**59,253**

[1] Net investment as at December 31, 2013 is unaudited.

CANADIAN HOME HEALTH CARE BUSINESS OF REVERA INC.
CARVE-OUT STATEMENT OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

(In thousands of Canadian dollars)

	Note	**2014**	2013 (unaudited)
Net inflow (outflow) of cash related to the following activities:			
Operating			
Net income		**8,249**	10,137
Items not affecting cash:			
Depreciation of property and equipment	*6*	**735**	875
Amortization of intangible assets	*9*	**1,745**	1,745
Net loss (gain) on disposals of property and equipment	*6*	**157**	(269)
Change in trade and other receivables		**(583)**	1,000
Change in prepayments		**(43)**	114
Change in accounts payable and accrued liabilities		**1,026**	249
Cash generated by operating activities		**11,286**	13,851
Financing			
Repayment of long-term debt		**(331)**	-
Net distributions to parent		**(9,725)**	(12,397)
Cash used in financing activities		**(10,056)**	(12,397)
Investing			
Additions to property and equipment	*6*	**(1,231)**	(1,744)
Net proceeds from disposals of property and equipment	*6*	**–**	289
Cash used in investing activities		**(1,231)**	(1,455)
Change in cash		**(1)**	(1)
Cash, beginning of year		**10**	11
Cash, end of year		**9**	10

The accompanying notes are an integral part of the financial statements.

1. The Division

The Canadian Home Health Care Business of Revera Inc. (“Division”) Carve-Out Financial Statements present the historical carve-out financial position, results of operations, changes in net investment and cash flows of the Division. The Carve-out Financial Statements have been prepared on a carve-out basis and the results do not necessarily reflect what the results of operations, financial position, or cash flows would have been had the Division been a separate entity. The Division provides home care services in Ontario, Quebec, British Columbia, Alberta, Manitoba and Nova Scotia and clinic services in Quebec. The Division is a subsidiary of Revera Inc. (“Revera”). The registered office of Revera Inc. is 55 Standish Court, Mississauga, Ontario, L5R 4B2 Canada.

Revera’s investment in the Division, presented as Net Investment in the Carve-out Financial Statements, includes the accumulated net earnings and accumulated net distributions to Revera. The operating results of the Division have been specifically identified based on Revera’s existing structure. Certain other expenses presented in the Statement of Comprehensive Income represent allocations and estimates of the cost of services incurred by Revera. These allocations and estimates were based on methodologies that Management believes to be reasonable and include general and administrative expenses. The majority of the assets and liabilities of the Division have been identified based on the existing structure.

The Carve-out Financial Statements herein may not reflect the Division’s results of operations, financial position, and cash flows in the future or what the Division’s operations, financial position, and cash flows would have been if the Division had been a stand-alone Division. Revera’s direct investment in the Division is shown as Net Investment in place of Shareholders’ Equity because a direct ownership by shareholders in the Division does not exist at December 31, 2014.

These financial statements are presented in Canadian dollars as this is the currency of the primary economic environment in which the Division operates.

2. Basis of Presentation and Statement of Compliance

These carve-out financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as at and for the year ended December 31, 2014, including 2013 comparative periods that have not been audited or reviewed.

These financial statements were approved and authorized for issue, by the management of the Division, on July 9, 2015.

3. Significant Accounting Policies

(a) *Property and equipment*

Property and equipment is recorded at cost less accumulated depreciation and any impairment.

Included in property and equipment are land, buildings, furniture and equipment, and construction in progress. Property investments acquired under finance lease arrangements are depreciated over the expected period of use of the specific asset acquired.

i) Land Improvements

Land improvements, such as signage, are depreciated on a straight line basis over the estimated useful life of the improvement. The estimated useful life of the land improvements is 15 years.

ii) Leasehold Improvements

Leasehold improvements consist of modification made to leased facilities. The estimated useful lives are as follows:

Leasehold improvements	15 to 40 years

iii) Furniture and equipment

Furniture and equipment includes moveable furniture, moveable equipment, vehicles and information technology systems and are recorded at cost and depreciated on a straight line basis over the estimated useful life of the asset. The estimated useful lives are as follows:

Furniture and equipment (including computer hardware and software)	3 to 10 years

iv) Construction in Progress

Costs incurred for long-term projects are capitalized as construction in progress. Cost includes direct costs and indirect costs wholly attributable to the project.

(b) *Goodwill*

Goodwill arising in a business combination is recognized as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. Goodwill is allocated to the cash generating unit to which it relates. Cash generating units are identifiable groups of assets that are largely independent of the cash inflows from other assets or groups of assets.

(c) *Intangible assets*

Customer relationships are recorded at historical cost and represent the value of existing customer relationships acquired in an acquisition. Customer relationships are amortized over 15 years. The carrying value of customer relationships is assessed on an annual basis, or more frequently if required, to determine the existence of any impairment.

(d) *Impairment*

The Division's assets are reviewed for indications of impairment at each balance sheet date to determine if any events or changes in circumstances exist that would indicate that the carrying amount of an asset may not be recoverable over time. If indication of impairment exists, the asset's recoverable amount is estimated. The recoverable amount is the greater of the asset's fair value less costs to sell and value in use. Goodwill and indefinite life intangible assets are tested for impairment annually, or more frequently if required.

3. Significant Accounting Policies (continued)

An impairment loss is recognized when the carrying amount of an asset, or its cash-generating unit, exceeds its recoverable amount. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Impairment losses are recognized in net income for the period. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then to reduce the carrying amount of the indefinite life intangible assets and then to reduce the carrying amount of the definite life intangible assets and then to the property and equipment in the unit on a pro-rata basis.

Where an asset impairment loss subsequently reverses, except in the case of goodwill, which is non-reversible, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, without exceeding the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset (or cash-generating unit) in prior years.

(e) *Revenue*

Fees for home health care services and clinic services are recognized when the services are provided to clients, the collectability of revenue is assured and the amount of revenue is measurable. A significant amount of the Division's revenue is derived from contracts with provincial health authorities.

(f) *Leases*

Operating lease payments are expensed on a straight-line basis over the term of the relevant lease. Incentives received upon entry into an operating lease are recognized straight-line over the lease term.

(g) *Financial instruments*

Loans and receivables

Loans and receivables are initially recognized at the transaction value and subsequently carried at amortized cost less impairment losses. The impairment loss of receivables is based on a review of all outstanding amounts at period end. Bad debts are written off during the year in which they are identified.

Other financial liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

(h) *Employee benefits*

The Division participates in defined contribution pension plans for its employees. The Division's liability is limited to the employer contributions required to be made in connection with the various plans.

(i) *Self-insured liabilities*

The Division self-insures certain risks related to employee health benefits. The accrual for self-insured liabilities includes estimates of the costs of claims incurred but not reported and is based on estimates of loss based on assumptions made by management after taking into consideration past practices and industry norms. The Division's self-insurance program is administered by an independent third party. The accrual is included in accounts payable and accrued liabilities.

4. Changes in International Financial Reporting Standards

a. Adoption of IFRS standards

Effective January 1, 2014, the Division adopted the following IFRS standards effective for fiscal years beginning January 1, 2014:

i) *IAS 32 Amendment - Financial Instruments: Presentation (in effect for annual periods beginning Jan. 1, 2014)*

IAS 32, Financial Instruments: Presentation was amended by the IASB in December 2011. The amendment clarifies that an entity has a legally enforceable right to offset financial assets and financial liabilities if that right is not contingent on a future event and it is enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendment to IAS 32 is effective for annual periods beginning on or after January 1, 2014. The amendment to the standard did not have any impact on the Division's financial statements.

ii) *IFRIC 21 - Levies*

IFRIC 21, Levies was issued in May 2013 and is an interpretation of IAS 37, Provisions, Contingent Liabilities and Contingent Assets. The interpretation clarifies the obligating event that gives rise to a liability to pay a levy. IFRIC 21 is effective for periods beginning on or after January 1, 2014. IFRIC 21 did not have any impact on the Division's financial statements.

iii) *IAS 36 - Impairment of Assets*

IAS 36, Impairment of Assets, was amended by the IASB in May 2013. The amendments require the disclosure of the recoverable amount of impaired assets when an impairment loss has been recognized or reversed during the period and additional disclosures about the measurement of the recoverable amount of impaired assets when the recoverable amount is based on fair value less costs of disposal, including the discount rate when a present value technique is used to measure the recoverable amount. The amendments to IAS 36 are effective for annual periods beginning on or after January 1, 2014. The amendments to the standard did not have any impact on the Division's financial statements.

iv) *IAS 39 - Financial Instruments: Recognition and Measurement*

IAS 39, Financial Instruments: Recognition and Measurement, was amended by the IASB in June 2013. The amendments clarify that novation of a hedging derivative to a clearing counterparty as a consequence of laws or regulations or the introduction of laws or regulations does not terminate hedge accounting. The amendments to IAS 39 are effective for annual periods beginning on or after January 1, 2014. The amendments to the standard did not have any impact on the Division's financial statements.

v) *IFRS 3 – Business Combinations*

IFRS 3, Business Combinations, was amended by the IASB in December 2013. The amendments clarify the guidance in relation to contingent consideration. Contingent consideration will need to be revalued at each reporting date, with the change in fair value being recognized in profit or loss. The amendments to IFRS 3 are effective for annual periods beginning on or after July 1, 2014. The amendments to the standard did not have any impact on the Division's financial statements.

b. Pronouncements issued but not yet effective

The Division is currently evaluating the impact on its financial statements of the following:

i) *IFRS 9 - Financial Instruments (in effect for annual periods beginning Jan. 1, 2018)*

IFRS 9, issued in November 2009, introduces new requirements for the classification and measurement of financial assets. IFRS 9 amended in October 2010 includes the requirements for the classification and measurement of financial liabilities and for de-recognition. IFRS 9 will replace the standard IAS 39, Financial Instruments – Recognition and Measurement. In November 2013, the IASB issued a new version of IFRS 9 (IFRS 9 (2013)) which includes the new hedge accounting requirements and some related amendments to IAS 39, Financial Instruments: Recognition and Measurement and IFRS 7, Financial Instruments: Disclosures. The impact of this ongoing project will be assessed by the Division as remaining phases of the project are completed.

4. Changes in International Financial Reporting Standards (continued)

ii) *IFRS 15 – Revenue from Contracts with Customers (in effect for annual periods beginning Jan. 1, 2017)*

IFRS 15, issued in May 2014, is a comprehensive framework for recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the standard on leases, insurance contracts and financial instruments. The impact on the financial statements of the Division of this new standard is being assessed.

5. Critical Accounting Judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the amounts reported in the financial statements and accompanying notes. The recorded amounts for such items are based on management's best available information and judgment and accordingly, actual results could differ from estimates.

Use of estimates

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. The following are the estimates and assumptions that are critical to the financial statements:

(a) Useful lives and componentization of property and equipment and definite life intangible assets

Management estimates the useful lives of property and equipment and definite life intangible assets based on the period in which the assets are expected to be available for use. In addition, management applies judgment in determining the degree of componentization for each property. The amounts and timing of depreciation and amortization are affected by these estimated useful lives and componentization.

(b) Allowance for doubtful accounts receivable

Management estimates the collectability of accounts receivable in determining the allowance for doubtful accounts. The likelihood of collection is estimated based on the aging of accounts receivable. The allowance affects the valuation of accounts receivable.

(c) Retroactive wage accruals

Management estimates the retroactive wages that will be incurred when expired collective agreements are negotiated with the respective unions. Changes in the estimate of the rate of wage increase accrued will affect the valuation of accounts payable and accrued liabilities.

(d) Accruals for self-insured liabilities

Management estimates the amount of ultimate losses relating to claims incurred but not yet settled in relation to self-insurance programs covering risks of employee health benefit programs. The estimated amount of these claims affects the valuation of the accruals for self-insured liabilities.

5. Critical Accounting Judgments (continued)

Use of judgments

In the process of applying the accounting policies, the Division makes various judgments, apart from those involving estimations, that can significantly affect the amounts it recognizes in the financial statements. The following are the critical judgments that have been made in applying the Division's accounting policies in preparation of the financial statements:

(a) Business combinations

The Division's accounting policies relating to business combinations are described in Note 3(b). In applying these policies, judgment is applied in determining whether an acquisition meets the definition of a business combination or an asset acquisition by considering the nature of the assets acquired and the processes applied to those assets, or if the integrated set of assets and activities is capable of being conducted and managed for the purpose of providing a return to investors or other owners. The determination of whether an acquisition meets the definition of a business results in measurement differences on initial recognition of the acquired net assets. If the acquisition is determined to be a business combination these differences include the nature of deferred tax assets and liabilities that may be recorded and the requirement to recognize goodwill or a bargain purchase resulting in income, as applicable, for differences between the consideration provided and the fair value of the net assets acquired. Additionally, transaction costs incurred to effect a business combination are required to be expensed whereas for an asset acquisition transaction costs would be capitalized to the initial carrying amount of the acquired asset.

Goodwill has been allocated to the Division based on the properties associated with the former business combinations on which it arose.

(b) Allocated expenses

Salaries, benefits, pension costs, assets and liabilities have been allocated to the Division based on Management's best estimate of how services were historically provided by existing employees.

(c) Income taxes

Within Revera's current structure, the Division is a non-taxable entity and therefore no taxes have been allocated to the Division within these Carve-out Financial Statements.

(d) Determination of CGU

Management makes judgments on the determination of the CGU for purposes of assessing impairment. A CGU unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Management has assessed its cash generating unit at the entity level for home health care on the basis that these groups of assets generate cash inflows that are independent of cash inflows from other groups of assets.

Other critical judgments and accounting estimates

Other critical judgments and accounting estimates used in preparation of the Division's financial statements are: legal claims and classification of leases.

(In thousands of Canadian dollars, comparative information is unaudited)

6. Property and Equipment

The following table details the changes in property and equipment:

	Construction in Progress	Land Improvements	Leasehold Improvements	Furniture and Equipment	Total
	$	$	$	$	$
Cost or valuation					
At December 31, 2012	1,290	75	333	2,392	4,090
Additions	1,565	–	–	179	1,744
Disposals	–	(6)	–	(23)	(29)
Transfers	(35)	15	–	20	–
At December 31, 2013	2,820	84	333	2,568	5,805
Additions	1,015	–	6	210	1,231
Disposals	(2)	–	–	(250)	(252)
Transfers	(1,978)	4	939	1,035	–
At December 31, 2014	**1,855**	**88**	**1,278**	**3,563**	6,784
Accumulated depreciation					
At December 31, 2012	–	(5)	(245)	(907)	(1,157)
Charge for the year	–	(6)	(44)	(825)	(875)
Disposals	–	1	–	8	9
At December 31, 2013	–	(10)	(289)	(1,724)	(2,023)
Charge for the year	–	(6)	(105)	(624)	(735)
Disposals	–	–	–	95	95
At December 31, 2014	–	**(16)**	**(394)**	**(2,253)**	**(2,663)**
Carrying amount					
At December 31, 2014	**1,855**	**72**	**884**	**1,310**	**4,121**
At December 31, 2013	2,820	74	44	844	3,782

In the year ended December 31, 2014, the Division disposed of computer hardware and software to Revera for proceeds of $nil and recorded a loss of $157.

In the year ended December 31, 2013, the Division disposed of its New Brunswick operations for proceeds of $289 and recorded a gain of $269.

(In thousands of Canadian dollars, comparative information is unaudited)

7. Trade and Other Receivables

Trade and other receivables, net of allowances, consist of the following:

	December 31, 2014	December 31, 2013
	$	$
Trade receivables	**13,359**	12,419
Other receivables	**64**	421
	13,423	12,840

Trade and other receivables disclosed above are classified as loans and receivables and are therefore measured at amortized cost.

The Division's exposure to credit and currency risk and impairment losses related to trade and other receivables is disclosed in Note 13(b).

8. Goodwill

The changes in the carrying amount of goodwill are as follows:

	Cost	**Accumulated Impairment Losses**	**Total**
	$	$	$
December 31, 2012	39,067	–	39,067
Adjustment to purchase price allocation	(2,000)	–	(2,000)
December 31, 2013 and 2014	37,067	–	37,067

In the year ended December 31, 2013, the Division derecognized $2,000 in goodwill due to the write-down of a note payable which was previously assessed as consideration paid for a previous acquisition.

(In thousands of Canadian dollars, comparative information is unaudited)

9. Intangible Assets

The following table details the changes in intangible assets:

	Resident Contracts and Customer Relationships
	$
Cost or valuation	
At December 31, 2012 and 2013 and 2014	26,177
Accumulated amortization	
At December 31, 2012	(3,490)
Charge for the year	(1,745)
At December 31, 2013	(5,235)
Charge for the year	(1,745)
At December 31, 2014	**(6,980)**
Carrying amount	
At December 31, 2014	**19,197**
At December 31, 2013	20,942

10. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of the following:

	December 31, 2014	December 31, 2013
	$	$
Accounts payable	**625**	566
Accrued liabilities	**12,738**	12,088
Deferred revenue	**1,448**	1,131
	14,811	13,785

(In thousands of Canadian dollars, comparative information is unaudited)

11. Related Parties

The Division earned revenue from providing services to residents of retirement and long term care facilities owned and operated by Revera and/or other entities under common control of Revera. For the year ended December 31, 2014, $3,955 (2013 - $4,198) was received directly from those residents and $528 (2013 - $438) was received from the facilities themselves.

The Division does not have key management personnel as it receives strategic and administrative, property management, leasing, acquisition and disposition, financing and construction management services necessary to manage the day-to-day operations from Revera.

The Division has the use of computer hardware and software which have been leased by Revera. The value of this computer hardware and software is $218 and no portion is paid by the Division.

12. Commitments

Operating lease payments relate primarily to rentals payable by the Division for certain of its office properties. At the balance sheet date, the Division had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

Year	Amount
	$
2015	1,514
2016	948
2017	739
2018	684
2019	189
Thereafter	nil
Total	4,074

13. Financial Instruments and Financial Risk Management

The Division operates a portion of its business in regulated environments. These activities result in various financial risks including changes in government regulatory controls. In addition, the Division is subject to other financial risks associated with the operations of its business. The following describes these financial risks and how they are managed by the Division and the fair values of these financial instruments.

(a) *Regulatory Risk*

For the year ended December 31, 2014, approximately 94.4% (2013 – 93.4%) of the Division's revenues were subject to rates set by government agencies. These government agencies (the "agency" or "agencies") set the rates which the Division can charge for services to the clients. However, these agencies can change the amount which the Division is permitted to charge at any time, retroactively if required.

(In thousands of Canadian dollars, comparative information is unaudited)

13. Financial Instruments and Financial Risk Management (continued)

(b) *Credit Risk*

The Division is exposed to credit risk in the collection of its accounts receivable. The Division is exposed to normal credit risk from customers. The Division has two significant categories of customers: government funding authorities and individual private clients. Government customers are comprised of various provincial governments. Credit risk associated with government customers arises from amounts that become uncollectible because of disputes or missed billing windows. No single private client or government funding authority represents a significant concentration of the Division's accounts receivable at December 31, 2014 or December 31, 2013.

In determining the recoverability of a trade receivable the Division considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated.

The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Division’s maximum exposure to credit risk as no collateral or other credit enhancements are held.

The aging of receivables past due but not impaired is as follows:

	As at December 31,	
	2014	2013
	$	$
0 – 30 days	**5,545**	6,331
31 – 60 days	**1,515**	1,492
61 – 90 days	**334**	114
Over 90 days	**453**	452
	7,847	8,389
Allowance for doubtful accounts	**(651)**	(1,045)
Net receivables past due but not impaired	**7,196**	7,344

(In thousands of Canadian dollars, comparative information is unaudited)

13. Financial Instruments and Financial Risk Management (continued)

The continuity of the allowance for doubtful accounts is as follows:

	$
Balance at December 31, 2012	(953)
Provision for receivables during the year	(302)
Receivables written off during the year	210
Balance at December 31, 2013	(1,045)
Provision for receivables during the year	(159)
Receivables written off during the year	553
Balance at December 31, 2014	**(651)**

(c) *Liquidity Management*

Ultimate responsibility for liquidity risk management rests with senior management, which has established an appropriate liquidity risk management framework for the management of the Division’s short, medium and long-term funding and liquidity management requirements. The Division manages liquidity risk via a centralized Corporate Treasury function using sources of financing from other entities and investing excess liquidity. The Division maintains adequate reserves, by continuously monitoring forecast and actual cash flows and by matching the maturity profiles of financial assets and liabilities.

(d) *Fair Value*

Fair value represents management's estimates of the current market value at a given point in time. The fair values of cash, trade and other receivables, accounts payable and accrued liabilities approximate the carrying values of these assets and liabilities at December 31, 2014, due to their short term nature.

The following table describes the classification the Division has elected to apply to each of its significant categories of instruments:

Cash and cash equivalents	Loans and receivables
Trade and other receivables	Loans and receivables
Accounts payable and accrued liabilities	Other liabilities

(e) *Other Inflationary Risks*

The Division incurs financial risks associated with inflationary impacts arising from general increases in wages and benefits in its primary markets, as wages and benefits account for a significant amount of the Division’s operating expenses. These inflationary impacts are partly controlled through multi-year wage and benefit agreements with the various unions that represent a majority of the Division’s employee base, as well as thefact that the Division has the discretion to increase rent rates to cover increases in wage and benefit cost. The Division does not enter into any specific derivative or financial instruments to mitigate this risk.

14. Net Investment

Revera's investment in the operations of the Division is presented as Net Investment in the Carve-out Financial Statements. Net Investment represents the accumulated net earnings of the operations and the accumulated net distributions to Revera.

Net financing transactions with Revera as presented on the Carve-Out Statement of Cash Flows represent the net distributions related to funding between the Division and Revera.

15. Subsequent Events

On April 30, 2015 the Division was purchased from Revera Inc. by Extendicare Inc.

Subsequent to year end, the Division received confirmation from the Ontario government concerning re-imbursement of specific costs relating to a mandated personal support worker wage rate increase in the amount of $189.

CANADIAN HOME HEALTH CARE BUSINESS OF REVERA INC.

CARVE-OUT INTERIM CONDENSED FINANCIAL STATEMENTS

FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2015

(UNAUDITED)

CANADIAN HOME HEALTH CARE BUSINESS OF REVERA INC.
CARVE-OUT INTERIM CONDENSED BALANCE SHEET

(In thousands of Canadian dollars) (Unaudited)

	Note	**As at March 31, 2015**	As at December 31, 2014
Assets			
Cash		**9**	9
Trade and other receivables	*7*	**14,517**	13,423
Prepayments		**174**	247
Total current assets		**14,700**	13,679
Property and equipment, net	*6*	**4,014**	4,121
Intangible assets	*9*	**18,761**	19,197
Goodwill	*8*	**37,067**	37,067
Total non-current assets		**59,842**	60,385
Total assets		**74,542**	74,064
Liabilities			
Accounts payable and accrued liabilities	*10*	**15,059**	14,811
Net investment	*12*	**59,483**	59,253
Total liabilities and net investment		**74,542**	74,064

The accompanying notes are an integral part of the financial statements.

CANADIAN HOME HEALTH CARE BUSINESS OF REVERA INC.

CARVE-OUT INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME

FOR THE PERIODS ENDED MARCH 31, 2015 AND 2014

(In thousands of Canadian dollars) (Unaudited)

	Note	**2015**	2014
Revenue		**47,582**	44,298
Expenses			
Operating expenses		**42,491**	41,437
General and administrative expenses		**1,838**	1,285
Total expenses		**44,329**	42,722
Income before undernoted		**3,253**	1,576
Depreciation of property and equipment	*6*	**165**	203
Amortization of intangible assets	*9*	**436**	436
Net loss on disposals of property and equipment	*6*	**10**	–
Income from operating activities		**2,642**	937
Finance costs, net		**37**	25
Net income		**2,605**	912
Total comprehensive income		**2,605**	912

The accompanying notes are an integral part of the financial statements.

CANADIAN HOME HEALTH CARE BUSINESS OF REVERA INC.
CARVE-OUT INTERIM CONDENSED STATEMENT OF CHANGES IN NET INVESTMENT

(In thousands of Canadian dollars) (Unaudited)

	Equity Attributable to the Owner of the Division
	$
As at December 31, 2013	**60,729**
Net income for the period	**912**
Net distributions to parent	**(750)**
As at March 31, 2014	**60,891**
As at December 31, 2014	**59,253**
Net income for the period	**2,605**
Net distributions to parent	**(2,375)**
As at March 31, 2015	**59,483**

CANADIAN HOME HEALTH CARE BUSINESS OF REVERA INC.
CARVE-OUT INTERIM CONDENSED STATEMENT OF CASH FLOWS

FOR THE PERIODS ENDED MARCH 31, 2015 AND 2014

(In thousands of Canadian dollars) (Unaudited)

	Note	**2015**	2014
Net inflow (outflow) of cash related to the following activities:			
Operating			
Net income for the period		**2,605**	912
Items not affecting cash:			
Depreciation of property and equipment	*6*	**165**	203
Amortization of intangible assets	*9*	**436**	436
Net loss (gain) on disposals of property and equipment	*6*	**10**	–
Change in trade and other receivables		**(1,094)**	200
Change in prepayments		**73**	(342)
Change in accounts payable and accrued liabilities		**248**	6
Cash generated by operating activities		**2,443**	1,415
Financing			
Repayment of long-term debt		**–**	(331)
Net distributions to parent		**(2,375)**	(750)
Cash used in financing activities		**(2,375)**	(1,081)
Investing			
Additions to property and equipment	*6*	**(68)**	(335)
Cash used in investing activities		**(68)**	(335)
Change in cash and cash equivalents		**–**	(1)
Cash, beginning of period		**9**	10
Cash, end of period		**9**	9

The accompanying notes are an integral part of the financial statements.

1. The Division

The Canadian Home Health Care Business of Revera Inc. ("Division") Carve-Out Financial Statements present the historical carve-out financial position, results of operations, changes in net investment and cash flows of the Division. The Carve-out Financial Statements have been prepared on a carve-out basis and the results do not necessarily reflect what the results of operations, financial position, or cash flows would have been had the Division been a separate entity. The Division provides home care services in Ontario, Quebec, British Columbia, Alberta, Manitoba and Nova Scotia and clinic services in Quebec. The Division is a subsidiary of Revera Inc. ("Revera"). The registered office of Revera Inc. is 55 Standish Court, Mississauga, Ontario, L5R 4B2 Canada.

Revera's investment in the Division, presented as Net Investment in the Carve-out Financial Statements, includes the accumulated net earnings and accumulated net distributions to Revera. The operating results of the Division have been specifically identified based on Revera's existing structure. Certain other expenses presented in the Statement of Comprehensive Income represent allocations and estimates of the cost of services incurred by Revera. These allocations and estimates were based on methodologies that Management believes to be reasonable and include general and administrative expenses. The majority of the assets and liabilities of the Division have been identified based on the existing structure.

The Carve-out Financial Statements herein may not reflect the Division's results of operations, financial position, and cash flows in the future or what the Division's operations, financial position, and cash flows would have been if the Division had been a stand-alone Division. Revera's direct investment in the Division is shown as Net Investment in place of Shareholders' Equity because a direct ownership by shareholders in the Division does not exist at December 31, 2014.

These financial statements are presented in Canadian dollars as this is the currency of the primary economic environment in which the Division operates.

2. Basis of Presentation and Statement of Compliance

These carve-out interim condensed financial statements for the three month period ended March 31, 2015 have been prepared in accordance with IAS 34, 'Interim Financial Reporting'. The carve-out interim condensed financial statements should be read in conjunction with the carve-out financial statements for the year ended December 31, 2014, which have been prepared in accordance with IFRS.

These financial statements were approved and authorized for issue, by the management of the Division, on July 10, 2015.

3. Significant Accounting Policies

(a) *Property and equipment*

Property and equipment is recorded at cost less accumulated depreciation and any impairment.

Included in property and equipment are land, buildings, furniture and equipment, and construction in progress. Property investments acquired under finance lease arrangements are depreciated over the expected period of use of the specific asset acquired.

i) Land Improvements

Land improvements, such as signage, are depreciated on a straight line basis over the estimated useful life of the improvement. The estimated useful life of the land improvements is 15 years.

ii) Leasehold Improvements

Leasehold improvements consist of modification made to leased facilities. The estimated useful lives are as follows:

Leasehold improvements	15 to 40 years

iii) Furniture and equipment

Furniture and equipment includes moveable furniture, moveable equipment, vehicles and information technology systems and are recorded at cost and depreciated on a straight line basis over the estimated useful life of the asset. The estimated useful lives are as follows:

Furniture and equipment (including computer hardware and software)	3 to 10 years

iv) Construction in Progress

Costs incurred for long-term projects are capitalized as construction in progress. Cost includes direct costs and indirect costs wholly attributable to the project.

(b) *Goodwill*

Goodwill arising in a business combination is recognized as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. Goodwill is allocated to the cash generating unit to which it relates. Cash generating units are identifiable groups of assets that are largely independent of the cash inflows from other assets or groups of assets.

(c) *Intangible assets*

Customer relationships are recorded at historical cost and represent the value of existing customer relationships acquired in an acquisition. Customer relationships are amortized over 15 years. The carrying value of customer relationships is assessed on an annual basis, or more frequently if required, to determine the existence of any impairment.

(d) *Impairment*

The Division's assets are reviewed for indications of impairment at each balance sheet date to determine if any events or changes in circumstances exist that would indicate that the carrying amount of an asset may not be recoverable over time. If indication of impairment exists, the asset's recoverable amount is estimated. The recoverable amount is the greater of the asset's fair value less costs to sell and value in use. Goodwill and indefinite life intangible assets are tested for impairment annually, or more frequently if required.

3. Significant Accounting Policies (continued)

An impairment loss is recognized when the carrying amount of an asset, or its cash-generating unit, exceeds its recoverable amount. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Impairment losses are recognized in net income for the period. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then to reduce the carrying amount of the indefinite life intangible assets and then to reduce the carrying amount of the definite life intangible assets and then to the property and equipment in the unit on a pro-rata basis.

Where an asset impairment loss subsequently reverses, except in the case of goodwill, which is non-reversible, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, without exceeding the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset (or cash-generating unit) in prior years.

(e) *Revenue*

Fees for home health care services and clinic services are recognized when the services are provided to clients, the collectability of revenue is assured and the amount of revenue is measurable. A significant amount of the Division's revenue is derived from contracts with provincial health authorities.

(f) *Leases*

Operating lease payments are expensed on a straight-line basis over the term of the relevant lease. Incentives received upon entry into an operating lease are recognized straight-line over the lease term.

(g) *Financial instruments*

<u>Loans and receivables</u>

Loans and receivables are initially recognized at the transaction value and subsequently carried at amortized cost less impairment losses. The impairment loss of receivables is based on a review of all outstanding amounts at period end. Bad debts are written off during the year in which they are identified.

<u>Other financial liabilities</u>

Other financial liabilities are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

(h) *Employee benefits*

The Division participates in defined contribution pension plans for its employees. The Division's liability is limited to the employer contributions required to be made in connection with the various plans.

(i) *Self-insured liabilities*

The Division self-insures certain risks related to employee health benefits. The accrual for self-insured liabilities includes estimates of the costs of claims incurred but not reported and is based on estimates of loss based on assumptions made by management after taking into consideration past practices and industry norms. The Division's self-insurance program is administered by an independent third party. The accrual is included in accounts payable and accrued liabilities.

4. Changes in International Financial Reporting Standards

(a) *Pronouncements issued but not yet effective*

The Division is currently evaluating the impact on its financial statements of the following:

i) *IFRS 9 - Financial Instruments (in effect for annual periods beginning Jan. 1, 2018)*

4. Changes in International Financial Reporting Standards (continued)

IFRS 9, issued in November 2009, introduces new requirements for the classification and measurement of financial assets. IFRS 9 amended in October 2010 includes the requirements for the classification and measurement of financial liabilities and for de-recognition. IFRS 9 will replace the standard IAS 39, Financial Instruments – Recognition and Measurement. In November 2013, the IASB issued a new version of IFRS 9 (IFRS 9 (2013)) which includes the new hedge accounting requirements and some related amendments to IAS 39, Financial Instruments: Recognition and Measurement and IFRS 7, Financial Instruments: Disclosures. The impact of this ongoing project will be assessed by the Division as remaining phases of the project are completed.

ii) *IFRS 15 – Revenue from Contracts with Customers (in effect for annual periods beginning Jan. 1, 2017)*

IFRS 15, issued in May 2014, is a comprehensive framework for recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the standard on leases, insurance contracts and financial instruments. The impact on the financial statements of the Division of this new standard is being assessed.

5. Critical Accounting Judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the amounts reported in the financial statements and accompanying notes. The recorded amounts for such items are based on management's best available information and judgment and accordingly, actual results could differ from estimates.

Use of estimates

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. The following are the estimates and assumptions that are critical to the financial statements:

(a) Useful lives and componentization of property and equipment and definite life intangible assets

Management estimates the useful lives of property and equipment and definite life intangible assets based on the period in which the assets are expected to be available for use. In addition, management applies judgment in determining the degree of componentization for each property. The amounts and timing of depreciation and amortization are affected by these estimated useful lives and componentization.

(b) Allowance for doubtful accounts receivable

Management estimates the collectability of accounts receivable in determining the allowance for doubtful accounts. The likelihood of collection is estimated based on the aging of accounts receivable. The allowance affects the valuation of accounts receivable.

(c) Retroactive wage accruals

Management estimates the retroactive wages that will be incurred when expired collective agreements are negotiated with the respective unions. Changes in the estimate of the rate of wage increase accrued will affect the valuation of accounts payable and accrued liabilities.

(d) Accruals for self-insured liabilities

Management estimates the amount of ultimate losses relating to claims incurred but not yet settled in relation to self-insurance programs covering risks of employee health benefit programs. The estimated amount of these claims affects the valuation of the accruals for self-insured liabilities.

For some of these liabilities, management provides relevant data (e.g. historical claims, payroll data and employee benefit usage) to third party actuaries, who then prepare a valuation of the relevant provision.

5. Critical Accounting Judgments (continued)

Use of judgments

In the process of applying the accounting policies, the Division makes various judgments, apart from those involving estimations, that can significantly affect the amounts it recognizes in the financial statements. The following are the critical judgments that have been made in applying the Division's accounting policies in preparation of the financial statements:

(a) Business combinations

The Division's accounting policies relating to business combinations are described in Note 3(b). In applying these policies, judgment is applied in determining whether an acquisition meets the definition of a business combination or an asset acquisition by considering the nature of the assets acquired and the processes applied to those assets, or if the integrated set of assets and activities is capable of being conducted and managed for the purpose of providing a return to investors or other owners. The determination of whether an acquisition meets the definition of a business results in measurement differences on initial recognition of the acquired net assets. If the acquisition is determined to be a business combination these differences include the nature of deferred tax assets and liabilities that may be recorded and the requirement to recognize goodwill or a bargain purchase resulting in income, as applicable, for differences between the consideration provided and the fair value of the net assets acquired. Additionally, transaction costs incurred to effect a business combination are required to be expensed whereas for an asset acquisition transaction costs would be capitalized to the initial carrying amount of the acquired asset.

Goodwill has been allocated to the Division based on the properties associated with the former business combinations on which it arose.

(b) Allocated expenses

Salaries, benefits, pension costs, assets and liabilities have been allocated to the Division based on Management's best estimate of how services were historically provided by existing employees.

(c) Income taxes

Within Revera's current structure the Division is a non-taxable entity and therefore no taxes have been allocated to the Division within these Carve-out Financial Statements.

(d) Determination of CGU

Management makes judgments on the determination of the CGU for purposes of assessing impairment. A CGU unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Management has assessed its cash generating unit at the entity level for home health care on the basis that these groups of assets generate cash inflows that are independent of cash inflows from other groups of assets.

Other critical judgments and accounting estimates

Other critical judgments and accounting estimates used in preparation of the Division's financial statements are: legal claims and classification of leases.

(In thousands of Canadian dollars) (Unaudited)

6. Property and Equipment

The following table details the changes in property and equipment:

	Construction in Progress	Land Improvements	Leasehold Improvements	Furniture and Equipment	Total
	$	$	$	$	$
Cost or valuation					
At December 31, 2013	2,820	84	333	2,568	5,805
Additions	1,015	–	6	210	1,231
Disposals	(2)	–	–	(250)	(252)
Transfers	(1,978)	4	939	1,035	–
At December 31, 2014	1,855	88	1,278	3,563	6,784
Additions	63	–	–	5	68
Disposals	(3)	–	(9)	(6)	(18)
Transfers	(67)	2	28	37	–
At March 31, 2015	**1,848**	**90**	**1,297**	**3,599**	6,834
Accumulated depreciation					
At December 31, 2013	–	(10)	(289)	(1,724)	(2,023)
Charge for the year	–	(6)	(105)	(624)	(735)
Disposals	–	–	–	95	95
At December 31, 2014	–	(16)	(394)	(2,253)	(2,663)
Charge for the year	–	(2)	(27)	(136)	(165)
Disposals	–	–	3	5	8
At March 31, 2015	–	**(18)**	**(418)**	**(2,384)**	**(2,820)**
Carrying amount					
At March 31, 2015	**1,848**	**72**	**879**	**1,215**	**4,014**
At December 31, 2014	1,855	72	884	1,310	4,121

In the three month period ended March 31, 2015, the Division has replaced property and equipment in the normal course of business for nominal proceeds and recorded a loss of $10.

(In thousands of Canadian dollars) (Unaudited)

7. Trade and Other Receivables

Trade and other receivables, net of allowances, consist of the following:

	March 31, 2015	December 31, 2014
	$	$
Trade receivables	**14,242**	13,359
Other receivables	**275**	64
	14,517	13,423

Trade and other receivables disclosed above are classified as loans and receivables and are therefore measured at amortized cost.

8. Goodwill

The changes in the carrying amount of goodwill are as follows:

	Cost	**Accumulated Impairment Losses**	**Total**
	$	$	$
December 31, 2014 and **March 31, 2015**	37,067	–	37,067

(In thousands of Canadian dollars) (Unaudited)

9. Intangible Assets

The following table details the changes in intangible assets:

	Resident Contracts and Customer Relationships
	$
Cost or valuation	
At December 31, 2014 and **March 31, 2015**	26,177
Accumulated amortization	
At December 31, 2013	(5,235)
Charge for the year	(1,745)
At December 31, 2014	(6,980)
Charge for the period	(436)
At March 31, 2015	**(7,416)**
Carrying amount	
At March 31, 2015	**18,761**
At December 31, 2014	19,197

10. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consists of the following:

	March 31, 2015	December 31, 2014
	$	$
Accounts payable	**465**	625
Accrued liabilities	**13,146**	12,738
Deferred revenue	**1,448**	1,448
	15,059	14,811

11. Related Parties

The Division earned revenue from providing services to residents of retirement and long term care facilities owned and operated by Revera and/or other entities under common control of Revera. For the three month period ended March 31, 2015, $886 (March 31, 2014 - $984) was received directly from those residents and $82 (March 31, 2014 - $109) was received from the facilities themselves.

The Division does not have key management personnel as it receives strategic and administrative, property management, leasing, acquisition and disposition, financing and construction management services necessary to manage the day-to-day operations from Revera.

The Division has the use of computer hardware and software which have been leased by Revera. The value of this computer hardware and software is $236 and no portion is paid by the Division.

12. Net Investment

Revera's investment in the operations of the Division is presented as Net Investment in the Carve-out Financial Statements. Net Investment represents the accumulated net earnings of the operations and the accumulated net distributions to Revera.

Net financing transactions with Revera as presented on the Carve-Out Statement of Cash Flows represent the net distributions related to funding between the Division and Revera.

13. Subsequent Events

On April 30, 2015 the Division was purchased from Revera Inc. by Extendicare Inc.

Unaudited Pro Forma Condensed Combined Financial Statements of Extendicare Inc.

as at March 31, 2015 and for the year ended December 31, 2014
and the three-months ended March 31, 2015

Extendicare Inc.
Unaudited Pro Forma Condensed Combined Statement of Loss
Year ended December 31, 2014

(in thousands of Canadian dollars except for per share amounts)	Extendicare Inc.	Canadian Home Health Care Business of Revera Inc.	*notes*	Pro Forma Adjustments	Pro Forma Combined
CONTINUING OPERATIONS	*note 7*				
Revenue					
Nursing and assisted living centres	583,678	-		-	583,678
Home health care	185,491	188,415		-	373,906
Health technology services	32,165	-		-	32,165
Management, consulting and other	14,785	-		-	14,785
Total revenue	816,119	188,415		-	1,004,534
Operating expenses	708,096	172,724	*5e*	1,730	882,550
Administrative costs	28,293	4,752	*5e*	(3,516)	29,529
Lease costs	5,064	-	*5e*	1,786	6,850
Total expenses	741,453	177,476		-	918,929
Earnings before depreciation, amortization, loss from asset impairment, disposals and other items	74,666	10,939		-	85,605
Depreciation and amortization	23,844	2,480	*5d, 5e*	1,368	27,692
Loss from asset impairment, disposals and other items	3,254	157	*5b, 5e*	(855)	2,556
Earnings before net finance costs and income taxes	47,568	8,302		(513)	55,357
Interest expense	32,905	56	*5c*	6,009	38,970
Accretion of decommissioning provisions	349	-		-	349
Other accretion	1,827	-		-	1,827
Interest revenue	(3,835)	(3)		-	(3,838)
Fair value adjustments	(296)	-		-	(296)
Net finance costs	30,950	53		6,009	37,012
Earnings before income taxes	16,618	8,249		(6,522)	18,345
Income tax expense				-	
Current	4,063	-	*5c, 5d, 5f*	140	4,203
Deferred	1,486	-	*5b, 5c, 5d, 5f*	318	1,804
Total income tax expense	5,549	-		458	6,007
Earnings from continuing operations	11,069	8,249		(6,980)	12,338
DISCONTINUED OPERATIONS					
Loss from discontinued operations, net of income taxes	(29,822)	-		-	(29,822)
Net earnings (loss)	(18,753)	8,249		(6,980)	(17,484)
Basic and Diluted Earnings (Loss) per Share					
Earnings from continuing operations	0.13		*6*	0.01	0.14
Loss from discontinued operations	(0.34)		*6*	-	(0.34)
Net loss	(0.21)		*6*	0.01	(0.20)

See accompanying notes to unaudited pro forma condensed combined financial statements.

Extendicare Inc.

Unaudited Pro Forma Condensed Combined Statement of Comprehensive Loss

Year ended December 31, 2014

(in thousands of Canadian dollars)	Extendicare Inc.	Canadian Home Health Care Business of Revera Inc.	*notes*	Pro Forma Adjustments	Pro Forma Combined
Net earnings (loss)	(18,753)	8,249	*5a, 5b, 5c, 5d, 5e, 5f*	(6,980)	(17,484)
Other comprehensive income, net of income taxes					
Items that will not be reclassified to profit or loss:					-
Defined benefit plan actuarial loss, net of tax recovery of $1,124	(3,116)	-		-	(3,116)
Total items that will not be reclassified to profit or loss	(3,116)	-		-	(3,116)
Items that are or may be reclassified subsequently to profit or loss:					
Unrealized gain on available-for-sale securities, net of tax of nil	3,085	-		-	3,085
Reclassification of realized gain on available-for-sale securities to earnings, net of tax of nil	(194)			-	(194)
Net change in foreign currency translation adjustment	14,764			-	14,764
Total items that are or may be reclassified subsequently to profit or loss	17,655	-		-	17,655
Other comprehensive income, net of tax	14,539	-		-	14,539
Total comprehensive income (loss)	(4,214)	8,249		(6,980)	(2,945)

See accompanying notes to unaudited pro forma condensed combined financial statements.

Extendicare Inc.
Unaudited Pro Forma Condensed Combined Statement of Earnings
Three months ended March 31, 2015

(in thousands of Canadian dollars except for per share amounts)	Extendicare Inc.	Canadian Home Health Care Business of Revera Inc.	*notes*	Pro Forma Adjustments	Pro Forma Combined
CONTINUING OPERATIONS					
Revenue					
Nursing and assisted living centres	143,479	-		-	143,479
Home health care	45,627	47,582		-	93,209
Health technology services	9,444	-		-	9,444
Management, consulting and other	3,669	-		-	3,669
Total revenue	202,219	47,582		-	249,801
Operating expenses	176,404	42,491	*5e*	447	219,342
Administrative costs	8,300	1,838	*5b, 5e*	(1,440)	8,698
Lease costs	1,328	-	*5e*	442	1,770
Total expenses	186,032	44,329		(551)	229,810
Earnings before depreciation, amortization, loss from asset impairment, disposals and other items	16,187	3,253		551	19,991
Depreciation and amortization	5,870	601	*5d, 5e*	313	6,784
Loss from asset impairment, disposals and other items	899	10	*5b, 5e*	(909)	-
Earnings before net finance costs and income taxes	9,418	2,642		1,147	13,207
Interest expense	7,370	56	*5c*	1,457	8,883
Accretion of decommissioning provisions	87	-		-	87
Other accretion	517	-		-	517
Interest revenue	(848)	(19)		-	(867)
Net finance costs	7,126	37		1,457	8,620
Earnings before income taxes	2,292	2,605		(310)	4,587
Income tax expense (recovery)				-	
Current	3,155	-	*5b, 5c, 5d, 5f*	356	3,511
Deferred	(1,923)	-	*5b, 5c, 5d, 5f*	192	(1,731)
Total income tax expense	1,232	-		548	1,780
Earnings from continuing operations	1,060	2,605		(858)	2,807
DISCONTINUED OPERATIONS					
Earnings from discontinued operations, net of income taxes	5,695	-		-	5,695
Net earnings	6,755	2,605		(858)	8,502
Basic and Diluted Earnings per Share					
Earnings from continuing operations	0.01		*6*	0.02	0.03
Earnings from discontinued operations	0.07		*6*	-	0.07
Net earnings	0.08		*6*	0.02	0.10

See accompanying notes to unaudited pro forma condensed combined financial statements.

Extendicare Inc.

Unaudited Pro Forma Condensed Combined Statement of Comprehensive Income

Three months ended March 31, 2015

(in thousands of Canadian dollars)	**Extendicare Inc.**	**Canadian Home Health Care Business of Revera Inc.**	***notes***	**Pro Forma Adjustments**	**Pro Forma Combined**
Net earnings	6,755	2,605	*5a, 5b, 5c, 5d, 5e, 5f*	(858)	8,502
Other comprehensive income, net of income taxes					
Items that will not be reclassified to profit or loss:					
Defined benefit plan actuarial loss, net of tax recovery of $656	(1,820)	-		-	(1,820)
Total items that will not be reclassified to profit or loss	(1,820)	-		-	(1,820)
Items that are or may be reclassified subsequently to profit or loss:					
Unrealized gain on available-for-sale securities, net of tax of nil	1,101	-		-	1,101
Net change in foreign currency translation adjustment	13,900			-	13,900
Total items that are or may be reclassified subsequently to profit or loss	15,001	-		-	15,001
Other comprehensive income, net of tax	13,181	-		-	13,181
Total comprehensive income	19,936	2,605		(858)	21,683

See accompanying notes to unaudited pro forma condensed combined financial statements.

Extendicare Inc.

Unaudited Pro Forma Condensed Combined Statement of Financial Position

As at March 31, 2015

(in thousands of Canadian dollars)	Extendicare Inc.	Canadian Home Health Care Business of Revera Inc.	*notes*	Pro Forma Adjustments	Pro Forma Combined
Assets					
Current assets					
Cash and short-term investments	40,162	9	*5a, 5b, 5c*	(1,725)	38,446
Restricted cash	1,207			-	1,207
Accounts receivable	34,317	14,517	*5a*	(805)	48,029
Income taxes recoverable	70			-	70
Assets held for sale	1,341,759			-	1,341,759
Other current assets	18,176	174	*5a*	(3,367)	14,983
Total current assets	1,435,691	14,700		(5,897)	1,444,494
Non-current assets					
Property and equipment	327,388	4,014	*5a*	(1,297)	330,105
Intangible assets	2,954	18,761	*5a*	24,037	45,752
Goodwill	13,059	37,067	*5a*	3,553	53,679
Other assets	228,249	-		-	228,249
Deferred tax assets	8,418	-		-	8,418
Total non-current assets	580,068	59,842		26,293	666,203
Total Assets	2,015,759	74,542		20,396	2,110,697
Liabilities and Equity (Deficiency)					
Current liabilities					
Accounts payable and accrued liabilities	110,028	15,059	*5a*	(1,139)	123,948
Income taxes payable	2,737			-	2,737
Long-term debt	19,029		*5a, 5c*	79,287	98,316
Liabilities held for sale	1,226,965			-	1,226,965
Provisions	28,407			-	28,407
Total current liabilities	1,387,166	15,059		78,148	1,480,373
Non-current liabilities					
Long-term debt	447,890			-	447,890
Provisions	125,222			-	125,222
Other long-term liabilities	40,153			-	40,153
Deferred tax liabilities	13,846		*5a*	2,734	16,580
Total non-current liabilities	627,111	-		2,734	629,845
Total liabilities	2,014,277	15,059		80,882	2,110,218
Net investment		59,483	*5a*	(59,483)	-
Share capital	479,189			-	479,189
Equity portion of convertible debentures	5,573			-	5,573
Accumulated deficit	(508,529)		*5b*	(1,003)	(509,532)
Accumulated other comprehensive income	25,249			-	25,249
Shareholders' equity (deficiency)	1,482	59,483		(60,486)	479
Total Liabilities and Equity (Deficiency)	2,015,759	74,542		20,396	2,110,697

See accompanying notes to unaudited pro forma condensed combined financial statements.

Notes to unaudited Pro Forma Condensed Combined Financial Statements

(Tabular amounts in thousands of Canadian dollars, unless otherwise noted)

1. DESCRIPTION OF TRANSACTION

On April 30, 2015, Extendicare Inc. ("Extendicare" or the "Company"), through one of its wholly owned subsidiaries, Extendicare (Canada) Inc. (the "Purchaser"), completed the acquisition (the "Acquisition") of the Canadian home health care business of Revera Inc. ("Revera HHC"), carried on through Revera Health Services Inc., Revera Health Services Clinic LP and Revera Health Services Homecare LP (each a "Vendor" and together the "Vendors"), each a wholly owned subsidiary of Revera Inc., pursuant to the terms of an Acquisition Agreement dated January 14, 2015, as amended, for $83.6 million in cash. Of the purchase price of $83.6 million, which is subject to a final working capital adjustment, $81.6 million was paid to the Vendors, and a purchase price holdback of $2.0 million is being held in escrow by the Vendors' counsel to indemnify the Purchaser in certain circumstances for any losses relating to volume reductions associated with specified government contracts.

The Acquisition brought together two leading Canadian private-sector home health care providers focused on quality, person-centred care and employee satisfaction. Extendicare has rebranded the Revera home health business under its ParaMed banner across six provinces (Ontario, British Columbia, Alberta, Quebec, Manitoba and Nova Scotia).

The Acquisition was financed with a bridge loan of $80 million (the "Bridge Loan") and cash on hand of $3.6 million. On July 2, 2015, the Bridge Loan was repaid in full using a portion of the proceeds from the sale of substantially all of the Company's U.S. business (the "U.S. Sale Transaction"), which was completed effective July 1, 2015.

2. BASIS OF PRESENTATION

The accompanying unaudited pro forma condensed combined financial statements ("pro forma financial statements") of Extendicare have been prepared to give effect to the Acquisition that was completed on April 30, 2015.

The unaudited pro forma condensed combined statement of earnings (loss) for the year ended December 31, 2014 and for the three months ended March 31, 2015 combine the historical consolidated statements of earnings (loss) of Extendicare and Revera HHC to give effect to the Acquisition as if it had occurred on January 1, 2014. The unaudited pro forma condensed combined statement of financial position as at March 31, 2015 combines the historical condensed statement of financial position of Extendicare and Revera HHC to give effect to the Acquisition as if it had occurred on March 31, 2015.

These pro forma financial statements also reflect the borrowings incurred by the Purchaser to finance the Acquisition.

Notes to unaudited Pro Forma Condensed Combined Financial Statements

These pro forma financial statements were based on and should be read in conjunction with the:

- audited consolidated financial statements of Extendicare as at and for the year ended December 31, 2014 and the related notes;
- audited carve-out financial statements of Revera HHC as at and for the year ended December 31, 2014 and the related notes;
- unaudited interim condensed consolidated financial statements of Extendicare as at and for the three months ended March 31, 2015 and the related notes; and
- unaudited carve-out interim condensed financial statements of Revera HHC as at and for the three months ended March 31, 2015 and the related notes.

These historical consolidated financial statements have been adjusted to give effect to pro forma events that are directly attributable to the Acquisition, and with respect to the statement of earnings (loss), that are expected to have a continuing impact on the combined results.

These financial statements have been prepared using the acquisition method of accounting in accordance with International Financial Reporting Standards (IFRS) – IFRS 3 *Business Combinations*, under which, the total fair value of the consideration transferred will be assigned to the assets acquired and liabilities assumed based on their estimated fair values at the effective date of the Acquisition, with any excess purchase price allocated to goodwill. Extendicare will finalize all amounts as it obtains the information necessary to complete the measurement process, which is expected to be no later than one year from the effective date of the Acquisition. Accordingly, the pro forma adjustments described in *note 5* are preliminary and have been made solely for the purpose of providing these pro forma financial statements. Differences between preliminary estimates and final amounts may occur and these differences could be material to the accompanying pro forma financial statements and the future financial performance and financial position of Extendicare.

The total acquisition costs incurred by Extendicare were approximately $2.6 million, and were comprised of $2.4 million of legal and advisory fees, and $0.2 million of miscellaneous costs. Acquisition costs are not reflected in the unaudited pro forma condensed combined statement of earnings (loss) for the year ended December 31, 2014 or for the three months ended March 31, 2015 as they do not have a continuing impact on the combined operating results. Acquisition costs of $1.0 million incurred by Extendicare subsequent to March 31, 2015, have been reflected in the unaudited pro forma condensed combined statement of financial position as at March 31, 2015 as a reduction in cash and short-term investments and an increase in accumulated deficit.

These pro forma financial statements do not reflect any costs savings, operating synergies or revenue enhancements that the combined Revera HHC business and Extendicare's ParaMed business may achieve, nor do they reflect the costs to integrate the operations of Extendicare and Revera HHC or any costs necessary to achieve these cost savings, operating synergies or revenue enhancements.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies used in the preparation of these pro forma financial statements are consistent with those described in the unaudited interim condensed consolidated financial statements of Extendicare for the three months ended March 31, 2015 and the audited consolidated financial statements of Extendicare for the year ended December 31, 2014.

Extendicare has conducted a review of Revera HHC's accounting policies and has identified differences in certain accounting policies adopted by Revera HHC and Extendicare. For purposes of these pro forma financial statements, certain reclassification adjustments have been made to Revera HHC's historical financial statements (as described in *note 5*) to conform to the presentation policies adopted by Extendicare.

4. PRELIMINARY PURCHASE PRICE ALLOCATION

The consideration paid for the Acquisition was cash of $83.6 million, including $0.6 million for working capital adjustments to the date of closing, which is subject to change upon finalization of the working capital adjustment, $81.6 million paid to the Vendors, and a purchase price holdback of $2.0 million that is being held in escrow by the Vendors' counsel to indemnify the Purchaser in certain circumstances for any losses relating to volume reductions associated with specified government contracts.

The Acquisition was financed with the Bridge Loan of $80.0 million and cash on hand of $3.6 million. The Bridge Loan was repaid in full on July 2, 2015, from proceeds of the U.S. Sale Transaction, and bore interest at an average interest rate of 5.93% per annum. In addition, financing fees incurred of $1.4 million have been recorded as part of the carrying value of the Bridge Loan and amortized using the effective interest method.

The preliminary allocation of the fair value of the net assets acquired, based on consideration paid and estimated working capital adjustments, is as follows:

Net assets acquired:	
Receivables	$ 13.7
Prepaids	0.1
Other current assets	0.3
Property and equipment	2.7
Intangible asset	42.8
Trade payables	(0.5)
Accrued liabilites	(13.4)
Deferred tax liability	(2.7)
Total identifiable net assets acquired	43.0
Goodwill	40.6
Total net assets acquired	$ 83.6

Consideration:		
Cash paid	$	3.6
Bridge Loan		80.0
Total purchase price (including estimated working capital adjustment)	$	83.6

A preliminary fair value estimate of $2.7 million has been allocated to property and equipment, primarily consisting of furniture and equipment, leasehold improvements and computer hardware. Extendicare has estimated that the carrying value approximates the fair value as at the acquisition date based on the nature and the age of these assets.

A preliminary fair value estimate of $42.8 million has been allocated to identifiable intangible assets acquired, primarily consisting of customer relationships, a non-competition agreement and computer software. Extendicare has estimated the fair value of customer relationships and the non-competition agreement based upon expected discounted cash flows generated from those assets; the estimated useful lives for these assets are 15 years and 5 years, respectively.

The deferred tax liability of $2.7 million represents the difference between the carrying amount of the newly acquired intangible assets and their tax base.

Goodwill is calculated as the excess of the preliminary estimate of the fair value of the consideration transferred as at the acquisition date over the preliminary estimate of the fair values assigned to the identifiable assets acquired and liabilities assumed. Goodwill is not amortized and is subject to impairment testing at least annually or more frequently if events and circumstances in the intervening period provide an indicator that impairment may exist.

With respect to the remaining assets acquired and liabilities assumed that are not discussed above, the Company's preliminary assessment is that their carrying value approximates their fair value, based on the nature of those assets and liabilities.

5. PRO FORMA ADJUSTMENTS

This note should be read in conjunction with *note 1* – Description of Transaction; *note 2* – Basis of Presentation; and *note 4* – Preliminary Purchase Price Allocation. The following summarizes the pro forma adjustments in connection with the Acquisition to give effect to the Acquisition as if it had occurred on January 1, 2014, for purposes of the pro forma condensed combined statement of earnings (loss) for the year ended December 31, 2014 and for the three months ended March 31, 2015, and on March 31, 2015, for purposes of the pro forma condensed combined statement of financial position:

a. The Acquisition:

The preliminary purchase price allocation is outlined in *note 4*. The Acquisition is reflected as if it had occurred on January 1, 2014 for purposes of the pro forma condensed combined statement of earnings (loss) for the year ended December 31, 2014 and for the three months ended March 31, 2015, and as if it had occurred on March 31, 2015 for purposes of the pro forma condensed combined statement of financial position as at March 31, 2015.

Notes to unaudited Pro Forma Condensed Combined Financial Statements

b. Costs related to the Acquisition:

   For the purposes of these pro forma financial statements, the following charges incurred in connection with the Acquisition have been reversed as they do not have a continuing impact on the financial results of the combined operations: legal, advisory and financing fees incurred by Extendicare of $0.7 million (pre-tax), $0.5 million (after-tax), for the year ended December 31, 2014 and $0.9 million (pre-tax), $0.7 million (after-tax), for the three months ended March 31, 2015; legal fees and severance costs incurred by Revera HHC of $0.6 million (pre-tax), $0.4 million (after-tax), for the three months ended March 31, 2015. The acquisition costs of $1.0 million incurred subsequent to March 31, 2015, have been recorded as a reduction in cash and short-term investments and an increase in accumulated deficit.

c. Bridge Loan:

   Finance costs have been increased by $4.9 million (pre-tax), $3.6 million (after-tax), for the year ended December 31, 2014 and $1.2 million (pre-tax), $0.9 million (after-tax), for the three months ended March 31, 2015 to reflect imputed interest expense related to the Bridge Loan obtained by the Purchaser to finance the Acquisition. For the purposes of these pro forma financial statements, the imputed interest rate on the Bridge Loan was the lowest of the interest rate options under the terms of the loan, and was based on the bankers' acceptances plus a margin of 450 basis points for the first two months and a margin of 500 basis points for the balance of the pro forma period. The imputed interest rate averaged 6.11% for the year ended December 31, 2014 and 5.89% for the three months ended March 31, 2015. In addition, total financing fees of 1.4 million have been recorded as part of the carrying value of the Bridge Loan for the purpose of the pro forma condensed combined statement of financial position. Of the $1.4 million in financing fees, $0.7 million had been incurred and recognized as deferred financing fees as at March 31, 2015; hence, the pro forma adjustment reflects the remaining $0.7 million of additional deferred financing fees with an offset to cash and short-term investments. The amortization of the deferred financing fees have been recorded using the effective interest method for the purposes of the pro forma condensed combined statements of earnings (loss); consequently, finance costs have been increased by $1.1 million (pre-tax), $0.8 million (after-tax), for the year ended December 31, 2014 and $0.3 million (pre-tax), $0.2 million (after-tax), for the three months ended March 31, 2015. During its term from April 30, 2015 to July 2, 2015, the Bridge Loan bore interest at an average interest rate of 5.93%, excluding financing fees, based on a combination of the prime rate plus 350 basis points and the bankers' acceptances plus 450 basis points to July 1, 2015, following which the margin for each increased by 50 basis points.

d. Amortization of intangible assets:

   Amortization expense of $1.7 million (pre-tax), $1.3 million (after-tax), for the year ended December 31, 2014 and $0.4 million (pre-tax), $0.3 million (after-tax), for the three months ended March 31, 2015, recorded by Revera HHC, has been reversed. The amortization of the newly acquired intangible assets has been calculated based on the values assigned in the purchase price allocation as outlined in *note 4*. Based on the preliminary fair value estimate, amortization expense of $3.0 million (pre-tax), $2.2 million (after-tax), for the year ended

December 31, 2014 and $0.7 million (pre-tax), $0.5 million (after-tax), for the three months ended March 31, 2015 has been recorded.

e. Conform to Extendicare's accounting policies:

The following items have been reclassified to conform to the Company's presentation policies:

- reclassifying Revera HHC's loss on replacement of property and equipment from loss from asset impairment, disposals and other items to depreciation and amortization;
- reclassifying Revera HHC's lease costs from operating expenses to lease costs; and
- reclassifying Revera HHC's direct administration costs incurred in the branch/regional offices from administration costs to operating expenses

f. Income taxes:

The income tax effect on Revera HHC's operating results has been estimated using an average statutory tax rate of 26.5%. The effective tax rate of the combined operations could be significantly different from the statutory tax rate assumed for purposes of preparing these pro forma financial statements as a result of a variety of factors, including post-acquisition activities.

6. EARNINGS PER SHARE

The unaudited pro forma combined basic and diluted earnings (loss) per share for the periods presented are calculated as follows:

	Years ended December 31, 2014		Three months ended March 31, 2015	
	As reported	Pro Forma Combined	As reported	Pro Forma Combined
Numerator for basic and diluted earnings (loss) per share ($000's)				
Earnings from continuing operations				
Net earning (loss) for basic earnings per share	(18,753)	(17,484)	6,755	8,502
Less: gain (loss) from discontinued operations, net of tax	(29,822)	(29,822)	5,695	5,695
Earnings from continuing operations for basic earnings per share	11,069	12,338	1,060	2,807
Add: after-tax interest on convertible debt	6,973	6,973	1,597	1,597
Add: after-tax gain on fair value adjustment on financial instruments	(296)	(296)	-	-
Earnings from continuing operations for diluted earnings per share	17,746	19,015	2,657	4,404
Net earnings (loss)				
Net earning (loss) for basic earnings per share	(18,753)	(17,484)	6,755	8,502
Add: after-tax interest on convertible debt	6,973	6,973	1,597	1,597
Add: after-tax gain on fair value adjustment on financial instruments	(296)	(296)	-	-
Net earnings (loss) for diluted earnings per share	(12,076)	(10,807)	8,352	10,099
Denominator for basic and diluted earnings (loss) per share				
Weighted average number of shares for basic earnings per share	87,735,709	87,735,709	88,002,628	88,002,628
Shares issued if all convertible debt was converted	11,244,444	11,244,444	11,244,445	11,244,445
Total for diluted earnings (loss) per share	98,980,153	98,980,153	99,247,073	99,247,073

	Years ended December 31, 2014		Three months ended March 31, 2015	
	As reported	Pro Forma Combined	As reported	Pro Forma Combined
Basic and Diluted Earnings (Loss) per Share *(in dollars)*				
Earnings from continuing operations	0.13	0.14	0.01	0.03
Earnings (loss) from discontinued operations	(0.34)	(0.34)	0.07	0.07
Net earnings (loss)	(0.21)	(0.20)	0.08	0.10

7. RECAST OF COMPARATIVE INFORMATION

During the first quarter of 2015, certain costs and transactions previously classified as part of continuing operations were reclassified as discontinued operations. This included a note payable and transaction costs incurred in the 2014 fourth quarter associated with the sale of the U.S. operations.

A note payable of $7.6 million (US$6.0 million) was reclassified in the first quarter of 2015 from long-term debt to liabilities held for sale as this liability was to be settled upon the completion of the U.S. Sale Transaction. The comparative amount of $7.0 million (US$6.0 million) as at December 31, 2014, has been reclassified on the consolidated statement of financial position. The Company has also recast the transaction costs incurred in the 2014 fourth quarter associated with the sale of the U.S. operations totalling $7.8 million (pre-tax), $6.7 million (after-tax), from continuing operations to discontinued operations, to conform with the current year's presentation.

The adjustments are summarized as follows:

Consolidated Statement of Financial Position

	As at December 31, 2014 As previously reported	Adjustment	As at December 31, 2014 As recast
Long-term debt – current	25,789	(6,961)	18,828
Liabilities held for sale	1,130,813	6,961	1,137,774

Consolidated Statement of Earnings (Loss)

	Year ended December 31, 2014 As previously reported	Adjustment	Year ended December 31, 2014 As recast
Loss from asset impairment, disposals and other items	11,031	(7,777)	3,254
Earnings before net finance costs and income taxes	39,791	7,777	47,568
Earnings before income taxes	8,841	7,777	16,618
Deferred income tax expense	456	1,030	1,486
Total income tax expense	4,519	1,030	5,549
Earnings from continuing operations	4,322	6,747	11,069
Loss from discontinued operations, net of income taxes	(23,075)	(6,747)	(29,822)
Basic and diluted earnings per share from continuing operations	0.05	0.08	0.13
Basic and diluted loss per share on net earnings (loss)	(0.21)	-	(0.21)