

Aviv REIT, Inc. and Subsidiaries

Consolidated Balance Sheets

	March 31, 2011	December 31, 2010
	(unaudited)	
Assets		
Cash and cash equivalents	\$ 11,091,932	\$ 13,029,474
Deferred rent receivable	29,427,858	30,660,773
Tenant receivables, net	1,699,085	1,168,842
Rental properties and financing leases, at cost:		
Land	78,754,371	76,466,020
Buildings and improvements	641,556,663	615,806,273
Assets under direct financing leases	10,814,648	10,777,184
	<u>731,125,682</u>	<u>703,049,477</u>
Less accumulated depreciation	(80,747,512)	(75,948,944)
Net rental properties	<u>650,378,170</u>	<u>627,100,533</u>
Deferred finance costs, net	13,057,896	9,957,636
Loan receivables, net	30,726,794	36,610,638
Other assets	11,196,114	12,872,323
Total assets	<u>\$ 747,577,849</u>	<u>\$ 731,400,219</u>
Liabilities and equity		
Accounts payable and accrued expenses	\$ 7,047,687	\$ 6,012,809
Tenant security and escrow deposits	14,132,190	13,658,384
Other liabilities	24,752,208	25,996,492
Mortgage and other notes payable	454,623,647	440,575,916
Total liabilities	<u>500,555,732</u>	<u>486,243,601</u>
Equity:		
Stockholders' equity		
Common stock (par value \$0.01; 235,897 and 227,002 shares outstanding, respectively)	2,359	2,270
Additional paid-in-capital	234,138,378	223,838,999
Accumulated deficit	(7,284,941)	(2,261,839)
Accumulated other comprehensive income	2,464,837	2,188,155
Stockholders' equity	<u>229,320,633</u>	<u>223,767,585</u>
Noncontrolling interests	17,701,484	21,389,033
Total equity	<u>247,022,117</u>	<u>245,156,618</u>
Total liabilities and equity	<u>\$ 747,577,849</u>	<u>\$ 731,400,219</u>

See accompanying notes to consolidated financial statements

Aviv REIT, Inc. and Subsidiaries

Consolidated Statements of Operations

	Three Months Ended March 31,	
	2011	2010
	(unaudited)	
Revenues		
Rental income	\$ 19,690,091	\$ 21,150,335
Tenant recoveries	1,688,996	1,529,054
Interest on loans to lessees - capital expenditures	406,697	450,668
Interest on loans to lessees - working capital and capital lease	925,412	680,530
Total revenues	<u>22,711,196</u>	<u>23,810,587</u>
Expenses		
Rent and other operating expenses	201,664	169,330
General and administrative	3,468,576	1,424,248
Real estate taxes	1,689,094	1,605,430
Depreciation	4,798,568	4,361,901
Total expenses	<u>10,157,902</u>	<u>7,560,909</u>
Operating income	12,553,294	16,249,678
Other income and expenses:		
Interest and other income	5,615	63,298
Interest expense	(7,556,185)	(5,865,316)
Change in fair value of derivatives	-	1,320,721
Amortization of deferred financing costs	(678,995)	(139,295)
Loss on extinguishment of debt	(3,143,008)	-
Total other income and expenses	<u>(11,372,573)</u>	<u>(4,620,592)</u>
Net income	1,180,721	11,629,086
Distributions and accretion on		
Class E Preferred Units	-	(3,998,770)
Net income allocable to common units of		
Partnership/noncontrolling interests	(538,442)	(7,630,316)
Net income allocable to stockholders	<u>\$ 642,279</u>	<u>\$ -</u>
Net income	\$ 1,180,721	
Unrealized gain on derivative instrument	508,634	
Total comprehensive income	<u>\$ 1,689,355</u>	
Net income allocable to stockholders	\$ 642,279	
Unrealized gain on derivative instrument, net of noncontrolling interest portion of \$231,952	276,682	
Total comprehensive income allocable to stockholders	<u>\$ 918,961</u>	

Aviv REIT, Inc. and Subsidiaries

Consolidated Statement of Changes in Equity

Three Months Ended March 31, 2011 (unaudited)

	Common Stock		Stockholders' Equity				Total Stockholders' Equity	Noncontrolling Interests	Total Equity	
	Shares	Amount	Additional Paid-In-Capital	Accumulated Deficit	Accumulated Other Comprehensive income					
Balance at January 1, 2011	227,002	\$ 2,270	\$ 223,838,999	\$ (2,261,839)	\$ 2,188,155	\$ 223,767,585	\$ 21,389,033	\$ 245,156,618		
Non-cash stock (unit)-based compensation	-	-	299,468	-	-	299,468	286,977	586,445		
Distributions to partners	-	-	-	-	-	-	(4,744,920)	(4,744,920)		
Capital contributions	8,895	89	9,999,911	-	-	10,000,000	-	10,000,000		
Unrealized gain on derivative instruments	-	-	-	-	276,682	276,682	231,952	508,634		
Dividends to stockholders	-	-	-	(5,665,381)	-	(5,665,381)	-	(5,665,381)		
Net income	-	-	-	642,279	-	642,279	538,442	1,180,721		
Balance at March 31, 2011	235,897	\$ 2,359	\$ 234,138,378	\$ (7,284,941)	\$ 2,464,837	\$ 229,320,633	\$ 17,701,484	\$ 247,022,117		

See accompanying notes to consolidated financial statements

Aviv REIT, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

	Three Months Ended March 31,	
	2011	2010
	(unaudited)	
Operating activities		
Net income	\$ 1,180,721	\$ 11,629,086
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	4,798,568	4,361,901
Amortization	678,995	139,295
Change in fair value of derivatives	-	(1,320,721)
Deferred rental expense (income), net	1,165,922	(95,393)
Rental income from intangible amortization, net	(362,196)	(1,770,665)
Non-cash stock (unit)-based compensation	586,445	101,500
Non-cash loss on extinguishment of debt	3,143,008	-
Reserve for uncollectible loan receivables	157,317	-
Changes in assets and liabilities:		
Tenant receivables	(530,243)	(709,641)
Other assets	2,023,699	(99,672)
Accounts payable and accrued expenses	669,320	353,846
Tenant security deposits and other liabilities	744,836	1,424,730
Net cash provided by operating activities	<u>14,256,392</u>	<u>14,014,266</u>
Investing activities		
Purchase of rental properties	(24,825,776)	-
Capital improvements and other developments	(3,250,430)	(2,151,823)
Loan receivables received from (funded to) others, net	5,726,527	(5,604,469)
Net cash used in investing activities	<u>(22,349,679)</u>	<u>(7,756,292)</u>
Financing activities		
Borrowings of debt	210,200,000	-
Repayment of debt	(196,152,269)	(2,563,125)
Payment of financing costs	(6,556,704)	-
Capital contributions	10,000,000	-
Cash distributions to partners	(5,246,840)	(11,075,273)
Cash dividends to stockholders	(6,088,442)	-
Net cash provided by (used in) financing activities	<u>6,155,745</u>	<u>(13,638,398)</u>
Net decrease in cash and cash equivalents	<u>(1,937,542)</u>	<u>(7,380,424)</u>
Cash and cash equivalents:		
Beginning of period	13,029,474	15,542,507
End of period	<u>\$ 11,091,932</u>	<u>\$ 8,162,083</u>
Supplemental cash flow information		
Cash paid for interest	\$ 6,093,599	\$ 5,967,777
Supplemental disclosure of noncash activity		
Accrued dividends payable to stockholders	\$ 5,665,381	\$ -
Accrued distributions payable to partners	\$ 4,744,920	\$ 5,124,590
Earn-out accrual and addition to rental properties	\$ -	\$ 8,120,656
Write-off of deferred rent receivable	\$ 3,026,968	\$ 2,233,768
Write-off of in-place lease intangibles, net	\$ -	\$ 1,224,594
Write-off of deferred financing costs, net	\$ 3,143,008	\$ -

See accompanying notes to consolidated financial statements

Aviv REIT, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (unaudited)

Three Months Ended March 31, 2011 and 2010

1. Description of Operations and Formation

Aviv REIT, Inc., a Maryland corporation, and Subsidiaries (the REIT) is the sole general partner of Aviv Healthcare Properties Limited Partnership, a Delaware limited partnership, and Subsidiaries (the Partnership). The Partnership is a majority owned subsidiary that owns all of the real estate properties. In these footnotes, the Company refers generically to Aviv REIT, Inc., the Partnership, and their subsidiaries. The Partnership was formed in 2005 and directly or indirectly owned or leased 187 properties, principally skilled nursing facilities, across the United States at March 31, 2011. The Company generates the majority of its revenues by entering into long-term triple-net leases with qualified local, regional, and national operators. In addition to the base rent, leases provide for tenants to pay the Company an ongoing escrow for real estate taxes. Furthermore, all operating and maintenance costs of the buildings are the responsibility of the tenants. Substantially all depreciation expense reflected in the consolidated statements of operations relates to the ownership of senior living properties. The Company manages its business as a single business segment as defined in Accounting Standards Codification (ASC) 280, *Segment Reporting*.

The Partnership is the general partner of Aviv Healthcare Properties Operating Partnership I, L.P. (the Operating Partnership), a Delaware limited partnership. The Operating Partnership has five wholly owned subsidiaries: Aviv Financing I, LLC (Aviv Financing I), a Delaware limited liability company; Aviv Financing II, LLC (Aviv Financing II), a Delaware limited liability company; Aviv Financing III, LLC (Aviv Financing III), a Delaware limited liability company; Aviv Financing IV, LLC (Aviv Financing IV), a Delaware limited liability company; and Aviv Financing V, LLC (Aviv Financing V), a Delaware limited liability company.

On September 17, 2010, the Partnership entered into an agreement (the Merger Agreement), by and among the REIT, Aviv Healthcare Merger Sub LP, a Delaware limited partnership of which the REIT is the general partner (Merger Sub), Aviv Healthcare Merger Sub Partner LLC, a Delaware limited liability company and a wholly owned subsidiary of the REIT, and the Partnership. Pursuant to the Merger Agreement, the Partnership merged (the Merger) with and into Merger Sub, with Merger Sub continuing as the surviving entity with the identical name (the Surviving Partnership). Following the Merger, the REIT remains as the sole general partner of the Surviving Partnership and the Surviving Partnership, as the successor to the Partnership, became the general partner of the

Aviv REIT, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (unaudited) - (continued)

1. Description of Operations and Formation (continued)

Operating Partnership. All of the business, assets and operations will continue to be held by the Operating Partnership and its subsidiaries. The REIT's equity interest in the Surviving Partnership will be linked to future investments in the REIT, such that future equity issuances by the REIT (pursuant to the Stockholders Agreement, the REIT's management incentive plan or otherwise as agreed between the parties) will result in a corresponding increase in the REIT's equity interest in the Surviving Partnership. The REIT is authorized to issue 2 million shares of common stock (par value (\$0.01) and 1,000 shares of preferred stock (par value \$1,000)). At March 31, 2011, there are 235,897 shares of common stock and 125 shares of preferred stock outstanding. Dividends on each outstanding share of preferred stock accrue on a daily basis at the rate of 12.5% per annum of the sum of \$1,000 plus all accumulated and unpaid dividends thereon which are in arrears. The REIT makes annual distributions on the shares in the aggregate amount of \$15,625 per year. With respect to the payment of dividends or other distributions and the distribution of the REIT's assets upon dissolution, liquidation, or winding up, the preferred stock will be senior to all other classes and series of stock of the REIT. The preferred stock has not been shown separately in the consolidated balance sheets, is immaterial, and included in additional paid-in-capital.

As a result of the common control of the REIT (which was newly formed) and the Partnership, the Merger, for accounting purposes, did not result in any adjustment to the historical carrying value of the assets or liabilities of the Partnership. The REIT was funded in September 2010 with approximately \$235 million from its stockholders. The REIT contributed the net proceeds of its capital raise to the Partnership in exchange for Class G Units in the Partnership. Periods prior to September 17, 2010 represent the results of operations and financial condition of the Partnership, as predecessor to the Company. An additional \$10 million was contributed by the REIT's stockholders on January 25, 2011.

The operating results of the Surviving Partnership are allocated based upon the respective economic interests therein. For the period ended March 31, 2011, the REIT owned 54.4% of the Surviving Partnership.

2. Summary of Significant Accounting Policies

Estimates

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that

Aviv REIT, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (unaudited) - (continued)

affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the REIT, the Surviving Partnership, the Operating Partnership, and all controlled subsidiaries and joint ventures. The Company considers itself to control an entity if it is the majority owner of and has voting control over such entity or the power to control a variable interest entity. The portion of the net income or loss attributed to third parties is reported as net income allocable to noncontrolling interests on the consolidated statements of operations, and such parties' portion of the net equity in such subsidiaries is reported on the consolidated balance sheets as noncontrolling interests. All significant intercompany balances and transactions have been eliminated in consolidation.

Quarterly Reporting

The accompanying unaudited financial statements and notes of the Company as of March 31, 2011 and for the three months ended March 31, 2011 and 2010 have been prepared in accordance with GAAP for interim financial information. Accordingly, certain information and footnote disclosures normally included in financial statements prepared under GAAP have been condensed or omitted pursuant to such rules. In the opinion of management, all adjustments considered necessary for a fair presentation of the Company's balance sheets, statements of operations, statement of changes in equity, and statements of cash flows have been included and are of a normal and recurring nature. These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes for the Company for the years ended December 31, 2010, 2009, and 2008. The consolidated statements of operations and cash flows for the three months ended March 31, 2011 and 2010 are not necessarily indicative of full year results.

2. Summary of Significant Accounting Policies (continued)

Rental Properties

The Company periodically assesses the carrying value of rental properties and related intangible assets in accordance with ASC 360, *Property, Plant, and Equipment* (ASC 360),

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Notes to Consolidated Financial Statements (unaudited) - (continued)

to determine if facts and circumstances exist that would suggest that assets might be impaired or that the useful lives should be modified. In the event impairment in value occurs

and a portion of the carrying amount of the rental properties will not be recovered in part or in whole, a provision will be recorded to reduce the carrying basis of the rental properties and related intangibles to their estimated fair value. The estimated fair value of the Company's rental properties is determined by using customary industry standard methods that include discounted cash flow and/or direct capitalization analysis.

Revenue Recognition

Rental income is recognized on a straight-line basis over the term of the lease when collectibility is reasonably assumed. Differences between rental income earned and amounts due under the lease are charged or credited, as applicable, to deferred rent receivable. Income recognized from this policy is titled deferred rental income. Additional rents from expense reimbursements for insurance, real estate taxes, and certain other expenses are recognized in the period in which the related expenses are incurred and are reflected as tenant recoveries on the consolidated statements of operations.

Below is a summary of the components of rental income for the respective periods:

	Three Months Ended March 31,	
	2011	2010
Rental income	\$20,493,817	\$19,284,277
Deferred rental (expense) income, net	(1,165,922)	95,393
Rental income from intangible amortization	362,196	1,770,665
Total rental income	<u>\$19,690,091</u>	<u>\$21,150,335</u>

2. Summary of Significant Accounting Policies (continued)

During the three months ended March 31, 2011 and 2010, deferred rental revenue includes a write-off (expense) of deferred rent receivable of \$3,026,968 and \$2,233,768, respectively, due to the early termination of leases and replacement of operators.

Aviv REIT, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (unaudited) - (continued)

Lease Accounting

The Company, as lessor, makes a determination with respect to each of its leases whether they should be accounted for as operating leases or direct financing leases. The classification criteria is based on estimates regarding the fair value of the leased facilities, minimum lease payments, effective cost of funds, the economic life of the facilities, the

existence of a bargain purchase option, and certain other terms in the lease agreements. Payments received under operating leases are accounted for in the statement of operations as rental income for actual rent collected plus or minus a straight-line adjustment for estimated minimum lease escalators. Assets subject to operating leases are reported as rental properties in the consolidated balance sheets. For facilities leased as direct financing arrangements, an asset equal to the Company's net initial investment is established on the balance sheet titled assets under direct financing leases. Payments received under the financing lease are bifurcated between interest income and principal amortization to achieve a consistent yield over the stated lease term using the interest method. Principal amortization (accretion) is reflected as an adjustment to the asset subject to a financing lease. Such accretion was \$37,465 and \$38,540 for the three months ended March 31, 2011 and 2010, respectively.

All of the Company's leases contain fixed or formula-based rent escalators. To the extent that the escalator increases are tied to a fixed index or rate, lease payments are accounted for on a straight-line basis over the life of the lease.

Loan Receivables

Loan receivables consist of capital improvement loans to tenants and working capital loans to operators. Loan receivables are carried at their principal amount outstanding. Management periodically evaluates outstanding loans and notes receivable for collectability. When management identifies potential loan impairment indicators, such as nonpayment under the loan documents, impairment of the underlying collateral, financial difficulty of the operator, or other circumstances that may impair full execution of the loan documents, and management believes it

2. Summary of Significant Accounting Policies (continued)

is probable that all amounts will not be collected under the contractual terms of the loan, the loan is written down to the present value of the expected future cash flows. As of March 31, 2011 and December 31, 2010, loan receivable reserves amounted to \$907,317 and \$750,000, respectively.

Aviv REIT, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (unaudited) - (continued)

No other circumstances exist that would suggest that additional reserves are necessary at the balance sheet dates.

Stock-Based Compensation

The Company follows ASC 718, Stock Compensation (ASC 718), which requires all share-based payments to employees, including grants of employee stock options, to be recognized in the consolidated statements of operations based on their grant date fair values. On September 17, 2010, the Company adopted a 2010 Management Incentive Plan (the Plan) as part of the Merger transaction. A pro-rata allocation of non-cash stock-based compensation expense is made to the Company and noncontrolling interests for awards granted under the Plan. The Plan's non-cash stock-based compensation expense by the Company through March 31, 2011 is summarized in Footnote 9.

Fair Value of Financial Instruments

ASC 820, *Fair Value Measurements and Disclosures* (ASC 820), establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three levels are defined as follows:

- Level 1 – Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or;
- Level 2 – Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument; and
- Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

2. Summary of Significant Accounting Policies (continued)

The Company's interest rate swaps are valued using models developed internally by the respective counterparty that use as their basis readily observable market parameters and are classified within Level 2 of the valuation hierarchy.

Aviv REIT, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (unaudited) - (continued)

Cash and cash equivalents and derivative financial instruments are reflected in the accompanying consolidated balance sheets at amounts considered by management to reasonably approximate fair value. Management estimates the fair value of its long-term debt using a discounted cash flow analysis based upon the Company's current borrowing rate for debt with similar maturities and collateral securing the indebtedness. The Company had outstanding mortgage and other notes payable obligations with a carrying value of approximately \$454.6 million and \$440.6 million as of March 31, 2011 and December 31, 2010, respectively. The fair values of debt as of March 31, 2011 and December 31, 2010 approximate carrying value based upon interest rates available to the Company on similar borrowings.

Derivative Instruments

The Company has implemented ASC 815, *Derivatives and Hedging* (ASC 815), which establishes accounting and reporting standards requiring that all derivatives, including certain derivative instruments embedded in other contracts, be recorded as either an asset or liability measured at their fair value unless they qualify for a normal purchase or normal sales exception. When specific hedge accounting criteria are not met, ASC 815 requires that changes in a derivative's fair value be recognized currently in earnings. Changes in the fair market values of the Company's derivative instruments are recorded in the consolidated statements of operations if the derivative does not qualify for or the Company does not elect to apply hedge accounting. If the derivative is deemed to be eligible for hedge accounting, such changes are reported in accumulated other comprehensive income within the consolidated statement of changes in equity, exclusive of ineffectiveness amounts, which are recognized as adjustments to net income.

2. Summary of Significant Accounting Policies (continued)

Income Taxes

For federal income tax purposes, the Company intends to elect, with the filing of its initial 1120 REIT, U.S. Income Tax Return for Real Estate Investment Trusts, to be taxed as a Real Estate Investment Trust (REIT) effective at the time of the Merger. To qualify as a REIT, the Company must meet certain organizational, income, asset and distribution tests. The Company currently intends to comply with these requirements and maintain REIT status. If the Company fails to qualify as a REIT in any taxable year, the Company will be subject to federal income taxes at regular corporate rates (including any applicable alternative minimum tax) and may not elect

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Notes to Consolidated Financial Statements (unaudited) - (continued)

REIT status for four subsequent years. However, the Company may still be subject to federal excise tax. In addition, the Company may be subject to certain state and local income and franchise taxes. Historically, the Company and its predecessor have generally only incurred certain state and local income and franchise taxes, but these amounts were immaterial in each of the periods presented. Prior to the Merger, the Partnership was a limited partnership and the consolidated operating results were included in the income tax returns of the individual partners. No uncertain income tax positions exist as of March 31, 2011 or December 31, 2010.

The rental properties of the Company have an income tax basis of approximately \$627,663,049 as of March 31, 2011.

Business Combinations

The Company applies ASC 805, *Business Combinations* (ASC 805), in determining how to account for and identify business combinations while allocating fair value to tangible and identified intangible assets acquired and liabilities assumed. Prior to the Merger on September 17, 2010, Aviv Asset Management, L.L.C. (AAM) was a non-consolidated management company to the Partnership based on the application of appropriate accounting guidance (as discussed in Footnote 10). Upon the Merger, AAM became a consolidated entity of the Company and is presented as such for all periods included herein with all periods shown at historical cost (carryover basis with no adjustments to fair value). This treatment is in accordance with ASC 805 due to the fact that AAM was under common control prior and subsequent to the Merger.

2. Summary of Significant Accounting Policies (continued)

Reclassifications

Certain prior period amounts have been reclassified to conform to the current financial statement presentation, with no effect on the Company's consolidated financial position or results of operations.

3. Rental Property Activity

The Company had the following rental property activity during the three months ended March 31, 2011 as described below:

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Notes to Consolidated Financial Statements (unaudited) - (continued)

- In January 2011, Aviv Financing I acquired a property in Kansas from an unrelated third party for a purchase price of \$3,045,000. The Company financed this purchase through cash and borrowings of \$2,131,000 under the Mortgage (see Footnote 7).
- In March 2011, Aviv Financing II acquired a property in Pennsylvania from an unrelated third party for a purchase price of approximately \$2,200,000. The Company financed this purchase through cash.
- In March 2011, Aviv Financing II acquired a property in Ohio from an unrelated third party for a purchase price of approximately \$9,581,000. The Company financed this purchase through cash.
- In March 2011, Aviv Financing II acquired a property in Florida from an unrelated third party for a purchase price of approximately \$10,000,000. The Company financed this purchase through borrowings of \$10,200,000 under the Revolver (see Footnote 7).

The Company considers renewals on below-market leases when ascribing value to the in-place lease intangible liabilities at the date of a property acquisition. In those instances where the renewal lease rate pursuant to the terms of the lease does not adjust to a current market rent, the Company evaluates whether the stated renewal rate is below current market rates and considers the past and current operations of the property, the current rent coverage ratio of the tenant, and the number of years until potential renewal option exercise. If renewal is considered probable

3. Rental Property Activity (continued)

based on these factors, an additional lease intangible liability is recorded at acquisition and amortized over the renewal period.

4. Loan Receivables

The following summarizes the Company's loan receivables at:

	March 31, 2011	December 31, 2010
Beginning balance, January 1, 2011 and 2010, respectively	\$ 36,610,638	\$ 28,970,129
New capital improvement loans issued	66,338	1,415,579
Working capital and other loans issued	613,858	14,705,259

Aviv REIT, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (unaudited) - (continued)

Reserve for uncollectible loans	(157,317)	(750,000)
Loan amortization and repayments	(6,406,723)	(7,730,329)
	\$ 30,726,794	\$ 36,610,638

The Company's reserve for uncollectible loan receivables balances at March 31, 2011 and December 31, 2010 was \$907,317 and \$750,000, respectively. The activity for the three months ended March 31, 2011 consisted of additional reserves of \$157,317.

During 2011 and 2010, the Company funded loans for both working capital and capital improvement purposes to various operators and tenants. All loans held by the Company accrue interest. The payments received from the operator or tenant cover both interest accrued as well as amortization of the principal balance due. Any payments received from the tenant or operator made outside of the normal loan amortization schedule are considered principal prepayments and reduce the outstanding loan receivables balance.

Interest income earned on loan receivables for the three months ended March 31, 2011 and 2010 was \$978,514 and \$782,306, respectively.

5. Deferred Finance Costs

The following summarizes the Company's deferred finance costs at:

	March 31, 2011	December 31, 2010
Gross amount	\$13,965,324	\$10,567,931
Accumulated amortization	(907,428)	(610,295)
Net	\$13,057,896	\$ 9,957,636

Amortization of deferred financing costs is reported in the amortization expense line item in the consolidated statements of operations.

Aviv REIT, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (unaudited) - (continued)

During the three months ended March 31, 2011, the Company wrote-off deferred financing costs of \$3,524,869 with \$381,861 accumulated amortization associated with the Mortgage (see Footnote 7) pay down for a net recognition as loss on extinguishment of debt of \$3,143,008.

6. In-Place Lease Intangibles

The following summarizes the Company's in-place lease intangibles classified as part of other assets or other liabilities at:

	March 31, 2011		December 31, 2010	
	Assets	Liabilities	Assets	Liabilities
Gross amount	\$ 8,393,488	\$25,798,147	\$ 8,393,488	\$25,798,147
Accumulated amortization	(3,210,236)	(14,573,030)	(3,049,093)	(14,049,691)
Net	<u>\$5,183,252</u>	<u>\$11,225,117</u>	<u>\$ 5,344,395</u>	<u>\$11,748,456</u>

Amortization expense for the in-place lease intangible assets for the three months ended March 31, 2011 and 2010 was \$161,143 and \$243,721, respectively. Accretion for the in-place lease intangible liabilities for the three months ended March 31, 2011 and 2010 was \$523,339 and \$789,792, respectively.

As of March 31, 2010, the Company wrote-off in-place lease intangible assets of \$2,678,000 with accumulated amortization of \$1,316,232, and in-place lease intangible liabilities of

6. In-Place Lease Intangibles (continued)

\$4,660,000 with accumulated accretion of \$2,073,638, for a net recognition of \$1,224,594 in rental income from intangible amortization. These write-offs were in connection with properties that had been transitioned to new operators.

7. Mortgage and Other Notes Payable

The Company's mortgage and other notes payable consisted of the following:

	March 31, 2011	December 31, 2010
Mortgage (interest rates of 5.75% on March 31, 2011 and December 31, 2010, respectively)	\$ 235,350,523	\$ 402,794,111

Aviv REIT, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (unaudited) - (continued)

Acquisition Credit Line (interest rates of 5.75% on March 31, 2011 and December 31, 2010, respectively)	—	28,677,230
Revolver (interest rate of 6.25% on March 31, 2011)	10,200,000	—
Construction loan (interest rates of 5.95% on March 31, 2011 and December 31, 2010, respectively)	1,312,339	1,312,339
Acquisition loans (interest rates of 6.00% on March 31, 2011 and December 31, 2010, respectively)	7,760,785	7,792,236
Senior Notes (interest rate of 7.75%, on March 31, 2011)	200,000,000	—
Total	<u>\$ 454,623,647</u>	<u>\$ 440,575,916</u>

Senior Notes

On February 4, 2011, Aviv Healthcare Properties Limited Partnership and Aviv Healthcare Capital Corporation (the Issuers) issued \$200 million of Senior Notes (the Senior Notes). The Company is a guarantor of the Issuers Senior Notes. The Senior Notes are unsecured senior obligations of the Issuers and will mature on February 15, 2019. The Senior Notes bear interest at a rate of 7.750% per annum, payable semiannually to holders of record at the close of business on the February 1 or the August 1 immediately preceding the interest payment date on February 15 and August 15 of each year, commencing August 15, 2011. The Company used the proceeds, amongst other things, to pay down approximately \$165.9 million on the Mortgage and the balance of \$28.7 million on the Acquisition Credit Line.

7. Mortgage and Other Notes Payable (continued)

Revolver

In conjunction with the Senior Notes issuance on February 4, 2011, the Company, under Aviv Financing IV, LLC, acquired a \$25 million revolver with Bank of America (the Revolver). On each payment date, the Company shall pay interest only in arrears on any outstanding principal balance of the Revolver. Interest rates are based upon the base rate (3.25% at March 31, 2011) plus the applicable percentage based on the consolidated leverage ratio (3.00% at March 31, 2011). The base rate is the rate announced by Bank of America as the “prime rate”. Additionally, an unused fee equal to 0.5% per annum of the daily unused balance on the Revolver is due monthly. The Revolver commitment terminates in February 2014.

8. Partnership Equity and Incentive Program

Aviv REIT, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (unaudited) - (continued)

Distributions to the Partnership's partners are summarized as follows for the three months ended March 31:

	<u>Class A</u>	<u>Class B</u>	<u>Class C</u>	<u>Class D</u>	<u>Class E</u>	<u>Class F</u>	<u>Class G</u>
2011	\$ 2,066,628	\$ 849,812	\$ 1,274,719	\$ -	\$ -	\$ 553,761	\$ 5,665,381
2010	\$ 3,390,685	\$ 1,897,169	2,845,753	\$ -	\$ 1,849,315	\$ 1,092,350	\$ -

Weighted-average Units outstanding are summarized as follows for the three months ended March 31:

	<u>Class A</u>	<u>Class B</u>	<u>Class C</u>	<u>Class D</u>	<u>Class E</u>	<u>Class F</u>	<u>Class G</u>
2011	13,467,223	4,523,145	2	8,050	-	2,684,900	233,551
2010	13,467,223	4,523,145	2	7,714	7,500,000	5,369,800	-

The Partnership had established an officer incentive program linked to its future value. Awards vest annually over a five-year period assuming continuing employment by the recipient. The

8. Partnership Equity and Incentive Program (continued)

awards can be settled in Class C Units or cash at the Company's discretion at the settlement date of December 31, 2012. For accounting purposes, expense recognition under the program commenced in 2008, and the related expense for the three months ended March 31, 2011 and 2010 was approximately \$101,500 and \$101,500, respectively.

As a result of the Merger on September 17, 2010, such incentive program was modified such that 40% of the previously granted award settled immediately on the Merger date with another 20% vesting and settling on December 31, 2010. The remaining 40% will vest equally on December 31, 2011 and December 31, 2012, and will settle in 2018, subject to the terms and conditions of the amended incentive program agreement. In accordance with ASC 718, *Compensation – Stock Compensation* (ASC 718), such incentive program will continue to be expensed through general and administrative expenses as non-cash compensation on the statements of operations through the ultimate vesting date of December 31, 2012.

Aviv REIT, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (unaudited) - (continued)

9. Option Awards

On September 17, 2010, the Company adopted a 2010 Management Incentive Plan (the Plan) as part of the Merger transaction.

The following table represents the time based option awards activity for the three months ended March 31, 2011.

	<u>March 31, 2011</u>
Outstanding at beginning of period	21,866
Granted	456
Exercised	-
Cancelled/Forfeited	-
Outstanding at end of period	<u>22,322</u>
Options exercisable at end of period	-
Weighted average fair value of options granted	<u>\$ 149.09</u>
Weighted average remaining contractual life	<u>9.48</u>

9. Option Awards (continued)

The following table represents the time based option awards outstanding at March 31, 2011 as well as other Plan data:

Range of exercise prices	Outstanding	Remaining Contractual Life (Years)	Weighted Average Exercise Price
\$1,000 – \$1,124	22,322	9.48	\$1,004

The Company has used the Black-Scholes option pricing model to estimate the grant date fair value of the options. The following table includes the assumptions that were made in estimating the grant date fair value for options awarded in 2011.

	2011 Grants
Dividend yield	9.16%
Risk-free interest rate	2.72%

Aviv REIT, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (unaudited) - (continued)

Expected life	7.0 years
Estimated volatility	38.00%
Weighted average exercise price	\$1,124.22
Weighted average fair value of options granted (per option)	\$149.09

The Company recorded non-cash compensation expenses of \$299,468 for the three months ended March 31, 2011, related to the time based stock options accounted for as equity awards, as a component of general and administrative expenses in the consolidated statements of operations.

At March 31, 2011, the total compensation cost related to outstanding, non-vested time based equity option awards that are expected to be recognized as compensation cost in the future aggregates to approximately \$1,804,000.

For the period ended December 31,	Options
2011	\$791,093
2012	591,886
2013	309,028
2014	112,338
2015	48
Total	\$1,804,393

9. Option Awards (continued)

Dividend equivalent rights associated with the Plan amounted to \$535,728 for the three months ended March 31, 2011, and are included in general and administrative expense in the consolidated statements of operations. These dividend rights will be paid in four installments as the option vests.

10. Related Parties

Related party receivables and payables represent amounts due from/to various affiliates of the Company, including advances to members of the Company, amounts due to certain acquired companies and limited liability companies for transactions occurring prior to the formation of the Company, and various advances to entities controlled by affiliates of the Company's management. An officer of the Company received a loan and such loan had a balance of \$311,748 at March 31, 2011, which was paid off in full subsequent to that date.

Aviv REIT, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (unaudited) - (continued)

The Partnership had entered into a management agreement, as amended, effective April 1, 2005, with AAM, an entity affiliated by common ownership. Under the management agreement, AAM had been granted the exclusive right to oversee the portfolio of the Partnership, providing, among other administrative services, accounting and all required financial services; legal administration and regulatory compliance; investor, tenant, and lender relationship services; and transactional support to the Partnership. Except as otherwise provided in the Partnership Agreement, all management powers of the business and affairs of the Partnership are exclusively vested in the General Partner. The annual fee for such services equals six-tenths of one percent (0.6%) of the aggregate fair market value of the properties as determined by the Partnership and AAM annually. This fee arrangement was amended as discussed below. In addition, the Partnership reimbursed AAM for all reasonable and necessary out-of-pocket expenses incurred in AAM's conduct of its business, including, but not limited to, travel, legal, appraisal, and brokerage fees, fees and expenses incurred in connection with the acquisition, disposition, or refinancing of any property, and reimbursement of compensation and benefits of the officers and employees of AAM. This agreement was terminated on September 17, 2010 when the Merger occurred, effectively consolidating AAM into the Company, and eliminating the necessity for reimbursement.

On October 16, 2007, the Company legally acquired AAM through a Manager Contribution and Exchange Agreement dated October 16, 2007 (the Contribution Agreement). As stipulated in the

10. Related Parties (continued)

Contribution Agreement and the Second Amended and Restated Agreement of Limited Partnership on October 16, 2007 (Partnership Agreement), the Company issued a new class of Company Unit, Class F Units, as consideration to the contributing members of AAM. The contributing members of AAM served as the general partner of the Partnership. The Class F Units have subordinated payment and liquidity preference to the Class E Units but are senior in payment and liquidity preference, where applicable, to the Class A, B, C, and D Units of the Partnership. The Class F Units paid in quarterly installments an annual dividend of 8.25% of the preliminary face amount of \$53,698,000. The preliminary pricing was based upon trading multiples of comparably sized publicly traded healthcare REITs. The ultimate Class F Unit valuation was subject to a true-up formula at the time of a Liquidity Event, as defined in the Partnership Agreement.

For accounting purposes, prior to the Merger, AAM had not been consolidated by the Company, nor had any value been ascribed to the Class F Units issued due to the ability of the Class E Unitholders to unwind the acquisition as described above. Such action was outside the control of

Aviv REIT, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (unaudited) - (continued)

the Company, and accordingly, the acquisition is not viewed as having been consummated. The dividends earned by the Class F Unitholders were reflected as a component of management fees as described above. Prior to the Merger, the fee for management services to the Company are equal to the dividend earned on the Class F Unit.

Under certain circumstances, the Partnership Agreement did permit the Class E Unitholders to unwind this transaction and requires the Company to redeem the Class F Units by returning to the affiliates all membership interests in AAM. On September 17, 2010, the Company settled the investment with JER Aviv Acquisition, LLC (JER). For accounting purposes, this treatment triggered the retroactive consolidation of AAM by the Company. The original and follow-on investments of Class E unitholders were made subject to the Unit Purchase Agreement and related documents (UPA) between the Company and JER dated May 26, 2006.

The UPA did not give either party the right to settle the investment prior to May 26, 2011. However, the UPA did have an economic arrangement as to how either party could settle the arrangement on or after that date. This economic construct guided the discussions and negotiations of settlement. The UPA allowed the Company to call the E Units and warrants anytime after May 26, 2011 as long as it provided JER with a 15% IRR from date of inception. The IRR would be calculated factoring interim distributions as well as exit payments. The units were settled for \$92,001,451 contemporaneous with the Merger. A portion of the

10. Related Parties (continued)

settlement related to outstanding warrants held by JER and originally issued in connection with the E units issuance.

Coincident with the Merger, 50% of the Class F Unit was purchased and settled by the Company for \$23,602,649 and is reported as a component of distributions to partners and accretion on Class E Preferred Units in the consolidated statements of changes in equity. The remaining Class F Units will pay in quarterly installments an annual dividend of 9.38% of the face amount of \$23,602,649.

11. Derivatives

During the periods presented, the Company was party to various interest rate swaps, which were purchased to fix the variable interest rate on the denoted notional amount under the original debt agreements.

Aviv REIT, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (unaudited) - (continued)

At March 31, 2011, the Company is party to two interest rate swaps, with identical terms for \$100 million each. They were purchased to fix the variable interest rate on the denoted notional amount under the Mortgage which was obtained in September, 2010, and qualify for hedge accounting. For presentational purposes they are shown as one derivative due to the identical nature of their economic terms.

Total notional amount	\$200,000,000
Fixed rates	6.49% (1.99% effective swap base rate plus 4.5% spread per credit agreement)
Floor rate	1.25%
Effective date	November 9, 2010
Termination date	September 17, 2015
Asset balance at March 31, 2011 (included in other assets)	\$4,603,066
Liability balance at March 31, 2011 (included in other liabilities)	\$ -

11. Derivatives (continued)

The fair value of each interest rate swap agreement may increase or decrease due to changes in market conditions but will ultimately decrease to zero over the term of each respective agreement.

For the three months ended March 31, 2011 and 2010, the Company recognized \$0 and \$1,320,721 of net income, respectively, in the consolidated statements of operations related to the change in the fair value of these interest rate swap agreements, where the Company did not elect to apply hedge accounting. Such instruments that did not elect to apply hedge accounting were settled at the Merger date.

The following table provides the Company's derivative assets and liabilities carried at fair value as measured on a recurring basis as of March 31, 2011 (dollars in thousands):

Aviv REIT, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (unaudited) - (continued)

	Total Carrying Value at March 31, 2011	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Derivative assets	\$ 4,603	\$	\$ 4,603	\$
Derivative liabilities	-	-	-	-
	<u>\$ 4,603</u>	<u>\$</u>	<u>\$ 4,603</u>	<u>\$</u>

The Company's derivative assets and liabilities include interest rate swaps that effectively convert a portion of the Company's variable rate debt to fixed rate debt. The derivative positions are valued using models developed by the respective counterparty that use as their basis readily observable market parameters (such as forward yield curves) and are classified within Level 2 of the valuation hierarchy. The Company considers its own credit risk as well as the credit risk of its counterparties when evaluating the fair value of its derivatives.

12. Commitments and Contingencies

The Company has a contractual arrangement with a tenant to reimburse quality assurance fees levied by the California Department of Health Care Services from August 1, 2005 through July 31, 2008. The Company is obligated to reimburse the fees to the tenant if and when the state withholds these fees from the tenant's Medi-Cal reimbursements associated with 5 facilities that were formerly leased to Trinity Health Systems. The total possible obligation for these fees is \$1,655,286, of which approximately \$1.0M has been paid to date. For the three months ended March 31, 2011, and 2010, the Company's indemnity expense for these fees was \$0 and \$183,000, respectively, which equaled the actual amount paid during the period.

Judicial proceedings seeking declaratory relief for these fees are in process which if successful would provide for recovery of such amounts from the State of California. The Company has certain rights to seek relief against Trinity Health Systems for monies paid out under the

Aviv REIT, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (unaudited) - (continued)

indemnity claim; however, it is uncertain whether the Company will be successful in receiving any amounts from Trinity.

In the normal course of business, the Company is involved in legal actions arising from the ownership of its property. In management's opinion, the liabilities, if any, that may ultimately result from such legal actions are not expected to have a material adverse effect on the financial position, operations, or liquidity of the Company.

13. Concentration of Credit Risk

As of March 31, 2011, the Company's portfolio of investments consisted of 187 healthcare facilities, located in 25 states and operated by 31 third party operators. At March 31, 2011, approximately 50.7% (measured as a percentage of total assets) were leased by five private operators: Evergreen Healthcare (13.6%), Daybreak Healthcare (12.4%), Sun Mar Healthcare (9.1%), Hi-Care Management (8.0%), and Convacare Management (7.6%). No other operator represents more than 6.3% of our total assets. The five states in which the Company had its highest concentration of total assets were California (19.4%), Texas (16.3%), Missouri (9.5%), Arkansas (8.1%), and New Mexico (5.9%) at March 31, 2011.

For the three months ended March 31, 2011, the Company's rental income from operations totaled approximately \$19.7 million, of which approximately \$3.0 million was from Evergreen Healthcare (15.1%), \$2.4 million was from Sun Mar Healthcare (12.1%), \$2.3 million was from Daybreak Venture (11.8%), \$1.7 million was from Cathedral Rock Corporation (8.9%), and

13. Concentration of Credit Risk

\$1.6 million was from ConvaCare Management (8.3%). No other operator generated more than 6.0% of the Company's rental income from operations for the three months ended March 31, 2011.

14. Subsequent Events

On April 5, 2011, the Company issued \$100 million in Senior Notes at 7.75%. The proceeds from this bond issuance were used to pay down \$35.7 million of the Mortgage and the remaining proceeds were received as cash.

On April 28, 2011 Aviv Financing II acquired three properties in Ohio from an unrelated third party for a purchase price of \$9,250,000. The Company financed this purchase with cash.

Aviv REIT, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (unaudited) - (continued)

On April 29, 2011 Aviv Financing II acquired six properties in Texas, Kansas, and Missouri from unrelated third parties for a purchase price of \$17,570,000. The Company financed this purchase with cash.

On May 2, 2011, Aviv Financing II acquired three properties in Kansas from an unrelated third party for a purchase price of approximately \$2,273,000. The Company financed this purchase with cash.

On May 3, 2011, Aviv Financing II acquired a property in Connecticut from an unrelated third party for a purchase price of \$12,000,000. The Company financed this purchase with cash.

The Company has evaluated events subsequent to March 31, 2011 through May 18, 2011, and determined that no events other than those noted above would require changes to the consolidated financial statements or additional disclosure.