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HOMWOOD CORPORATION
FIRST QUARTER REPORT
2010 – 2011

Management's Discussion & Analysis of Financial Condition and Results of Operations

for the first quarter ended June 30, 2010

Management's discussion and analysis (MD&A) provides a review of the performance of Homewood Corporation (the Company) and should be read in conjunction with the unaudited consolidated financial statements for the first quarter of fiscal 2011 and fiscal 2010 and the notes thereto, the MD&A, and the audited consolidated financial statements and notes thereto in the 2010 annual report. The risk factors set out in the MD&A in the 2010 annual report are herein incorporated by reference and remain substantially unchanged. All monetary amounts are reported in Canadian dollars and prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP).

Consolidated Financial Results

	Q1 2011	Q1 2010	CHANGE %
Revenues	\$ 30,562,322	\$ 26,438,788	+15.6%
Operating income	2,291,670	1,525,732	+50.2%
Other income	946,069	886,803	+6.7%
Earnings before tax	3,237,739	2,412,535	+34.2%
Effective tax rate	28.9%	31.9%	
Net earnings	2,302,525	1,641,716	+40.3%
Basic earnings per share	\$ 1.15	\$ 0.82	+40.2%

Summary Results of Operations

REVENUE

Revenue for the first quarter increased to \$30.6 million, up 15.6% over revenue of \$26.4 million for the corresponding period of the previous fiscal year. The increase in revenue is primarily attributable to our Senior Care and Mental Health and Addictions businesses. Senior Care revenues have grown as a result of continued expansion. Mental Health and Addictions revenue has grown as a result of increased Local Health Integration Network (LHIN) funding and other revenue sources.

OPERATING EXPENSES

Operating expenses for the first quarter increased to \$26.2 million, up 13.1% over operating expenses of \$23.1 million for the corresponding period of the previous fiscal year. Current period operating expenses reflect an increase in costs related to the continued expansion of our Senior Care business and costs related to executing our growth strategy within our Mental Health and Addiction business.

AMORTIZATION AND INTEREST EXPENSE

Amortization expense for the first quarter increased to \$1.2 million, up 25.9% over amortization expense of \$0.9 million for the corresponding period of the previous fiscal year. Interest expense for the first quarter increased to \$0.9 million, up 9.1% over interest expense for the corresponding period of the previous fiscal year. The increase in amortization in the first quarter reflects growth in capital spending within our Senior Care business and the amortization of intangible assets within our Mental Health and Addiction business. Interest expense associated with financing the growth within our Senior Care business has been favourably impacted by lower floating rates on the current portion of long-term debt.

OPERATING INCOME

Operating income for the first quarter increased to \$2.3 million, up 50.2% over operating income of \$1.5 million for the corresponding period of the previous fiscal year. This increase is the result of improved performance within our Senior Care business.

OTHER INCOME

Other income for the first quarter increased to \$0.9 million, up 6.7% for the corresponding period of the previous fiscal year.

NET EARNINGS

Net earnings for the first quarter increased to \$2.3 million (\$1.15 per share) up 40.3% over net earnings of \$1.6 million (\$0.82 per share) for the corresponding period of the previous fiscal year. The increase in net earnings in the first quarter of fiscal 2010 primarily reflects an increase in operating and other income as well as a lower effective income tax rate of 28.9% (31.9% – 2010).

FINANCIAL CONDITION

The Company continues to maintain a strong balance sheet to support growth and financial flexibility. Overall cash increased \$8.8 million during the three months, with the largest contributor being the redemption of the preferred shares within the Oakwood Joint Venture. The Company paid \$800,000 in dividends during the first quarter. During the three month period ended June 30, 2010, the Company was in compliance with its covenants under existing credit agreements.

Comparative Cash Flow

OPERATING ACTIVITIES

Cash flows provided by operating activities for the quarter increased to \$2.5 million compared to \$1.8 million for the first quarter of last fiscal year. This increase is mainly due to increases in net earnings and amortization.

FINANCING ACTIVITIES

Cash flows provided by financing activities for the quarter were \$2.9 million compared to \$0.4 million for the first quarter of last fiscal year. The difference is primarily attributable to increased financing requirements in our Senior Care business.

INVESTING ACTIVITIES

Cash flows provided by investing activities during the quarter were at \$3.3 million compared to cash flows used for the first quarter of last fiscal year of \$1.2 million. This increase is mainly attributable to decreased capital spending and the redemption of the preferred shares in our Senior Care business.

FORWARD-LOOKING STATEMENTS

This report includes “forward-looking statements” that are subject to risks and uncertainties. For information identifying these important factors that could cause actual results to differ materially from those anticipated in the forward-looking statements, see our 2010 annual report and the headings following risk management in the MD&A section.

Consolidated Balance Sheets

AS AT:	JUNE 30/10 UNAUDITED	MARCH 31/10 AUDITED	JUNE 30/09 UNAUDITED
Assets			
Current assets			
Cash	\$ 18,780,208	\$ 9,946,605	\$ 10,353,706
Accounts receivable	6,002,358	5,917,133	4,505,395
Prepaid expenses and supplies	1,245,052	1,191,629	915,609
	26,027,618	17,055,367	15,774,710
Investments	255,743	219,333	234,490
Preferred shares in Oakwood joint venture	–	4,200,000	4,200,000
Land, buildings and equipment	112,418,974	112,718,528	106,649,719
Accrued pension benefit asset (Note 3)	19,746,639	18,996,639	15,466,000
Intangible assets	2,010,859	2,066,442	2,288,775
Goodwill	1,150,000	1,150,000	1,150,000
Total Assets	\$ 161,609,833	\$ 156,406,309	\$ 145,763,694
Liabilities and Shareholders' Equity			
Current liabilities			
Accounts payable and accrued liabilities	\$ 15,248,811	\$ 15,681,052	\$ 13,257,901
Deferred revenue	285,974	202,854	219,228
Current portion of obligations under capital leases	39,257	39,257	113,761
Current portion of long-term debt	37,485,731	33,734,223	36,696,855
	53,059,773	49,657,386	50,287,745
Deferred capital grants	725,672	743,254	585,803
Obligations under capital leases	142,274	151,869	166,879
Long-term debt	36,131,604	36,131,604	30,130,000
Employee future benefits obligation	480,165	440,651	251,572
Future income taxes	6,646,991	6,360,716	6,318,540
Shareholders' equity:			
Share capital	400,000	400,000	400,000
Retained earnings	64,023,354	62,520,829	57,623,155
Total shareholders' equity	64,423,354	62,920,829	58,023,155
Total Liabilities and Shareholders' Equity	\$ 161,609,833	\$ 156,406,309	\$ 145,763,694

Consolidated Statements of Earnings

unaudited

	3 MONTHS ENDED JUNE 30/10	3 MONTHS ENDED JUNE 30/09
Revenue	\$ 30,562,322	\$ 26,438,788
Expenses		
Operating	26,158,369	23,120,090
Amortization	1,170,991	929,949
Interest	941,292	863,017
Total operating expenses	28,270,652	24,913,056
Operating income	2,291,670	1,525,732
Other income (expenses)		
Dividends	61,967	115,879
Interest income	9,625	9,637
Pension allocation (Note 3)	750,000	750,000
Other income	124,477	11,287
Total other income	946,069	886,803
Earnings before income taxes	3,237,739	2,412,535
Income taxes		
Current	648,939	490,592
Future	286,275	280,227
	935,214	770,819
Net earnings	\$ 2,302,525	\$ 1,641,716
Basic earnings per share	\$ 1.15	\$ 0.82

Consolidated Statements of Retained Earnings

unaudited

	3 MONTHS ENDED JUNE 30/10	3 MONTHS ENDED JUNE 30/09
Retained earnings, beginning of period	\$ 62,520,829	\$ 56,721,439
Add:		
Net earnings	2,302,525	1,641,716
Less:		
Dividends	(800,000)	(740,000)
Retained earnings balance, end of period	\$ 64,023,354	\$ 57,623,155

Consolidated Statements of Cash Flows

unaudited

	3 MONTHS ENDED JUNE 30/10	3 MONTHS ENDED JUNE 30/09
Cash provided by (used in):		
Operations		
Net earnings	\$ 2,302,525	\$ 1,641,716
Items not involving cash:		
Amortization of buildings, equipment and rental property	1,115,408	929,949
Amortization of intangible assets	55,583	-
Amortization of deferred capital grants	(17,583)	(14,907)
Future income taxes	286,275	280,227
Pension allocation (Note 3)	(750,000)	(750,000)
Employee future benefits	39,514	31,935
Change in non-cash operating working capital	(487,769)	(296,517)
	2,543,953	1,822,403
Financing		
Cash dividends	(800,000)	(740,000)
Increase in long-term debt	3,751,508	1,144,972
Principal payments of capital leases	(9,595)	(24,247)
	2,941,913	380,725
Investing		
Additions to land, buildings and equipment	(815,853)	(1,266,669)
Change in investments	(36,410)	48,713
Redemption of preferred shares in Oakwood joint venture	4,200,000	-
	3,347,737	(1,217,956)
Increase in cash	8,833,603	985,172
Cash, beginning of year	9,946,605	9,368,534
Cash, end of period	\$ 18,780,208	\$ 10,353,706

Notes to the Interim Consolidated Financial Statements

for the first quarter ended June 30, 2010

01 Significant Accounting Policies

The accompanying interim consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) and the accounting policies and the method of their application are consistent with those described in the annual consolidated financial statements for the year ended March 31, 2010. The interim consolidated financial statements do not contain all disclosures required by Canadian generally accepted accounting principles (“GAAP”) for annual financial statements and should be read in conjunction with the Company’s annual consolidated financial statements for the year ended March 31, 2009.

Certain comparative financial information has been reclassified to conform to the presentation adopted for March 31, 2010

02 Basic Earnings per Share

Basic earnings per share are calculated based on 2,000,000 common shares outstanding.

03 Accrued Pension Benefit Asset

The Corporation maintains a contributory, defined pension plan covering substantially all of its employees. The Corporation measures its accrued benefit obligations and the fair value of plan assets for accounting purposes, as at December 31 of each year. The measurement at December 31, 2009, is an extrapolation based on the most recent actuarial valuation for accounting purposes at December 31, 2008.

The most recent actuarial valuation of the pension plan for funding purposes has been completed as of December 31, 2009.

The amount of pension allocation in future years may not continue at current levels and will be dependent upon future market and economic conditions.

Further detail can be found in the notes to the 2010 audited financial statements.

Corporate Information

Investor Relations

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