Analysis of the Reasonableness of Assumptions Used For and Feasibility of Projected Financials of:

North End Rehabilitation & Healthcare

For the Years Ending December 31, 2018 Through December 31, 2022

Prepared by:
BDO USA, LLP
November 13, 2017

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November 13, 2017

Shlomo Freundlich, CPA
Director of Risk Management
Marquis Health Services
635 Duquesne Boulevard
Brick, NJ 08723

RE: Analysis of the Reasonableness of Assumptions and Projections Used to Support the Financial Feasibility and Sustainability of the Proposed Project

Dear Mr. Freundlich

We have performed an analysis of the financial projections (the "Projections") related to North End Rehabilitation & Healthcare Center ("North End Rehab") detailing the projected operations of North End Rehab. This report details our analysis and findings with regards to the reasonableness of assumptions used in the preparation of the Projections and feasibility of the projected financial results prepared by the management of Tryko Partners LLC ("Tryko") through their in house healthcare division, Marquis Health Services ("Management") for the operation of North End Rehab. This report is to be used by Marquis Health Services ("Marquis") in its Determination of Need ("DON") Application – Factor 4(a) and should not be distributed or relied upon for any other purpose.

I. EXECUTIVE SUMMARY

The scope of our review was limited to an analysis of the five year financial projections for North End Rehab for the fiscal years-ending 2018 through 2022 prepared by Management, and the supporting documentation in order to render an opinion as to the reasonableness of assumptions used in the preparation and feasibility of the Projections.

The Projections exhibit a cumulative operating EBITDA surplus of approximately 13.7 percent of cumulative projected revenue for North End Rehab for the five years from 2018 through 2022. Based upon our review of the relevant documents and analysis of the Projections, we determined the anticipated operating surplus is a reasonable expectation and based upon feasible financial assumptions. Accordingly, we determined that the Projections are reasonable and feasible, and not likely to result in a liquidation of North End Rehab's assets. A detailed explanation of the basis for our determination of reasonableness and feasibility is contained within this report.

II. RELEVANT BACKGROUND INFORMATION

North End Rehab is a skilled nursing facility which provides short-term care to patients. Under previous ownership, the facility provided short-term and long-term acute care, acute, inpatient and outpatient rehabilitation, and home care services. Management seeks to renovate the existing location in order to provide exceptional care to residents in the North End of Boston. The continuum of care provided may include acute and sub-acute nursing care, palliative care, rehabilitation, physical therapy, social services and other nursing services. The renovated facility will reduce the number of beds from 140 to 100 in order to provide more private rooms for patients, will add a rehabilitation gym, and generally refresh the appearance of the facility including all patient rooms, shower/tub rooms, and public and common areas.

III. SCOPE OF REPORT

The scope of this report is limited to an analysis of the five year financial projections for North End Rehab for the fiscal years-ending 2018 through 2022 (the "Projections"), prepared by Management, and the supporting documentation in order to render an opinion as to the reasonableness of assumptions used in the preparation and feasibility of the Projections. Reasonableness is defined within the context of this report as supportable and proper, given the underlying information. Feasibility is defined as based on the assumptions used, the plan is not likely to result in a liquidation of the underlying assets or the need for reorganization.

This report is based on prospective financial information provided to us by Management. BDO was not provided with historical financial information. Additionally, BDO has not audited or performed any other form of attestation services on the projected financial information for North End Rehab.

If BDO had audited the underlying data, matters may have come to our attention that would have resulted in our using amounts that differ from those provided. Accordingly, we do not express an opinion or any other assurances on the underlying data presented or relied upon in this report. We do not provide assurance on the achievability of the results forecasted by North End Rehab because events and circumstances frequently do not occur as expected, and the achievement of the forecasted results are dependent on the actions, plans, and assumptions of management. We reserve the right to update our analysis in the event that we are provided with additional information.

IV. SOURCES OF INFORMATION UTILIZED

In formulating our opinions and conclusions contained in this report, we reviewed documents produced by Management. The documents and information upon which we relied are identified below or are otherwise referenced in this report:

1. North End Rehab Revised Capital Expenditure Estimate dated July 28, 2017 provided by JACA Architects;
2. Detailed costs of the estimated renovation and the impact to the square footage of the building provided by JACA Architects;
3. Scope of Work from JACA Architects dated March 24, 2017;
4. Design Agreement between ML Group Design & Development and North End Rehab dated June 2017;
5. 2017 Q2 Tryko Healthcare Investment Track Record;
6. North End Model Preliminary Financial Projections dated December 21, 2016;
7. North End Financial Projections for the years-ending 2018 through 2022;
8. Historical Payer Mix Trend for Tryko Partners Boston Facilities;
9. Draft Determination of Need dated provided November 10, 2017;
10. IBISWorld Industry Report, Nursing Care Facilities in the US, dated August 2017;
11. RMA Annual Statement Studies, published by Risk Management Associates;
12. Skilled Nursing Facilities Industry Information, published by Definitive Healthcare.

V. REVIEW OF THE PROJECTIONS

This section of our report summarizes our review of the reasonableness of the assumptions used and feasibility of the Projections.

The following tables presents the Key Metrics, as defined below, which compares the operating results of the Projections to market information from RMA Annual Studies (“RMA”) and Pratt’s Stats to assess the reasonability of the projections.

Key Financial Metrics and Ratios			**Projected**			**RMA**	
North End Spaulding	**2018**	**2019**	**2020**	**2021**	**2022**	**Average**	**Pratt's Stats**
Profitability							
Operating Margin (%)	12.0%	20.1%	20.4%	20.0%	19.7%	6.6%	13.2%
EBITDA ($)	848,215	2,122,541	2,081,374	2,063,095	2,068,583	NA	2,146,693
Maximum Annual Debt Service Coverage Ratio (x)	2.7x	4.5x	3.8x	3.8x	3.8x	NA	NA
Liquidity							
Current Ratio (x)	6.7x	7.3x	7.4x	7.5x	7.6x	1.4x	1.6x
Days of Available Cash and Investments on Hand (#)	188.9	214.1	230.4	240.9	240.9	NA	NA
Operating Cash Flow Margin (%)	7.6%	15.6%	15.0%	14.7%	14.5%	6.6%	11.9%
Solvency							
Ratio of Long Term Debt to Total Capitalization (%)	65.7%	61.7%	62.5%	63.2%	63.7%	27.5%	38.5%
Ratio of Cash Flow to Long Term Debt (%)	9.3%	20.3%	20.3%	20.6%	21.2%	NA	NA
Total Shareholders' Equity ($)	4,735,584	6,489,732	6,155,485	5,845,764	5,583,315	4,668,369	13,894,054

The Key Metrics fall into three primary categories: profitability, liquidity, and solvency. Profitability metrics are used to assist in the evaluation of management performance in how efficiently resources are utilized. Liquidity metrics, including common ratios such as “days of available cash and investments on hand”, measure the quality and adequacy of assets to meet current obligations as they come due. Solvency metrics measure the company’s ability to take on and service debt obligations. Additionally, certain metrics can be applicable to multiple categories. The table below shows how each of the Key Metrics are calculated.

Ratio Definitions	
Key Financial Metrics and Ratios	**Calculation**
Profitability	
Operating Margin (%)	Operating Income Divided by Total Revenue
EBITDA ($)	Earnings Before Interest, Tax, Depreciation and Amortization Divided by Net Revenue
Maximum Annual Debt Service Coverage Ratio (x)	EBIDA divided by Principle and Interest Payments
Liquidity	
Current Ratio	Current Assets Divided by Current Liabilities
Days of Available Cash and Investments on Hand (#)	Unrestricted Cash and Investments Divided by Daily Expenses (Excl. Depreciation)
Operating Cash Flow Margin (%)	EBIDA Divided by Total Revenue
Solvency	
Ratio of Long Term Debt to Total Capitalization (%)	Long Term Debt Divided by Long Term Debt and Unrestricted Net Assets
Ratio of Cash Flow to Long Term Debt (%)	EBITDA Divided by Long Term Debt
Shareholders' Equity ($)	Total Shareholders' Equity of the Company

In addition to RMA and Pratt's Stats, we also obtained financial information for skilled nursing facilities in the Boston region through Definitive Healthcare Industry Research. We reviewed this financial information in order to remove facility information which:

- Did not contain sufficient financial information;
- Did not specify the date of the financial information; or
- Reflected revenues which were not comparable to the projected operations of the North End Rehab location.

Based upon this review, we determined that the projected operations of North End Rehab for the fiscal year-ending 2018 were in the 30th percentile for total patient revenues, the 80th percentile for EBITDA margin, and the 30th percentile for patient beds.

1. Revenues

We analyzed the projected revenues identified. Based upon our discussions with Management and the documents provided, the projected revenues were estimated based upon Management's anticipated changes in the following categories:

Reimbursement Rates

Management projected future revenues based upon the historical and anticipated changes to commercial and governmental reimbursement rates for services performed.

Payer Mix

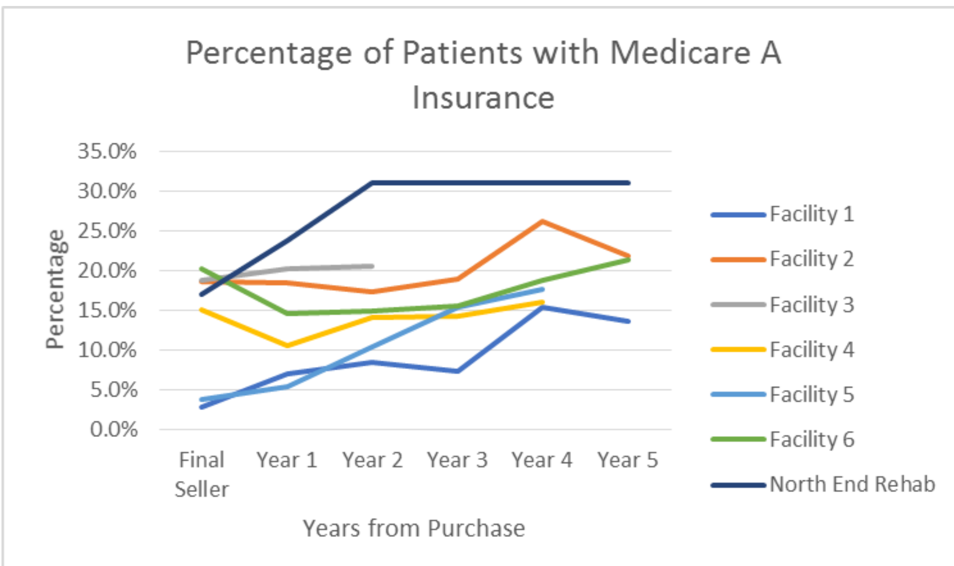
Based upon operational changes and the renovations of the facility, Management is projecting that the facility will be able to attract more patients with private insurance which provides a more profitable reimbursement rate. Conversely, Management is anticipating a decline in Medicaid patients at the facility from 64.5% under prior ownership in 2015, to 59.7% for the year-ending 2018 and stabilizing at 48.1% for the fiscal years 2019 through 2022.

Patient Occupancy

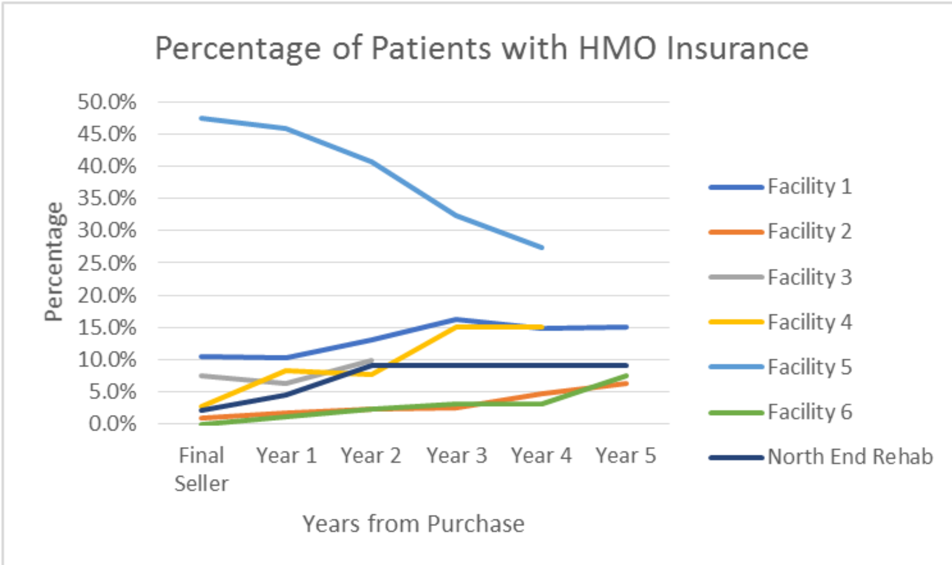
As part of the planned renovations to the facility, Management plans to decrease the number of beds available for patients from 140 down to 100. While reducing the number of beds available, Management anticipates the renovations to patient rooms, including a greater availability of private rooms, bathing facilities, updated public and common areas, and a new rehabilitation gym will encourage patients with private insurance to seek medical care at the facility.

In order to determine the reasonableness of the projected revenues, we reviewed the underlying assumptions upon which Management relied. Based upon our review, Management relied upon the historical operations of the facility under previous management as a baseline and made adjustments to reimbursement rates, payer mix, and occupancy rates as discussed above. We tested Management's assertion that the payer mix of the facility would shift away from patients with Medicaid to patients with Medicare A and HMO insurance plans by comparing the North End Rehab facility to other locations recently acquired by Management.

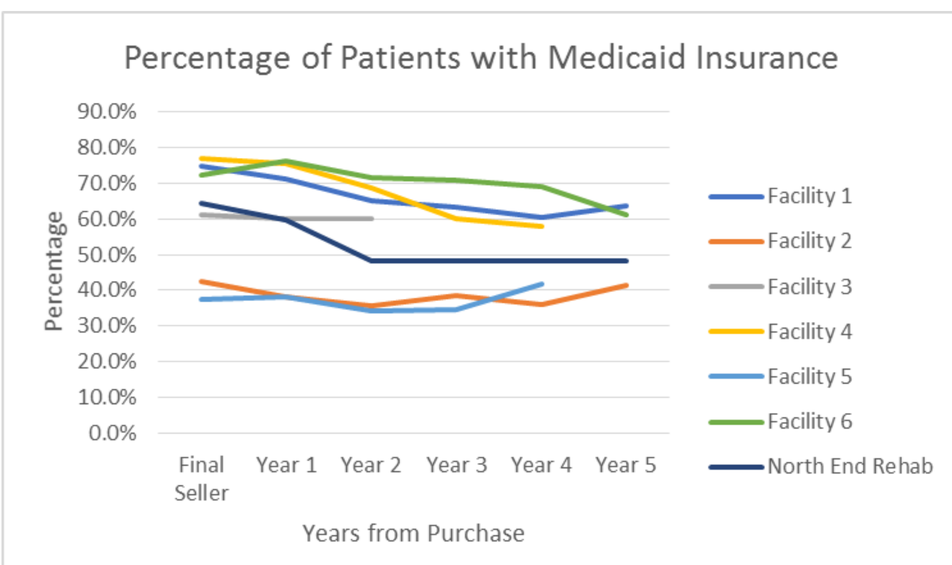
The chart below details the number of patients at six other facilities who have Medicare A insurance during the year which Management purchased the facility and any subsequent years operated by Management. The chart also includes the projected patient percentage for North End Rehab. As can be seen, the general trend is an increase in patients with Medicare A insurance plans at facilities operated by Management.



The chart below details the number of patients at six other facilities who have HMO insurance during the year which Management purchased the facility any subsequent years operated by Management. The chart also includes the projected patient percentage for North End Rehab. With the exception of Facility 5, the chart below details a slow and steady increase in the proportion of patients with HMO insurance.



The chart below details the number of patients at six other facilities who have Medicaid insurance during the year which Management purchased the facility and any subsequent years operated by Management. The chart indicates that while not every location has experienced decreases in the number of patients with Medicaid insurance, the locations which had higher levels of patients with Medicaid insurance (over 60%) have exhibited decreases of 10-20% after Management took over operations. These trends align with Management's projects for the North End Rehab location.



As seen in the charts above, Marquis has been able to effectively facilitate the shift of the payer mix from Medicaid to Medicare A and HMO insurance plans for facilities which were purchased in the region. As a result, we determined that the revenue projections by Management were reasonable.

Based upon the foregoing, it is our opinion that the revenue growth projected by Management reflects a reasonable estimation of future revenues of North End Rehab.

2. Operating Expenses

We analyzed each of the categorized operating expenses for reasonableness and feasibility as it related to the Projections.

Based upon our analysis, the majority of expenses increased year-over-year at a rate of 1 percent to 3 percent, consistent with national inflation. Pharmacy expense, therapy, and other ancillary expenses however, saw significant increases between fiscal year 2018 and fiscal year 2019 before reflecting a consistent growth in line with inflation. These expenses experienced significant increases year-over-year as a result of the shifting payer mix to Medicare A and HMO insurance. Additionally, because the renovation was reducing the number of beds available, and therefore the number of total patient days, the number of nurses, aides, physicians and other operating expenses were also being reduced.

Based upon our discussions with Management and a review of the Projections, patient volumes are expected to remain steady through the forecasted period. Therefore, operating expenses are expected to increase proportionally with inflation.

Because Management is decreasing the bed count of North End Rehab, and therefore the associated overhead costs, Management is able to effectively manage its operating costs. Additionally, the shift in payer mix driving up EBITDA margins in the Projections supports the percentile rankings of the North End Rehab location from the Definitive Healthcare Industry Research detailed above. Accordingly, it is our opinion that the Operating Expenses projected by Management are reasonable in nature and feasible.

3. Capital Expenditures and Cash Flows

We reviewed the capital expenditures and future cash flows of North End Rehab in order to determine whether sufficient funds would be reinvested to sustain the operations of North End Rehab and whether the cash flow would be able to support that reinvestment.

Based upon our review of the Projections and our discussions with Management, it is our understanding that Management anticipates spending in excess of $6 million to remodel the existing facility as discussed above. We reviewed the capital expenditure estimates provided by the architects related to the renovation of the North End Rehab. Based upon our review, we determined that the $6 million capital expenditure to renovate the facility was reasonable. However, Management did not include a provision for future maintenance capital expenditures after the completion of the facility remodel. Therefore, we estimated the future capital expenditures for North End Rehab, based upon capital expenditures for a selection of publicly traded companies within the same industry as North End Rehab. We applied this level of capital expenditures to the fiscal-years ending 2020 through 2022 in the Projections, which reflected the years which had no ongoing capital expenditures. The impact of this reserve for capital expenditures reduced the cumulative net operating income by approximately 15% during the years 2018 through 2022. This reduction reduced cumulative net operating income as a percentage of cumulative revenue from 13.7% to 11.6%. We reserve the right to update our analysis should an updated future capital expenditure analysis be provided.

In addition to capital expenditures, we also reviewed the proposed financing of the project. The Projections detailed that financing would be obtained to assist in funding of the acquisition and with a construction loan included to finance the renovation of North End Rehab. Based upon our review of the terms sheet, the loans obtained would be amortized over 25 years with a balloon payment after as many as five years. The ongoing principal and interest debt service payments are included in the 13.7 percent cumulative net operating income as a percentage of cumulative revenue.

VI. FEASIBILITY

We analyzed the Projections and Key Metrics for North End Rehab. In preparing our analysis we considered multiple sources of information including industry metrics and Management expectations. It is important to note that the Projections do not account for any anticipated changes in accounting standards. These standards, which may have a material impact on individual future years, are not anticipated to have a material impact on the aggregate Projections.

Within the projected financial information, the Projections exhibit a cumulative net operating surplus of approximately 13.7 percent of cumulative projected revenue for the project for the five years from 2018 through 2022. Based upon our review of the relevant documents and analysis of the Projections, we determined the anticipated operating surplus is a reasonable expectation and based upon feasible financial assumptions. Accordingly, we determined that the Projections are reasonable and feasible, and not likely to have a negative impact on the patient panel or result in a liquidation of assets of North End Rehab.

Respectively submitted,

Joshua Lefcowitz, CPA/ABV/CFF, CVA, CFE, ASA
Managing Director